



## **Report to the Legislature**

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# **Benchmarking Improvement Initiatives**

*Spencer Cronk, Commissioner*

*Department of Administration*

*March 12, 2013*

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## Collaboration By

Functional leaders and representatives from the State of Minnesota's 40 business entities that participated in the benchmarking project.

## Other Formats

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This document is available electronically through the Minnesota Legislative Reference Library as part of an ongoing digital archiving project. <http://www.leg.state.mn.us/lrl/lrl.asp>.

For more information or copies of this report, contact the Department of Administration at 651-201-2555.

## Cost of Report

Minnesota Statutes §3.197 states that a "report to the legislature must contain, at the beginning of the report, the cost of preparing the report, including any costs incurred by another agency or another level of government."

The approximate cost of preparing this report and the IBM Benchmarking Report was \$540,000. This represents the value, in terms of salary and benefits, of the time that the Department of Administration and participating agencies, as well as consulting efforts, spent researching, assessing and preparing this report.

# 1. Executive Summary

*This report is provided at the request of the Minnesota Legislature as noted in Chapter 292 regarding the "Benchmarking Studies" and is specifically the Department of Administration's report containing "Improvement Initiatives."*

The Department of Administration (Admin) was asked to identify improvement initiatives across four administrative functions within the Executive Branch: finance, human resources, payroll and procurement. Forty Executive Branch business entities participated in the benchmarking project.

A key input to Admin's report was the IBM Benchmark Report. The IBM Benchmark Report captured, summarized and reported metrics in three performance categories: cost, time and quality. The IBM Benchmark Report provides an objective view into the people and processes involved in Minnesota's administrative functions. Furthermore, to the extent external benchmark data was available and reliable, the IBM Benchmark report provides comparisons to leading practices in global and domestic peer groups (including US and Global Government entities).

In collaboration with the four functional area leads and through evaluation of the IBM Benchmark Report, Admin identified 12 opportunity areas for exploration through a series of workshops, with each workshop focusing on a single opportunity. The workshops included functional area experts from various State agencies. The objective of the workshops was to discuss the current state of each opportunity area, compare and contrast the current state to industry leading practices and ultimately produce recommendations for improvement. Workshop participants identified a number of unique and tangible tactics in order to address or improve the opportunity area, all of which are documented in detailed opportunity briefs contained in this report.

The opportunity briefs documented in this report are:

Opportunity Area	# of Tactics	Evaluation of:			
		Process	Policy	Tech	
<b>Finance</b>					
Implement an Electronic Receipts Solution for Accounts Receivable	4			X	
Redesign the Accounts Payable Process	8	X		X	
<b>Human Resources</b>					
Transform the Human Resource Transaction Process	5	X			
Improve the New Hire Process	9	X	X	X	
Create a Culture of Talent Management	6		X	X	
Improve the Management of Employee Personnel Records	5	X		X	
<b>Payroll</b>					
Simplify the Time Entry Process for State Employees	7	X		X	
Streamline the Business Expense Processing for State Employees	8		X	X	
<b>Procurement</b>					
Improve Vendor Management to Strengthen Procurement Strategies	5	X	X	X	
Create Efficiencies within the State's Order Processing Function	6	X	X		
Maximize Vendor Prompt Pay Discounts	6	X	X	X	
Automate Purchasing through Use of a Supplier e-Catalog	2			X	
<b>Total</b>	<b>71</b>	<b>8</b>	<b>6</b>	<b>10</b>	

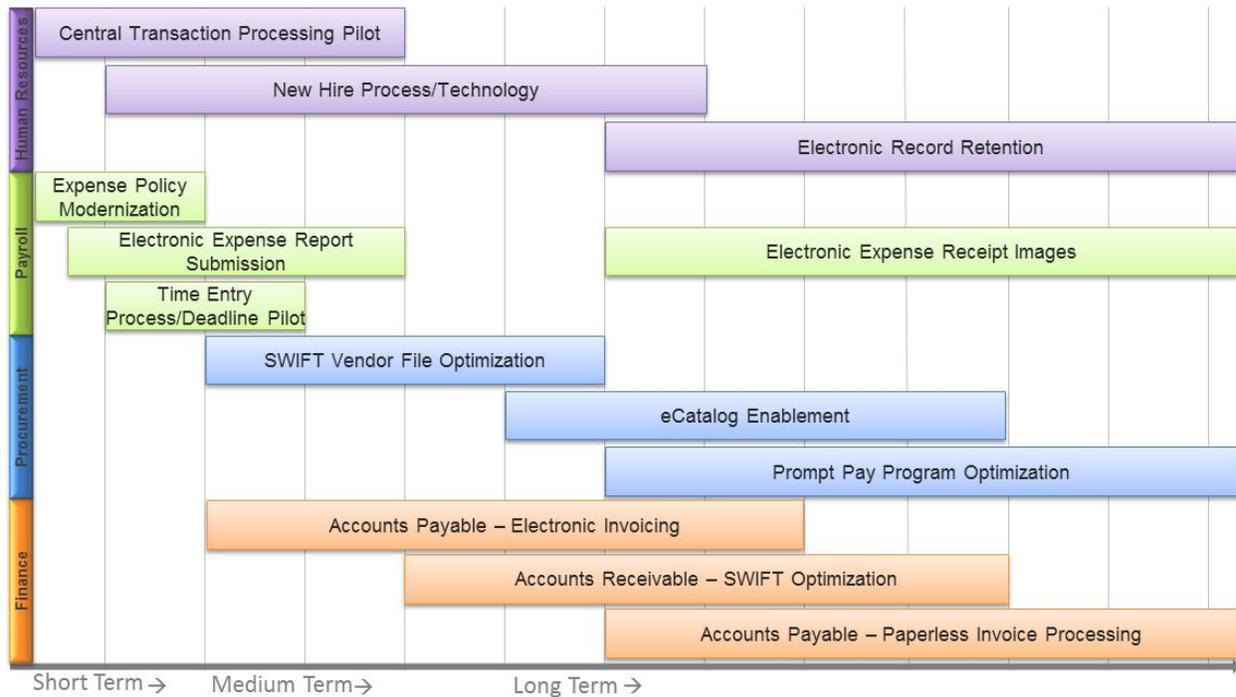
The four functional areas evaluated are broad and, as such, the opportunities are numerous and varied. IBM's Benchmark Report and the functional area workshops have highlighted key themes above and beyond the specific tactical opportunities. The key themes are as follows:

1. The State's performance in benchmarked functions is generally above average but varied widely from measure to measure.
2. There is significant performance variation between agencies.
3. Substantial technology improvements are needed.
4. Inefficient business processes require remarkable efforts from employees.
5. Staff resources are limited to implement new initiatives.
6. There is chronic underfunding of functional areas, particularly in HR.
7. State processes are exceptionally complex due to statute, rule, agency policies and bargaining unit contracts.
8. The four assessed functions have relatively limited impact on the overall State budget.

The four functional areas evaluated each have a number of opportunity areas, all with tangible tactics that could improve their efficiency and effectiveness. Across functional and opportunity areas, Admin identified a series of high impact and most promising initiatives that should be further developed and pursued in the coming months and years. This list of initiatives is intended to take the following into account:

- Size of opportunity in comparison to the perceived return on investment
- The State and functional area's desire and perceived capacity to successfully implement
- Measurable impact on citizens, vendors and employees

Based on the key themes, Admin acknowledges the need to stage the initiatives in a way that recognizes the current state of readiness as well as resource, policy and technology constraints. Accordingly, the following provides an example sequencing of the initiatives:



In addition to these functional area initiatives, several cross functional, supporting efforts have been identified that should be addressed over the near term:

- Defining interdependencies with other priority projects across the enterprise and scheduling resources appropriately
- Identifying statute changes, with the potential of including them in Governor Dayton’s proposed legislative “Unsession”
- Identifying policy changes that can be implemented
- Defining opportunities to work with agencies to re-engineer processes

This report identified a variety of prioritized initiatives based on preliminary analysis. Considering the strong interdependency with ongoing State projects/operations, and depending on resources, the next step for each initiative is to create a detailed implementation schedule for upcoming activities. For some projects, it is also recommended that initiatives be further defined, including a detailed cost benefit analysis and ROI, before fully committing to implementation.

Lastly, while Admin has recommended priority initiatives, each functional area should proceed with the initiatives and tactics contained in the functional area’s detailed opportunity briefs.

## 2. Introduction

This report was created by the Department of Administration (Admin) between January and March, 2013. The project and resulting report was executed by the Commissioner's Office of Admin, with support from key leads from many agencies within the Executive Branch of the State of Minnesota.

### 2.A. Authority

As passed by the 2012 Minnesota Legislature and outlined in Chapter 292, Article 4, Sec. 17, Subd. 2:

**Sec. 17. BENCHMARKING STUDIES; APPROPRIATION.**

*Subd 1. Appropriation. (a) \$450,000 is appropriated in fiscal year 2012 from the general fund to the commissioner of the Department of Administration to contract for:*

*(1) a benchmark study resulting in a benchmark report on the efficiency and effectiveness of the following back office functions: finance; procurement; and human resources, including payroll. The benchmark report shall be completed by November 1, 2012, and shall:*

*(i) include an objective comparison of the performance of the state to peer groups and world-class organizations;*

*(ii) quantify performance gaps;*

*(iii) uncover hidden costs;*

*(iv) identify improvement initiatives for the state to increase efficiency and effectiveness; and*

*(v) suggest a prioritized ranking of the improvement initiatives; ...*

*Subd. 2. Improvement initiatives. By January 15, 2013, the commissioner of administration shall submit a report to the chairs and ranking minority members of the legislative committees with primary jurisdiction over the Department of Administration including:*

*(1) a plan for implementing the improvement initiatives identified in the benchmarking report required under subdivision 1; and*

*(2) any draft legislation that is required to implement the improvements.*

The complete session notes can be found online at <https://www.revisor.mn.gov/laws/?id=292&doctype=Chapter&year=2012&type=0>

### 2.B. Purpose and Scope

Admin was asked to identify a plan for implementing improvement initiatives across four administrative functions within the Executive Branch including finance, human resources, payroll and procurement.

The following 40 Executive Branch business entities participated in the benchmarking project:

- 32 agencies, boards and commissions: Board of Water & Soil Resources, Department of Administration, Department of Agriculture, Department of Commerce, Department of Corrections, Department of Education, Department of Employment & Economic Development, Department of Health, Department of Human Rights, Department of Human Services, Department of Labor & Industry, Department of Military Affairs, Department of Natural Resources, Department of Public Safety, Department of Revenue, Department of Transportation, Department of Veterans Affairs, Explore Minnesota, Health Licensing Boards (including 17 independent boards), Iron Range

Resources and Rehabilitation Board, Lottery Board, Metropolitan Council, Minnesota Housing Finance Agency, Minnesota Management and Budget, Office of Administrative Hearings, MN.IT Services (formerly Office of Enterprise Technology), Office of Higher Education, Office of the Governor, Pollution Control Agency, State Academies Board, State Board of Investment, Workers' Compensation Court of Appeals, Zoological Gardens

- Eight enterprise level business entities: Enterprise Finance (Minnesota Management and Budget), Enterprise Human Resources (Minnesota Management and Budget), Enterprise Payroll (Minnesota Management and Budget), Enterprise Procurement (Department of Administration), SmART Finance Support Services (Department of Administration), SmART Human Resources Support Services (Department of Administration), SmART Payroll Support Services (Department of Administration), SmART Procurement Support Services (Department of Administration)

## 2. C. Abbreviations and Definitions

Throughout this report, the following abbreviations and definitions shall be used.

Abbreviation/Reference	Definition
<b>Act</b>	As defined above, the authority of this report Minnesota Legislature and outlined in Chapter 292
<b>AP</b>	Accounts Payable
<b>APQC</b>	American Productivity & Quality Center
<b>AR</b>	Accounts Receivable
<b>Admin</b>	The Department of Administration for the State of Minnesota
<b>BGBM</b>	Better Government for a Better Minnesota is an initiative created by Governor Dayton. It is governed by a sub-cabinet group. Minnesota's benchmarking project is governed by the BGBM sub-cabinet.
<b>HR</b>	Human Resources
<b>IBM Benchmark Report</b>	Pursuant to subdivision 1, the Act requires, "A benchmark study resulting in a benchmark report on the efficiency and effectiveness of the following back office functions: finance; procurement; and human resources, including payroll." Admin contracted with IBM, an external consulting firm, in late 2012 to deliver this benchmark study. This report is also available electronically through the Minnesota Legislative Reference Library as part of an ongoing digital archiving project. <a href="http://www.leg.state.mn.us/lrl/lrl.asp">http://www.leg.state.mn.us/lrl/lrl.asp</a> .
<b>MMB</b>	Minnesota Management and Budget
<b>SEMA4</b>	SEMA4 is the State's PeopleSoft human resources management system
<b>SmART</b>	Small Agency Resource Team program at the Department of Administration
<b>SWIFT</b>	Statewide Integrated Financial Tools is the State's PeopleSoft financial system

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## 3. Methodology

### 3.A. Process

To create this report, Admin executed the following steps:

1. Review and assessment of the IBM Benchmark Report – The objective of the benchmarking effort conducted by IBM was to identify areas worthy of further analysis that might justify performance improvement or cost reduction initiatives. Admin, along with several functional area experts and support staff from various agencies, assessed the findings in the IBM Benchmark Report and used it to refine its approach for determining improvement initiatives.
2. Identification of potential improvement opportunities – Admin used the IBM Benchmarking Report along with feedback from functional area leads to develop a list of opportunity areas that could potentially benefit the State and could be explored through workshops.
3. Workshops to discuss and define each improvement opportunity – Admin facilitated a series of 12 workshops, with each workshop focusing on a single opportunity area. The workshops included functional area experts from various State agencies. The objective of the workshops was to discuss the current state of each initiative, compare and contrast the current state to industry leading practices and ultimately produce recommendations for improvement.
4. Refinement and documentation of each improvement initiative – Using the IBM Benchmarking Report, workshop outcomes and input from key functional area experts, Admin refined the details of each initiative and compiled them into an opportunity brief for each functional area. The opportunity briefs describe the benefits, challenges, identified tactics and an improvement plan for each initiative.
5. Evaluation of all resulting improvement initiatives – Admin and experts from each functional area reviewed the improvement initiatives listed in the opportunity briefs and thoroughly evaluated each of them using a People, Process and Technology assessment framework while also considering the measures listed in section 3D below.
6. Identification of improvement initiatives to recommend – After a thorough evaluation, Admin developed a prioritized list of initiatives that are listed in this report.
7. Creation of report – Admin created this report, which includes an overview of the methodology used to create it, the opportunity briefs and a list of prioritized initiatives.

### 3.B. Assessment Strategy<sup>1</sup>

During the assessment phase, Admin assessed opportunities/tactics using a three-part framework: People, Process and Technology (PPT). The PPT framework addresses the three crucial components of successful organizational transformation and process improvement initiatives. Each initiative was vigorously assessed through the lens of the PPT framework to determine how each PPT component could contribute to produce a more optimal end state. Details for each component are described below.

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<sup>1</sup> Morgan, James M.; Liker, Jeffrey K. “The Toyota Product Development System: Integrating People, Process and Technology. Productivity Press, 2006.

- **People** – The *people component* covers recruiting, training, resource levels and employee skill sets, organizational structure and learning patterns. This component and its principles also cover culture, which entails the organization's shared language, beliefs and values. A measure of the strength of a culture, and an important tenet of Lean thinking, is the degree to which an organization truly shares these things across the enterprise and with partners, vendors and suppliers. This component could include acquisition of new talent, reallocation of current employees, execution of change management initiatives, integration across functions and integration/reorganization of suppliers.<sup>1</sup>
- **Process** – The *process component* comprises all the tasks and the sequence of tasks required to carry out a particular function (e.g., accounts payable) and any of its sub functions. Virtually all organizations have documented processes for each sub-function; however, this component is primarily focused on actual processes, the day-to-day activities by which information flows and tasks are carried out to completion. This component could include redesign and standardization of current processes and implementation of new processes.<sup>1</sup>
- **Technology** – The *technology component* consists of the systems, tools and technologies employed in order to improve a current initiative or implement a new one. This component not only includes the implementation of hardware and software, but also includes the "soft" tools that support the effort of the people involved in the new initiative, whether it is for problem solving, learning, or standardizing best practices. This component could include add-ons to existing systems, implementation of new hardware and software systems and adoption of continuous learning and improvement techniques.<sup>1</sup>

Throughout this report, current state and improvement opportunities/tactics are often discussed and defined using this strategy.

### 3. C. Data Inputs

A key input to this report was the IBM Benchmark Report. The IBM Benchmark Report captured, summarized and reported metrics in three performance categories: cost, time and quality. The Report provides an objective view into the people and processes involved in the Minnesota's administrative functions. Furthermore, to the extent external benchmark data was available and reliable, the IBM Benchmark report provides comparisons to leading practices in global and domestic peer groups (including US and Global Government entities). The Report was also beneficial in introducing areas to explore for improvement opportunities.

As IBM states in their Benchmark Report,

*“Benchmarking is an effective first step in identifying and prioritizing opportunities and initiatives for operational improvement. However, benchmarking is a “blunt” instrument and should be used to identify areas worthy of further analysis that might justify performance improvement or cost reduction initiatives. Benchmarking results should not be used as a ‘scorecard’ or as a means to ‘grade’ an organization. There may be good policy reasons that explain the performance of one organization relative to others. One objective of benchmarking is to identify those areas and determine whether those policy drivers are worth the performance or financial cost that they impose on the organization. If no policy explanation for the performance gap can*

*be identified, the gap is likely to be the result of a business process, technology or organizational deficiency that the organization may want to address through some type of management intervention.*

*“Benchmarking relies on ‘best efforts’ data collection exercises. Since the goal is to find large performance gaps, any weaknesses in the data collection effort (and there are always challenges in collecting this type of data) should be assessed in the light of their ‘materiality’ to the outcome. In the case of this Study, certain metrics were not included because it was clear that the State could not collect the relevant data in a timely fashion. The State team and IBM have noted, where applicable, cases where weaknesses in the quality of the data might have a material impact on the results.*

Two clarifying points regarding the IBM Benchmarking Report:

- Metrics were collected from State agencies in a very tight timeline. As such, agencies may have varied interpretations or level of accuracy of their reported data.
- Benchmark data used by IBM was not always representative or comparable to the State of Minnesota as a Government agency. Additionally, some benchmark data included a limited sample set leading to questions about applicability.

In addition to the IBM Benchmarking Report, functional area experts and their respective staffs provided critical data, insight and recommendations during the course of the Assessment period. Each functional area team of experts was required to have an assigned lead that was responsible for facilitating research activities, coordinating data gathering efforts and acting as the main point of contact for follow up questions. Throughout the assessment period, several workshops were held to gather data and refine the approach for the IBM Benchmarking Report and also to assist Admin in analyzing and interpreting the findings of the Report. Feedback from these functional area teams along with prior work done by Admin rounded out the rest of the data that makes up this report.

### ***3. D. Measurements***

Each opportunity/tactic was assessed, or measured, against various domains to help describe and articulate the opportunity. The measurements all reflect an order of magnitude, which should be interpreted as illustrative and reflective of large differences. Additionally, the measures are subjective and based on the opinions and experience of Admin with support from the key stakeholders. All measures, in combination, are helpful to make comparisons and assessments across functional areas and opportunities/tactics.

Values for some measurements are inherently “better” than other values (e.g., generally, short duration is better than long duration and low cost is better than high cost). To support ease of reading, these “better” measures are bolded and underlined.

Measures and definitions are as follows.

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### 3. D. 1) Level of Transformation

The level of transformation versus business-as-usual impact on the overall operation:

- **Run** – Maintains operations as-is and process/changes are a means-to-an-end.
- **Grow** – The tactic/action or use of technology is considered as a way to optimize or gain efficiencies in current operations and business processes.
- **Transform** – Desire and willing to adopt new technologies, change business processes and operate in a way that fundamentally promotes change.

### 3. D. 2) Dimension of Impact

Applying the same assessment strategy, each opportunity/tactic was assessed for a primary and secondary dimension that would be affected by addressing the opportunity/tactic.

Dimensions of impact measures are People, Process and Technology.

### 3. D. 3) Duration

Duration refers to the length of time, start-to-finish, that the effort is expected to take, based on reasonable effort and known risks.

Duration measures are:

- **LOW** – Perceived to take less than 6 months.
- Med (Medium) – Perceived to take between 6 months and 18 months.
- High – Perceived to take longer than 18 months.

### 3. D. 4) Investment

Investment includes hard and soft cost considerations. Examples are:

- Hard – Purchasing computer equipment or software, hiring external staffing, employee/FTE counts.
- Soft – Investment into the project that involves existing resources and could include reallocating employees, redesigning processes or repurposing current systems.

Investment measures are also at an order-of-magnitude estimation however are generalized as follows, with a significant tolerance:

- **LOW** – Perceived to cost less than \$500,000.
- Med (Medium) – Perceived to cost between \$500,000 and \$1,500,000.
- High – Perceived to cost more than \$1,500,000.

### 3. D. 5) Return on Investment

Benefits were captured in terms of financial Return On Investment (ROI) as well as intangible benefits.

Benefit measures are illustrative and are:

- Low – Minimal financial return but produces one or more intangible benefits (e.g., improved customer service).
- Med (Medium) –Moderate return on investment and potentially producing one or more intangible benefits.
- **HIGH** – Significant return on investment with the financial benefits substantially outweighing the cost.

### 3. D. 6) Complexity

The complexity measure assesses the dimension impacted per the PPT framework.

Complexity measures are illustrative and are:

Complexity	People	Process	Technology
<b>LOW</b>	Little or no change to existing employees, including but not limited to: roles/responsibilities, FTE volumes, necessary knowledge or skills.	Low hanging fruit. Easy. The business is willing and ready. The process already exists.	Minor changes, existing technology, or limited agency impact.
Med (Medium)	Moderate level of impact to employees.	Moderate level of change to existing processes.	Moderate changes, existing or new technology, or more involved agency impact.
High	Major organizational design, significant changes to employees, roles/responsibilities, FTE volumes, necessary knowledge or skills.	Transformational process change.	New technology or significant changes to existing technology.

## 4. Improvement Opportunities – Introduction

Minnesota’s benchmarking project has provided significant useful information in targeting reform efforts in the finance, HR, payroll and procurement functions. Through evaluation of IBM’s Benchmarking Report and discussions with functional area leadership, twelve opportunity areas were identified.

Through extensive workshop sessions, agency and functional staff helped bring clarity and definition to each opportunity.

The goal of each workshop was communicated as, a “highly interactive, input gathering session to flesh out a potential opportunity area.”

Workshop participants were selected with guidance from the functional area leads and agency leadership. The group sizes were kept intentionally small however covered as wide an agency base as possible. Generally, workshop sizes ranged from 10-20 participants.

Workshop participants were asked to come prepared to offer 1) strengths and weaknesses of their current process, 2) leading practice examples, internal or external and 3) specific ideas for how they might address this opportunity. In some cases when internal leaders were known, representatives were asked to present a more detailed discussion on their approach.

Each workshop lasted for one-half day. Workshop participants were provided IBM Benchmark Report data that was specific to the opportunity being discussed. The workshop agenda included 1) current state SWOT (i.e., strengths, weaknesses, opportunities and threats) group brainstorming exercise, 2) leading practice discussions and 3) small group breakouts to define the improvement opportunity, targeted at people, process and technology initiatives.

Workshop participants identified a number of unique and tangible tactics in order to address or improve the opportunity area. The opportunity briefs documented in the following sections are:

Opportunity Area	# of Tactics	Evaluation of:		
		Process	Policy	Tech
<b>Finance</b>				
Implement an Electronic Receipts Solution for Accounts Receivable	4			X
Redesign the Accounts Payable Process	8	X		X
<b>Human Resources</b>				
Transform the Human Resource Transaction Process	5	X		
Improve the New Hire Process	9	X	X	X
Create a Culture of Talent Management	6		X	X
Improve the Management of Employee Personnel Records	5	X		X
<b>Payroll</b>				
Simplify the Time Entry Process for State Employees	7	X		X
Streamline the Business Expense Processing for State Employees	8		X	X
<b>Procurement</b>				
Improve Vendor Management to Strengthen Procurement Strategies	5	X	X	X
Create Efficiencies within the State’s Order Processing Function	6	X	X	
Maximize Vendor Prompt Pay Discounts	6	X	X	X
Automate Purchasing through Use of a Supplier e-Catalog	2			X
<b>Total</b>	<b>71</b>	<b>8</b>	<b>6</b>	<b>10</b>

## 5. Improvement Opportunity Briefs – Finance

With more than 1,000 FTEs, finance is the largest of the functions assessed during this project. The management of the State’s varied funding streams is highly complicated, with a large number of dedicated funds, many grant programs and a large number of suppliers. The State’s SWIFT system provides a full range of tools to manage the finance functions, but it has not yet achieved full stability

and efficiency. Continuing to improve system operations is a priority and is an essential first step to transforming the finance functions.

Within finance, AP and AR are areas that consume significant time and effort from finance employees. These areas are the initial areas of opportunity that were identified through the benchmarking process. They can likely benefit from technology, process and potentially organizational changes.

### **5. A. Functional Area Benchmark Data Insights**

The State metrics in AP and AR are better than the median for several peer groups but do not yet reach leading practice benchmark levels in a number of areas. Opportunities to improve efficiencies within these areas have been identified.

### **5. B. Implement an Electronic Receipts Solution for Accounts Receivable**

#### **5. B. 1) Current State**

Currently, central policies and procedures related to receipt processing, as well as a central e-banking solution, are provided to all agencies by MMB. The State accepts payment through paper check, electronic funds transfer (EFT), direct debit and credit cards. Receipt processing is a combination of face-to-face transactions, paper checks received by mail and electronic processing (i.e., credit card and EFT) conducted both on the web and in person. According to the IBM Benchmark Report, less than half of all receipts are processed electronically. However, the benchmark data excluded tax receipts processing, and with tax receipt processing included, 85% of dollars are received electronically.

When payment is accepted in a manual, non-electronic form (i.e., paper check), it requires an employee within AR to process the payment. When a payment is accepted in an electronic form (i.e., credit card and EFT), the transaction is processed automatically, loading transaction data through electronic interfaces directly into SWIFT.

Agencies that have a significant volume of manual, non-electronic payments can potentially benefit by migrating to more streamlined electronic solutions. Additionally, migrating to electronic transaction options would further improve the efficiency of operations and strengthen controls. Currently, the Department of Human Services (DHS) is using an automated solution to process receivables submitted on paper. DHS currently provides services to other agencies with similar needs, and further extension of this shared service center may be beneficial for additional agencies.

A series of changes have been identified to improve the overall quality of payment transactions.

#### **5. B. 1) a. Benefits**

Key benefits of the current state are:

<b>High Customer Service</b>	<ul style="list-style-type: none"> <li>• The face-to-face option is received well by vendors and citizens</li> </ul>
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**5. B. 1) b. Challenges**

Key challenges of the current state are:

<b>Resource Intensive</b>	<ul style="list-style-type: none"> <li>The current process requires a large number of employees to process transactions</li> </ul>
<b>Inconsistent Processes</b>	<ul style="list-style-type: none"> <li>The transaction processes are complicated, increasing the likelihood of errors and affecting the accuracy of transactions</li> </ul>
<b>High Risk</b>	<ul style="list-style-type: none"> <li>Employees who process receipts have access to sensitive, personal information that increases data security risks</li> </ul>
<b>Reconciliation Challenges</b>	<ul style="list-style-type: none"> <li>Reconciling and matching records of each transaction is difficult</li> <li>Resolving ACH issues is extremely difficult due to the very limited information on transactions and no automatic payment information to use for tracking, requiring manual research for each instance</li> </ul>

**5. B. 2) Improvement Opportunity**

Most importantly, the SWIFT system should be stabilized. A stable technology is foundational to a finance function transformation.

The IBM Benchmark Report supports improvements in this area. According to the report, “The State’s AR processes ... do not fully utilize information technology to support receipts processing.” The State should consider solutions in the following categories: increased coordination and collaboration within AR working groups, changes to current AR systems and implementing key enabling technologies.

To begin, the State should increase the frequency of and participation in AR working groups in order to improve collaboration between AR functional experts across agencies and increase the proliferation of best practices within the State’s AR operations.

According to the APQC, the manual processing of AR receipts is labor intensive, counterproductive and the number of FTEs needed to accomplish AR receipt processing is a major driver of cost. The more manual tasks in the process, the higher the cost. Manual processing of AR receipts contributes to a high level of customer dissatisfaction. Customers who have actually paid may be placed on an undeserved credit hold or may receive collections calls because the transactions from the customer are caught in the manual AR receipt processing cycle and appear unpaid. APQC concludes by saying that “AR automation is low hanging fruit that can be addressed relatively swiftly with exponentially beneficial results.”<sup>2</sup> As such, the State should leverage technology and automation solutions to reduce manual processing. In addition to these technical implementations, the State should consider providing technical assistance to alleviate any customer service issues that arise.

<sup>2</sup> APQC Report. Accounts Receivable Receipts Processing: Metrics Reveal the Secret. 2011

**5. B. 2) a. Identified Tactics**

The following are key tactics, approaches or actions that would create momentum and/or address this opportunity:

Tactic	Level of Transformation	Dimensions	Duration	Investment	Return on Investment	Complexity
1 Continue/expand accounting working groups to share solutions and best practices.	Run	Ppl	<u>LOW</u>	<u>LOW</u>	Low	<u>LOW</u>
2 Improve the level of information currently seen on EFT transactions initiated outside the State’s e-Pay solution.	Grow	Tech	Med	Med	Low	Med
3 Implement a standardized e-Pay front end with technical assistance provided by the State.	Grow	Tech	Med	High	Med	Med
4 Better utilize the SWIFT customer portal.	Run	Proc	Med	Med	Low	Med

**5. B. 2) b. Benefits of Change**

The following are key benefits the State may realize by addressing this opportunity.

<b>Increased Data Quality</b>	<ul style="list-style-type: none"> <li>• Electronic receipts would provide a higher degree of detail on each transaction</li> <li>• An electronic transaction and receipt mechanism would decrease human involvement and therefore errors that occur</li> <li>• More accurate and more complete data on each transaction would increase the efficiency of applying payments</li> <li>• e-Pay solutions increase controls</li> </ul>
<b>Improved Customer Experience</b>	<ul style="list-style-type: none"> <li>• Offers more electronic payment options to customers</li> </ul>
<b>Increased Productivity</b>	<ul style="list-style-type: none"> <li>• Transaction processing would be less labor intensive, therefore employees would have more time for strategic activities</li> </ul>

**5. B. 2) c. Improvement Approach**

The following steps should be considered over the short, medium and long term.

**Short Term** – In the short term, the State should begin ramping up the frequency and participation of its AR working groups. This should be a fairly quick process and will likely result in several intangible benefits to the State’s AR operation.

**Medium Term** – In the medium term, the State should begin the rollout of the SWIFT customer portal and consider a standardized front end for point of sale e-Pay transactions, including technical support.

**Long Term** – In the long term, the State should fully utilize customer portal functionality.

## 5. C. Redesign the Accounts Payable Process

### 5. C. 1) Current State

The AP function is responsible for making payments owed by the State to payees and partners.

SWIFT is primarily used for the core accounting functions of the AP process and the State currently pays vendors through a centralized payment process supported by SWIFT. SWIFT provides controls to ensure the goods or services have been received prior to payment and the amount invoiced is accurate.

When an invoice from a supplier is received by the State, it is matched to a purchase order (and sometimes a packing slip or contract) then paid (referred to as a two or three way match). The majority of invoices are received manually and paper invoices and other documentation follow approvals throughout the process. Records of each transaction are stored by each agency.

There are a number of ways the State could improve the AP process that would improve the efficiency of the State’s payment business cycle, substantially reduce costs associated with the AP process and ensure prompt payment to the State’s suppliers.

#### 5. C. 1) a. Benefits

Key benefits of the current state are:

<b>Process Maturity</b>	<ul style="list-style-type: none"> <li>• The current manual audit process works well</li> <li>• The State has an effective system for auditing the AP function that includes a system that tracks approvals</li> <li>• It is easy to track and view hard copy documents (e.g., invoice, voucher, purchase order, etc.)</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• The SWIFT system supports several beneficial functions, such as workflow and approvals</li> <li>• Although underutilized, SWIFT allows for vendor/supplier entry</li> </ul>

#### 5. C. 1) b. Challenges

Key challenges of the current state are:

<b>Process Inefficiencies</b>	<ul style="list-style-type: none"> <li>• Agency AP processes widely differ</li> <li>• Agencies have not adopted new business processes that would allow them to take advantage of efficiencies offered by the SWIFT AP module</li> <li>• Dual approval is currently required because agencies have not adjusted their business process to work with the SWIFT software functionality</li> <li>• Original signatures are often required; some agencies allow email approval</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• SWIFT is not a document management system and the State does not currently have a good approach to capturing images associated with vouchers</li> <li>• While SWIFT has functionality that allows vendors to submit invoices electronically, it is not being utilized by vendors</li> </ul>

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## 5. C. 2) Improvement Opportunity

There are several initiatives currently underway that are aimed at improving AP system response times and general AP operations. These improvements are expected to produce incremental benefits, not transformational change. However, it is imperative that the State take steps to stabilize these initiatives before proceeding with further improvements to the AP function.

The State has a significant opportunity to achieve a paperless AP process. According to the IBM Benchmarking Report, “the State should consider redesigning AP operations and standardizing/simplifying AP processes.” The State currently has twice as many FTEs in AP as leading practice benchmarks and AP resources are currently distributed across agencies. The base period for this analysis included a period of government shutdown and was the first year of operation of a new statewide accounting and procurement system. User training and experience has resulted in some productivity improvements and there are projects underway to improve system performance.

Migrating to a paperless, electronic AP process would significantly improve the efficiency of the State’s payment business cycle, substantially reduce costs associated with the AP process and ensure prompt payment to the State’s suppliers. Furthermore, suppliers often offer “prompt pay” discounts for paying an invoice within a defined number of days. The more efficient the AP process is, the more likely an organization is to take advantage of these “prompt pay” discounts.

While research indicates substantial benefits to paperless AP processing, it also points towards investment in sound end-to-end business process management, including regular measurement of process efficiency and analysis of the root causes of quality breakdowns. Leading practice organizations have a first-time match rate of between 85 and 99%, leaving 1-15% of all invoice line items to be handled manually, indicating that even in a highly automated operation AP employees still have to intervene and resolve discrepancies from time to time (erroneous invoices are a primary contributor to AP inefficiency).<sup>3</sup>

The State should conduct a Lean event(s) to fully dissect and improve all AP processes and better utilize existing technologies, including full utilization of the paperless workflow process in SWIFT.

To achieve the most productive metrics in both effectiveness and efficiency of AP operations, organizations must ensure that non-automated processes are fully optimized and that the AP process is fully automated to the extent possible (from the receipt of the initial AP invoice to the disbursement of payment).<sup>3</sup> Leading practice organizations process less than 5% of AP transactions manually, compared to 80-95% for non-automated organizations.

As such, the State should consider these additional improvements:

1. In order to further optimize the AP process, the State should consider solutions to fully utilize workflow functionality and eliminate redundant manual processes. Migrating towards a more

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<sup>3</sup> APQC Report. Do More than Automate Accounts Payable. 2012

automated, electronic AP platform is a logical next step for the State. Several options exists that, if implemented, would not only free up existing AP FTEs to tackle more pressing, important tasks, but also make the remaining AP FTEs more efficient.

2. Electronic Document Management System (EDMS) – EDMS automatically stores electronic invoices and enables electronic storage of hard copy invoices using digital imaging technology. The State currently lacks an enterprise wide document management system but has implemented an automated solution for invoice routing. However, while vouchers are created and routed electronically, a majority of invoices are still received manually and paper invoices and other documentation follow approvals throughout the process.
3. Electronic Invoice Presentation and Payment (EIPP) – EIPP allows suppliers to transmit and pay invoices electronically. Research has shown that EIPP significantly reduces costs, processing times, and work-hours related to the preparing, printing, signing and mailing of supplier payments. Using electronic payments also results in reduced processing costs of AP disbursements, better-controlled disbursement dates, elimination of lost checks and more consistent internal documentation of payments made and received by vendors.<sup>4</sup>

Lastly, the State should explore alternative organizational structures related to AP operations, particularly within agencies, to determine whether a new structure could further improve the AP function across the State.

**5. C. 2) a. Identified Tactics**

The following are key tactics, approaches or actions that would create momentum and/or address this opportunity:

Tactic	Level of Transformation	Dimensions	Duration	Investment	Return on Investment	Complexity
1 Standardize AP training information.	Run	Ppl	<u>LOW</u>	<u>LOW</u>	Low	<u>LOW</u>
2 Fully utilize paperless workflow process in SWIFT.	Run	Proc	Med	Med	Med	Med
3 Expand use of procurement cards.	Run	Proc	<u>LOW</u>	<u>LOW</u>	Low	<u>LOW</u>
4 Implement an enterprise wide electronic document management system (EDMS).	Tnsfrm	Tech	High	High	<u>HIGH</u>	High
5 Share information and technology resource initiatives between agencies.	Grow	Proc	Med	Med	Med	Med
6 Conduct Kaizen events to enhance AP processes and better utilize existing technology.	Grow	Proc	<u>LOW</u>	<u>LOW</u>	Med	<u>LOW</u>

<sup>4</sup> APQC Report. Accounts Payable Automation: The Shift to E-Payments. 2011

7 Identify alternative organizational structures to enhance AP efficiency.	Tnsfrm	Ppl	High	Med	Med	High
8 Increase and promote use of electronic invoicing presentment and payment (EIPP).	Grow	Tech	Med	Med	Med	Med

**5. C. 2) b. Benefits of Change**

The following are key benefits the State may realize by addressing this opportunity.

<b>Process Efficiency</b>	<ul style="list-style-type: none"> <li>Consistency and uniformity of AP processes across the State</li> <li>Should lead to eventual increases in efficiency and accuracy</li> <li>Streamlining of AP processes will lead to faster transaction times</li> </ul>
<b>Cost Savings &amp; Cost Avoidance</b>	<ul style="list-style-type: none"> <li>Increased use of P-cards can lead to cost savings through an increase in vendor discounts and revenue-sharing program rebates received</li> <li>The ability to pay invoices quickly increases the potential of achieving prompt pay discount deadlines</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>Electronic document management would enable storing of AP documents in a fully searchable electronic format which requires less physical storage of hard copy documents</li> <li>An electronic solution would automate data storage thus eliminating the current, manual process that open the possibility for loss of data/documents</li> <li>Electronic documents can be encrypted with access controls using passwords and an authentication system</li> <li>Migration to a paperless / electronic document management system will provide easy access to all AP documents processed</li> <li>Electronic documents can be retrieved immediately, shared and routed to any employee in the State</li> </ul>

**5. C. 2) c. Improvement Approach**

The following steps should be considered over the short, medium and long term.

**Short Term** – There are several AP technology enhancement initiatives currently underway in the State. In the short term, it is imperative that the State take steps to stabilize these initiatives before proceeding with further improvements.

**Medium Term** – In the medium term, the State should begin reevaluating specific AP processes with the goal of migrating to a more paperless AP process. The State should conduct Kaizen events to optimize current AP processes and redesign processes that are currently inefficient or considered a hindrance to moving towards a paperless process. The State should also promote the use of electronic invoicing by vendors. Lastly, the State should conduct a full cost benefit analysis of implementing an electronic document management system (EDMS) to support the State’s AP operations.

**Long Term** – In the long term, the State should reevaluate the AP process efficiency and explore alternative organizational structures related to AP operations where appropriate. Additionally and based on the EDMS cost benefit analysis, the State should implement an EDMS system if the analysis deems it likely to produce substantial benefits to the State’s AP operations.

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## 6. Improvement Opportunity Briefs – Human Resources

Minnesota’s human resource (HR) function plays a key role in securing the State’s most important asset, its employees. With increasing numbers of employees eligible for retirement, the State’s ability to attract and retain employees will grow in importance. Recent investments in Minnesota’s HR function at the enterprise level have been sorely lacking. Rebuilding key pieces of this infrastructure, streamlining processes and redesigning organizational structures in some limited areas will position the HR function well to serve agencies and their customers.

### ***6. A. Functional Area Benchmark Data Insights***

The HR metrics and benchmark data that resulted from the IBM Benchmark Report indicates that the State performed relatively well in the HR function, generally above the median, but below the benchmark for most peer groups. However, many of the metrics calculated did not include comparisons to government peer groups due to lack of public sector data available. This is significant since a great deal of work is governed by State rules and criteria that are not applicable to private employers (e.g., public sector collective bargaining agreements). There are several areas where the context of the work is so different from private industry that the comparisons are of limited value.

### ***6. B. Transform the Human Resource Transaction Process***

#### **6. B. 1) Current State**

Accurately managing employment data is a core function that must be completed with precision by staff members who are expert in both understanding the content of the data and executing the transaction in the PeopleSoft/SEMA4 system. Transaction errors:

- Are highly visible
- May be permanently detrimental to the employee (e.g., negatively impact retirement benefits)
- May result in violation of law, rules or policies
- Can cause data integrity and reporting problems at both the agency and State level

The State provides a centralized Enterprise Resource Planning (ERP) system, SEMA4, which is an Oracle/PeopleSoft based HR information system that is maintained at MMB. This system is the State’s central repository for historical employment record keeping. Since its implementation in July 1995, it has continued to serve a wide variety of agencies including the entire Executive Branch, judicial branch and some legislative branch agencies in addition to the retirement systems and MnSCU.

This system is supported and managed at the enterprise level by MMB with employment action decisions and data entry occurring in a decentralized manner at each agency. Staff at MMB oversees the maintenance and use of the system which includes: responding to questions on how to use it, auditing transactions on a random basis, making decisions about upgrading and customizing the system to make the system more efficient and meet business needs. The system also includes an employee

self-service function that allows employees access to information such as their paycheck or W-2 and completion of transactions that affect their benefits.

Decentralized users have access to a wealth of resources to assist them in entering employment transaction data into the system including self-paced training and a significant amount of on-line help that provides step-by-step instructions, field definitions, page overviews, check lists, reports inventory and operating policies and procedures.

HR work is complex and requires knowledge of specific laws, rules, policies and procedures both at the State and Federal level, along with an understanding of nine core bargaining agreements and two compensation plans, many with unique terms and conditions of employment. Each time an employee has an “event” that requires a change to their employment record whether through a pay increase, leave of absence, promotion, movement to another agency or separation, this complex network of information must be considered. Also, because the State maintains a centralized ERP system, any transaction entered into the system “ripples” through HR and affects employees’ insurance benefits, training records, eligibility for overtime, other benefits and pay check.

The execution of transactions can be confusing and time consuming due to the:

- Decentralized HR decision making occurring at each agency
- Business complexities associated with HR to meet specific occupational standards
- Diversity of State programs
- Variety and differences within the collective bargaining agreements and plans
- Variety of skill, experience and knowledge of the staff who perform these functions

As such, a series of people and process changes are recommended to improve the overall quality of HR transactions.

**6. B. 1) a. Benefits**

Key benefits of the current state are:

<b>Expertise</b>	<ul style="list-style-type: none"> <li>• HR staff have a high level of expertise in their agency standards, nomenclature and transaction-related system codes</li> <li>• HR staff at the agency are highly familiar with agency business and can most accurately:               <ul style="list-style-type: none"> <li>○ Translate the verbal requirements/situation into an HR action</li> <li>○ Identify HR trends and issues with employees or inconsistent application of policies, rules or contract language across their agency</li> </ul> </li> </ul>
<b>Transferrable Knowledge</b>	<ul style="list-style-type: none"> <li>• Overarching HR rules are the same, they are not agency specific</li> <li>• PeopleSoft/SEMA4 transaction processing knowledge is the same across the enterprise, it is not agency specific</li> <li>• There is one enterprise system in which transactions are performed and employment data maintained</li> </ul>

**6. B. 1) b. Challenges**

Key challenges of the current state are:

<b>Data Quality</b>	<ul style="list-style-type: none"> <li>• Data Integrity can be an issue:             <ul style="list-style-type: none"> <li>○ An error in one field can negatively impact many different things</li> <li>○ The impact of inaccurate changes is not visible until downstream processes occur or may never be discovered</li> <li>○ Some errors may have a significant impact on employees (e.g., incorrect insurance eligibility codes that are not corrected in a timely manner can result in the employee not qualifying for certain kinds of insurance benefits or have to pay large health insurance premiums)</li> </ul> </li> <li>• Agencies are independently making decisions on whether or not to use certain parts of the system or to use data fields in a different way than defined. This leads to:             <ul style="list-style-type: none"> <li>○ Unreliable enterprise reporting</li> <li>○ Frustration among agencies when data on an employee coming from another agency is incomplete or inaccurate</li> </ul> </li> <li>• Agencies may have specific situations/issues that may not be handled the same way in another agency</li> </ul>
<b>Technology Limitations</b>	<ul style="list-style-type: none"> <li>• More complex personnel data, such as employee performance appraisals and FMLA, are typically maintained manually at the agency</li> <li>• Lack of integration of SEMA4 data with data that is being kept manually creates challenges when attempting to run centralized reports</li> <li>• The system is not available 24x7 – scheduled downtime occurs during the evenings, on holidays and on weekends</li> <li>• The system does not provide an easy way to audit HR transactions; an audit process has been developed but is not all encompassing and is largely a manual process</li> </ul>
<b>Deep Knowledge Required</b>	<ul style="list-style-type: none"> <li>• Knowing how to accurately code a transaction relies upon a deep understanding of labor contracts, compensation plans, laws, rules, policies and procedures that make up the HR framework</li> </ul>

**6. B. 2) Improvement Opportunity**

The IBM Benchmark Report supports this initiative. According to the report, “...the manage employee information process group may be a focus area for consolidating operations.” The State should consider solutions in the following categories: enhancements to MMB’s operations, create a central/shared group of employees to perform certain functions and reassess data standards.

Currently, available reports are not generating sufficient breadth and depth of information to support proper decision making. Furthermore, some agencies struggle with the ability to produce the necessary reports from the system. Agencies could benefit from enhancements to MMB’s support operations, more specifically to its reporting capabilities.

APQC reports that “HR shared service centers are typically able to resolve between 85% (high performers) and 75% (low performers) of inquiries on the first contact.” There are several processes

within the HR functional area that would be more efficiently executed in a shared service fashion (e.g., employment verification). As such, the State should create a shared group of employees to perform a host of transactions that would be more efficiently performed in this shared services environment. Those employees chosen to participate should have intimate knowledge of the shared service transactions. The State should conduct a pilot of a few of the transactions (potentially including FMLA) to ensure efficacy before proceeding with a full rollout.

The State should reassess data standards to ensure consistency across the State and consider enhancing training programs to support the initiative.

**6. B. 2) a. Identified Tactics**

The following are key tactics, approaches or actions that would create momentum and/or address this opportunity:

Tactic	Level of Transformation	Dimensions	Duration	Investment	Return on Investment	Complexity
1 Assess and ensure consistency of data standards and enhance training.	Run	Proc	<u>LOW</u>	<u>LOW</u>	Med	<u>LOW</u>
2 Enhance MMB HR resources to assist with report generation.	Run	Ppl	<u>LOW</u>	<u>LOW</u>	Low	<u>LOW</u>
3 Create a central or shared group of employees with knowledge and expertise to perform transactions. Determine pilot transactions, potentially including FMLA.	Trnsfm	Ppl	Med	<u>LOW</u>	<u>HIGH</u>	Med
4 Resurrect and redefine the MMB HR transactions auditing program to review agency audits performed on their transactions and to routinely review SEMA4 data for inconsistencies and inaccuracies.	Grow	Ppl	Med	<u>LOW</u>	Low	Med
5 Explore possibility of centralizing employment verification.	Grow	Ppl	Med	<u>LOW</u>	<u>HIGH</u>	Med

**6. B. 2) b. Benefits of Change**

The following are key benefits the State may realize by addressing this opportunity.

<b>Increased Data Quality</b>	<ul style="list-style-type: none"> <li>• Reduced inbound errors directly translates to:             <ul style="list-style-type: none"> <li>○ Decreased downstream errors</li> <li>○ Increased accuracy which enhances employee confidence and increases satisfaction</li> </ul> </li> <li>• Data consistency promotes ability to obtain consistent enterprise reports, including mandated HR reporting</li> <li>• Easier to identify or spot trends</li> </ul>
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<b>Increased Accuracy</b>	<ul style="list-style-type: none"> <li>• Core group of specialized employees responsible for policy issues results in decision making that is:               <ul style="list-style-type: none"> <li>○ More consistent</li> <li>○ More accurate and up to date with law changes</li> <li>○ Results in better outcomes</li> </ul> </li> <li>• Deeper knowledge base of staff which leads to a more thorough review of data thereby reducing inaccuracies</li> <li>• Reduced employee complaints and dissatisfaction resulting from transaction errors</li> </ul>
<b>Reduced Employee Absences</b>	<ul style="list-style-type: none"> <li>• Absences would be more easily identified, consistently monitored and addressed</li> <li>• As an example, sick leave usage and FMLA issues would be addressed sooner and therefore reduce the amount of leave that is taken inappropriately or not within the eligibility of the law</li> </ul>

**6. B. 2) c.      *Improvement Approach***

The following steps should be considered over the short, medium and long term.

**Short Term** – In the short term, the State should evaluate the current transaction processing data standards and training documentation/approach. Additionally, MMB should identify a resource to provide enhanced agency support particularly in the area of PeopleSoft reporting.

**Medium Term** – In the medium term, the State should create a central or shared group of employees with knowledge and expertise to perform transactions. Candidates for pilot transactions would be either FMLA or retirements. Additionally and perhaps smaller in impact but large in distraction would be centralizing employment verification across the State. Also, standards and training documentation should be revamped, as needed, to accurately reflect a statewide, consistent approach. A new training initiative should be developed and rolled out to ensure standards are followed by all HR personnel.

**Long Term** – Over the long term, the State should assess and reevaluate employee benefits and policies in order to simplify the process, including a review of industry trends (e.g., explore the possibility of implementing end-of-year vacation payouts rather than banking, etc.).

**6. C.    *Improve the New Hire Process***

**6. C. 1)    *Current State***

The hiring process in State government is complex due to many guiding laws, statutes and polices under which it must operate, including:

- Federal and State statutory mandates
- Multiple collective bargaining requirements
- Merit system principles designed to ensure fairness and equal access to all applicants.

The hiring process is partially centralized and partially decentralized. Some agencies conduct the process from start to finish and other agencies rely on MMB or SmART for these services.

The hiring process begins with a request for approval to fill a job. Most agencies conduct this process manually by routing hard copy paperwork to required levels of approval in the agency, MMB or SmART. The manual process is burdensome and can result in lost paperwork and unnecessary delays. Although an approval-tracking tool would be beneficial for the enterprise, MMB does not have the resources to purchase or implement such a system or to integrate it with PeopleSoft/SEMA4.

Once a request is received to fill a position, the HR office conducts a workforce planning exercise to ensure that the current or anticipated conditions will continue to support the goals of the agency or if changes are needed. HR may conduct a job audit, when appropriate, on the position to ensure placement in the appropriate job classification. This process is time intensive but is necessary to ensure that the position allocation is appropriate and equitable with other positions in the State doing similar work. Once approved and created, all unlimited, classified job openings must be posted internally and announced to the public. To apply, applicants submit resumes through the State's online Resumix system, which is outdated and no longer supported by the vendor. Resumix does not allow for submission of multiple job-specific resumes, cover letters or other attachments, nor does it allow resumes to include special formatting. Applicants without access to a computer can submit paper copies of resumes to MMB, which must be manually scanned and tracked to the appropriate job requisition on behalf of the applicant. Although there is a feature in Resumix allowing agencies to require applicants to answer questions as part of the application process, there is no functionality allowing these questions to electronically eliminate a candidate who does not qualify for the job. Like many employers, the State receives a large number of applicants that do not meet the minimum qualifications. MMB is currently seeking budget approval to replace its outdated Resumix system.

The current process and guidelines require review of every resume to match the candidate's qualifications against the minimum requirements of the job. This process can be lengthy since it is labor intensive due to the complexity of the many considerations and analysis that are required to ensure a fair and equitable process. Once the pool of qualified applicants is established, HR offices must also review each applicant to determine if the applicant has special preference in the hiring process. For example, State hiring managers are required to either hire or consider bargaining unit members who have layoff, claiming or bidding rights to a position and to interview the top five most recently separated qualified veterans for each position, as well as consider placement of an employee who is on workers' compensation. Once a candidate is selected, the hiring manager may also need to go through another approval process for the salary determination. The approval is based on the limitations set by State law and MMB policies. In most agencies, this process is also conducted manually.

The State recently purchased a competency model designed by Zenger-Folkman. This model is designed to identify and evaluate key competencies in the hiring process and management of employee performance. MMB is in the process of integrating these competencies into the hiring process.

Overall, there are a number of steps in the State's hiring process, many of which are due to legal or contractual mandates. At the same time, there is opportunity for improvement in the State's hiring technology, processes and tools which would aid in improving cycle times.

**6. C. 1) a. Benefits**

Key benefits of the current state are:

<b>Expertise</b>	<ul style="list-style-type: none"> <li>HR staff have a high level of expertise in contract interpretation and applying legal requirements related to filling positions</li> </ul>
<b>Fairness &amp; Equity</b>	<ul style="list-style-type: none"> <li>The merit system ensures that the State hires qualified individuals for positions</li> <li>The hiring system is designed to prevent favoritism/nepotism</li> <li>The hiring system is designed to provide equal opportunity consideration for all applicants</li> </ul>
<b>Large Candidate Applicant Pool</b>	<ul style="list-style-type: none"> <li>The existing applicant system makes it easy for applicants to sign-up for email notifications regarding the posting of new position via a “job search agent”</li> <li>The existing applicant system allows applicants to submit applications and resumes to multiple open positions</li> </ul>

**6. C. 1) b. Challenges**

Key challenges of the current state are:

<b>Quality Candidate Applicant Pool</b>	<ul style="list-style-type: none"> <li>A higher level of experience is needed in State jobs to conduct work, as the State does not have the capacity to hire people with general aptitude and train them in specific job duties due to limited resources</li> <li>Large applicant pools (i.e., MMB receives on average 8,000-10,000 resumes each month) due in part to candidates applying for positions:             <ul style="list-style-type: none"> <li>Without reviewing and possessing minimum qualifications</li> <li>Without minimum qualifications to satisfy unemployment requirements</li> <li>Believing that we will find a “match” for their qualifications</li> </ul> </li> <li>The current technology does not pre-screen applicants for minimum qualifications or skills, therefore requiring more human assessment and evaluation – a recent metric shows that on average, approximately 20% of applicants who apply for a specific position meet the minimum qualifications and skills for a position</li> <li>Bargaining unit “bidding” processes for open positions differ and add complexity to candidate selection</li> </ul>
<b>Appeals</b>	<ul style="list-style-type: none"> <li>Applicant appeals allow for individuals to submit additional information about their qualifications – this process is important but extends the time it takes to finalize the hiring process</li> <li>Hiring decisions are based on assessing the applicant’s qualifications and skills, which is labor intensive, especially due to high applicant pool numbers for some jobs</li> </ul>

<b>Complex Rules &amp; Guideline</b>	<ul style="list-style-type: none"> <li>• Candidate selection is governed by necessary, multiple and complex guidelines, including:               <ul style="list-style-type: none"> <li>○ Government’s value of transparency</li> <li>○ Federal employment laws</li> <li>○ State employment laws</li> <li>○ Multiple collective bargaining unit requirements</li> <li>○ Specific agency rules, requirements and needs</li> </ul> </li> <li>• Merit principles designed to require open competition for all unlimited, classified positions and requiring that all State employees meet job related criteria</li> <li>• Several levels of assessment and approvals in order to ensure equitable hiring practices</li> </ul>
<b>Lack of Toolset</b>	<ul style="list-style-type: none"> <li>• No centralized source of interview questions</li> <li>• No centralized employee assessment tools or qualification tests</li> <li>• Diversity of occupations in State government require different toolsets and processes</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• The current hiring process involves manually entering data into multiple systems</li> <li>• Lack of technology to track and support the position approval process</li> <li>• Lack of technology to track and support the compensation approval process</li> <li>• Lack of an effective applicant tracking system, it:               <ul style="list-style-type: none"> <li>○ Does not have workflow</li> <li>○ Results in poorly formatted resumes submitted to HR and hiring managers</li> <li>○ Does not allow for agencies to have reporting capabilities to determine the job filling metrics or outcome measures</li> <li>○ Does not fully integrate with PeopleSoft/SEMA4</li> </ul> </li> <li>• Lack of technology ties up HR staff resources and impacts ability to provide other valuable services to the agency</li> </ul>
<b>Lack of HR Resources</b>	<ul style="list-style-type: none"> <li>• In the last decade, HR resources at the enterprise level have declined by over 70%</li> <li>• Support needed to fill positions will increase as the wave of retirements continues to increase and labor pool availability diminishes</li> <li>• Funding resources for advertising and recruitment are limited or non-existent</li> </ul>

### 6. C. 2) Improvement Opportunity

The IBM Benchmarking Report indicates that the State underperforms most benchmarks in its hiring cycle times. While the lack of technology likely contributes significantly to the problem, the State is also required to navigate a complex legal and policy landscape that inhibits the State from achieving more efficient operations. The State should consider solutions in the following categories: redesigning specific aspects of the new hire process, implementing key enabling technologies, enhancing training efforts and bolstering efforts in branding and advertising State hiring initiatives.

Many of the best practices demonstrated by leading organizations are the result of conscientious monitoring and fine-tuning of talent management processes as part of continuous improvement mentalities inherent in these organizations (often supported by Six Sigma tools and processes). While the State should consider further continuous improvement in the future, at the very least, the State

should conduct a Lean event(s) to help streamline new hire processes and gain a deeper understanding of the primary contributors to existing inefficiencies and to identify ways to simplify and standardize new hire policies, rules and guidelines. The State should undertake a review of the policy and procedure framework pertaining to the hiring process to ensure that candidate equity and fairness is maintained while reducing the significant burden on the State. In addition to the process improvement efforts, the State should integrate the existing competency models into the hiring process (e.g., interview questions, position descriptions, minimum qualifications, etc.).

A recent APQC study found that leading practice organizations invest significantly in recruiting technology.<sup>5</sup> Although it is critical for talent managers to interact with their internal (e.g., agency managers) and external (e.g., employee candidates) customers, these organizations have found that support applications can streamline many tasks involved in recruiting and selection, such as conducting background checks and reaching out to potential candidates. The State should replace the current applicant management system to include automated applicant screening (with skill inventories and pre-screening tests). Further, the State should also implement an enterprise-wide system that integrates with the State’s PeopleSoft system and allows better execution, including automated workflow, of position approvals, salary approvals and interview scheduling.

To carry out the many initiatives listed above the State will need to increase the level of resources currently being dedicated to the new hire process at the central HR function in MMB. Additionally, the State should increase and enhance the State’s new hire training for managers and HR professionals on effective behavioral interviewing and skills assessment. Lastly, the State should bolster efforts in branding the State as an appealing place to work and advertising State hiring initiatives in order to build a higher quality applicant pool in the future.

**6. C. 2) a. Identified Tactics**

The following are key tactics, approaches or actions that would create momentum and/or address this opportunity:

Tactic	Level of Transformation	Dimensions	Duration	Investment	Return on Investment	Complexity
1 Conduct a Lean event(s) to help streamline processes and understand potential efficiencies.	Grow	Proc	<u>LOW</u>	<u>LOW</u>	Med	<u>LOW</u>
2 Automate applicant screening by implementing a skill inventory, assessment tool and/or pre-screening tools.	Grow	Tech	Med	Med	<u>HIGH</u>	Med

<sup>5</sup> APQC Report. Leverage Technology to Streamline the Transactional Aspects of the Recruitment and selection process. 2008

3	Implement an enterprise-wide, tracking technology for position approvals, salary approvals, position posting, applicant submissions, applicant assessments/qualifications, interview scheduling, candidate interview results and candidate decisions ideally integrated with PeopleSoft.	Grow	Tech	Med	Med	Med	High
4	Integrate the State’s competency model into the talent management process, including: interview questions, position descriptions, minimum qualifications, etc.	Grow	Proc	Med	<u>LOW</u>	<u>HIGH</u>	Med
5	Enhance the State’s training for managers and HR professionals on effective behavioral interviewing and skills assessment.	Run	Ppl	Med	<u>LOW</u>	Med	<u>LOW</u>
6	Strengthen MMB HR’s staff levels to support an adequate new hire effort.	Run	Ppl	<u>LOW</u>	Med	Med	<u>LOW</u>
7	Focus on branding and advertising to ensure a qualified diverse candidate pool.	Grow	Ppl	Med	Med	<u>HIGH</u>	<u>LOW</u>
8	Undertake a review of the policy and procedure framework pertaining to the hiring process.	Trsfrm	Proc	High	<u>LOW</u>	<u>HIGH</u>	High
9	Integrate the existing competency models into the hiring process.	Grow	Proc	Med	Med	<u>HIGH</u>	Med

**6. C. 2) b. Benefits of Change**

The following are key benefits the State may realize by addressing this opportunity.

<b>Streamlined Processes</b>	<ul style="list-style-type: none"> <li>• Faster hiring cycle times</li> <li>• More support for managers and supervisors</li> <li>• More efficiency in the approval process</li> <li>• Consistent processes across all agencies</li> </ul>
<b>Improved Candidate Quality</b>	<ul style="list-style-type: none"> <li>• Fewer less qualified candidates</li> <li>• Less effort: <ul style="list-style-type: none"> <li>○ Narrowing down the candidate pool</li> <li>○ Spent interviewing non-qualified candidates</li> </ul> </li> <li>• The State, as an employer, becomes an attractive choice</li> <li>• Higher quality candidates automatically rise to the top</li> </ul>
<b>Staff Efficiency</b>	<ul style="list-style-type: none"> <li>• Automatic disqualification and notification of non-qualified candidates</li> <li>• System integration eliminates dual entry into multiple systems</li> </ul>
<b>Reduced Litigation</b>	<ul style="list-style-type: none"> <li>• Automated and objective qualification assessment</li> <li>• Fully documented selection process</li> <li>• Fair, equitable and transparent process becomes automated</li> </ul>
<b>Improved Talent Management</b>	<ul style="list-style-type: none"> <li>• Better tools and better processes increase staff productivity and the selection of the best candidates which results in the best employee hiring decisions</li> <li>• In turn, quality hiring benefits the entire State government’s: <ul style="list-style-type: none"> <li>○ Operational success</li> <li>○ Reduced turnover</li> <li>○ Reputation as a desirable employer</li> <li>○ Time spent on value added activities</li> </ul> </li> </ul>

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### 6. C. 2) c. *Improvement Approach*

The following steps should be considered over the short, medium and long term:

**Short Term** – In the short term, the State should strengthen MMB’s HR staff levels to support an adequate new hire effort.

**Medium Term** – In the medium term, the State should identify methods to simplify the selection and hiring processes, policies, rules and guidelines. In addition, the State should supplement applicant screening by implementing stand-alone skill inventories, assessment tools and/or pre-screening tests. To support managers/supervisors and HR professionals, the State should integrate the State’s competency model into the workforce planning and hiring processes and enhance training on effective hiring practices.

Additionally in the medium term, the State should begin implementation of an enterprise-wide, tracking technology for position approvals, salary approvals, position posting, applicant submissions, applicant assessments/qualifications, interview scheduling, candidate interview results and candidate decisions ideally integrated with PeopleSoft.

**Long Term** – Over the long term, the State should complete the implementation of enterprise-wide recruiting technology. Additionally, there should focused time and resources on branding and advertising in order to build a higher quality applicant pool.

## 6. D. *Create a Culture of Talent Management*

### 6. D. 1) *Current State*

State HR operations work within a framework of talent management strategies. However, in the past this work has lacked technology support and a centralized approach to infrastructure and tools. In 2012, the State engaged in an effort to improve one of the talent management components by addressing performance management functions. This was a first step in improving employee feedback and coaching that will result in more productive and engaged employees. The ultimate goal is to align agency and State goals with individual performance.

Performance management at the State had grown into a reactive activity generally addressing performance problems, instead of improvements. Without technology support, the feedback sessions became more about process rather than substance. The process takes valuable time and attention away from strategic activities that improve employee production and satisfaction and is unfair to high performers and valued talent. Managers lacked the tools to support decision making.

Investment must be made for a comprehensive performance management program that focuses on proactive prevention of performance issues, promotes the success of each employee in their job duties, rewards employees with career growth and supports employees to realize their unique potential. A culture of talent management improves work environment issues that impact our ability to retain employees. This is a high value return on investment for the State.

**6. D. 1) a. Benefits**

Key benefits of the current state are:

<b>Policy &amp; Guidelines</b>	<ul style="list-style-type: none"> <li>• Law, statute and bargaining unit contracts have defined requirements regarding performance appraisal and feedback</li> <li>• M.S. 43A.20 requires the design and maintenance of an Executive Branch performance appraisal system</li> <li>• An Administrative Procedure exists to clarify the performance appraisal system</li> <li>• Bargaining agreements support the granting of increases to only those employees who have achieved satisfactory performance</li> </ul>
<b>Valuable Employees</b>	<ul style="list-style-type: none"> <li>• State leaders highly value employee contributions</li> <li>• State employees are hardworking, committed and knowledgeable and produce highly valuable outcomes</li> </ul>
<b>Training Opportunities</b>	<ul style="list-style-type: none"> <li>• The State has already implemented the Zenger-Folkman 360-degree feedback program for key leadership development</li> </ul>

**6. D. 1) b. Challenges**

Key challenges of the current state are:

<b>Policy &amp; Guidelines</b>	<ul style="list-style-type: none"> <li>• Statewide standards, policies and guidelines do not exist to ensure the consistent and full use of the current system</li> </ul>
<b>Diverse Workforce</b>	<ul style="list-style-type: none"> <li>• The State workforce crosses many generations and successfully managing across generations is challenging</li> <li>• Current employee demographics are not perceived to meet future State labor needs</li> <li>• A higher level of experience will be needed for State jobs because limited resources prevents the State from hiring people with general aptitude and training them in specific job duties</li> <li>• The labor force availability of the future is expected to decline</li> </ul>
<b>Rewards &amp; Recognition</b>	<ul style="list-style-type: none"> <li>• Approximately 50% of the State’s workforce is at the top of their salary range</li> <li>• Agency budgets vary with ability to provide monetary awards</li> </ul>
<b>Career Development</b>	<ul style="list-style-type: none"> <li>• Employees bear much responsibility for designing their career growth and exploring opportunities</li> <li>• Managers need more tools and resources to help them succeed in developing their workforce due to a large number of direct reports and heavy workloads on non-supervisory activities</li> <li>• The State has a high level of attrition due to retirements, therefore key knowledge and succession planning must be addressed before the knowledge leaves the organization</li> <li>• Consistency and clarity of career development, progression criteria, job classification and compensation models is complicated by the framework of requirements in which these functions exist</li> </ul>

<b>Training Opportunities</b>	<ul style="list-style-type: none"> <li>• Training is generally focused on required tactical job knowledge</li> <li>• Training funds/budgets are: <ul style="list-style-type: none"> <li>○ Highly scrutinized</li> <li>○ Often considered to be lower priority expenditures</li> </ul> </li> <li>• Agencies may not value the investment in training and performance management or the investment into their managers/supervisors</li> </ul>
<b>Reputation</b>	<ul style="list-style-type: none"> <li>• The public does not always understand and value the contributions of State employees</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• The system retains limited employee data</li> <li>• Extensive and redundant data entry by HR staff would be necessary to achieve full system potential</li> <li>• Creating a complete view of a single employee requires combining multiple paper files along with electronic data</li> <li>• There is limited employee self-service capabilities, including the management of performance goals and activities</li> <li>• There is limited manager self-service capabilities, thus limiting managers/supervisors ability to make informed decisions</li> <li>• Comprehensive workforce reports or data analytic “dashboards” are not available to support strategic efforts</li> </ul>

### 6. D. 2) Improvement Opportunity

A culture of talent management can transform an organization. It is a proactive, integrated approach that aligns an employee’s work with the goals and strategies of the organization.

There are some key steps to building a culture of talent management:

- Definition of key goals and business strategies that align with talent practices.
- Clarity and simplicity of rules and regulations.
- Creation and roll-out of policies and practices of an integrated talent management suite that supports employees and managers/supervisors.
- Comprehensive support by an integrated technology system that facilitates execution and ease of use.

Employee and manager/supervisor training has also been an affected area in recent years. More emphasis and importance should be placed on training, especially as it relates to career progression and the promotion of individual contributors into managerial roles. Effective leadership is a key contributor to employee satisfaction, and ensuring that the managerial talent base is appropriately supported should reduce overall attrition and increase employee satisfaction.

**6. D. 2) a. Identified Tactics**

The following are key tactics, approaches or actions that would create momentum and/or address this opportunity:

Tactic	Level of Transformation	Dimensions	Duration	Investment	Return on Investment	Complexity
1 Develop a comprehensive, statewide integrated talent management program to include standards, guidelines, policies and templates, including but not limited to goals, expectations, objectives, development areas, ratings, comp decisions and performance reviews that fully integrate with the State’s competency model while supporting manager/supervisor workloads to execute.	Trsnfm	Proc	Med	Med	<b>HIGH</b>	Med
2 Strengthen enterprise HR staff levels to support a talent management program.	Run	Ppl	<b>LOW</b>	Med	Med	<b>LOW</b>
3 Implement a full-service, integrated technology to support a talent management program.	Trsnfm	Tech	High	High	<b>HIGH</b>	Med
4 Create a continuing education formal training program, supported by an adequate funding model, focused on strengthening: A) employee and manager/supervisor core competencies, B) clarity of job related duties and C) manager/supervisor’s ability to manage a diverse workforce.	Run	Ppl	Med	Med	Med	Med
5 Review existing HR laws and statutes, rules, policies and procedures to determine whether the original goals and intent are being achieved and whether opportunities exist to simplify and/or standardize the language.	Grow	Proc	Med	<b>LOW</b>	<b>HIGH</b>	High
6 Place emphasis on building the brand of the State of Minnesota as a quality employer.	Run	Ppl	High	Med	Med	<b>LOW</b>

**6. D. 2) b. Benefits of Change**

The following are key benefits the State may realize by addressing this opportunity.

<b>Increased Employee Retention</b>	<ul style="list-style-type: none"> <li>• Employees have clarity of role and career path</li> <li>• Managers feel supported and are effective</li> <li>• Employees are adequately supported by their leadership</li> </ul>
<b>Brand Recognition</b>	<ul style="list-style-type: none"> <li>• Over time, the reputation of State employees and the State as an employer will improve</li> <li>• Improved reputation attracts higher quality candidates</li> <li>• Higher quality candidates improve the talent base</li> <li>• A highly functioning talent base increases the capacity of state government</li> <li>• Improved talent management reduces the time spent on performance issues</li> </ul>

<b>Employee Efficiency</b>	<ul style="list-style-type: none"> <li>Talent practices that are aligned with strategy and direction lead to an increase in measurable outcomes and impacts<sup>6</sup></li> </ul>
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*6. D. 2) c. Improvement Approach*

The following steps should be considered over the short, medium and long term.

**Short Term** – In the short term, the State should strengthen enterprise HR staff levels to support a talent management program. Additionally, there should be emphasis on building the brand of the State of Minnesota as a quality employer.

**Medium Term** – In the medium term, the State should develop a comprehensive, state-wide talent management program that is fully integrated with the State’s competency model while supporting manager/supervisor workloads. The State should also review and change, if necessary, existing HR laws, policies and statutes to determine whether the original goals and intent are being achieved and whether opportunities exist to simplify the language.

**Long Term** – Over the long term, the State should implement a full-service, integrated technology to support a talent management program. Additionally, the State should create a continuing education formal training program, supported by an adequate funding model, focused on strengthening: A) employee and manager/supervisor core competencies, B) clarity of job related duties and C) manager/supervisor’s ability to manage a diverse workforce.

**6. E. Improve the Management of Employee Personnel Records**

**6. E. 1) Current State**

The State’s Executive Branch has a decentralized approach to personnel records management, which impacts the ability to efficiently manage data and provided appropriate accessibility to it.

More complex personnel data (e.g., employee performance appraisals, FMLA, medical files, safety files, supervisory files, etc.) are typically maintained manually at the agency level using hard copy documentation and filing cabinets. Only the agencies with sufficient financial resources have electronic file management systems, but those systems do not integrate with PeopleSoft/SEMA4. This lack of integration creates challenges for MMB when attempting to run statewide reports or understanding the state of key talent management activities across the enterprise. In addition, the lack of on-demand access for managers to critical employee personnel information (e.g., salary history, employee career progression, employee performance review history, salary comparisons, employee performance comparisons, employee goals, employee skills, etc.) hinders supervisory ability to keep abreast of effective talent leadership strategies. The lack of a single system for personnel files creates the need for each agency to create separate files as well as an inability for the State to maintain a complete historical file of their employment with the State. Significant efficiencies would be gained if managers were not

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<sup>6</sup> Human Capital Institute (HCI) Human Capital Strategy V.3.0 2010

only able to access this type of employee data, but if they were also able to use the system to keep employee performance notes and electronically conduct performance evaluations.

Finally, each agency is responsible for complying with data retention laws on personnel records (Minnesota Statute Chapter 13). The lack of a central system makes these requirements more complicated to manage and more error prone.

A series of process and technology changes could improve the overall management of employee personnel data.

**6. E. 1) a. Benefits**

Key benefits of the current state are:

<b>Knowledge</b>	<ul style="list-style-type: none"> <li>• HR staff is highly knowledgeable of laws and Minnesota guidelines</li> </ul>
<b>Secure</b>	<ul style="list-style-type: none"> <li>• High trust in confidentiality due to single copy, locked storage and limited access</li> <li>• Contents are in original form, unchanged</li> <li>• Document removal and destruction is permanent</li> <li>• No technology or server costs</li> </ul>

**6. E. 1) b. Challenges**

Key challenges of the current state are:

<b>Accessibility</b>	<ul style="list-style-type: none"> <li>• Access to and review of a file:             <ul style="list-style-type: none"> <li>○ Requires a physical interaction between HR staff and employee or supervisor</li> <li>○ Limited to HR’s core business hours</li> <li>○ Agencies with outstate divisions do not have access to the file without travel when personnel files are stored at one central location</li> </ul> </li> </ul>
<b>Cost</b>	<ul style="list-style-type: none"> <li>• Manager, supervisor, employee and HR staff costs (e.g., scanning, walking, filing, searching, organizing, photocopying, purging, recovery, lost opportunity cost of time, moving, storing, etc.)</li> <li>• Hard costs including paper, toner, storage cabinets, real estate, filing supplies, etc.</li> </ul>
<b>Lack of Transparency &amp; Decision-Making Data</b>	<ul style="list-style-type: none"> <li>• Within an agency, managers/supervisors generally do not have full or immediate access to key employee information, including performance review history, team performance profiles, employee career progression history, employee goals, employee salaries, team salary comparisons, employee profiles, employee skills, etc. In general, this information must be obtained from HR through a special ad hoc report, or manual process, rather than being available to managers and employees as part of the normal course of business.</li> <li>• Across agencies, HR staff and managers/supervisors have inconsistent access to key employee information</li> </ul>
<b>Redundancy</b>	<ul style="list-style-type: none"> <li>• Employee personnel records are at risk of loss due to natural disaster (e.g., flood, fire, tornado, etc.)</li> </ul>

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## 6. E. 2) Improvement Opportunity

According to the IBM Benchmark Report, “Overall, the State’s HR data operations appear to be significantly resource intensive.” IBM recommends that the State “automate manually intensive HR activities leveraging self-service software for all employee management processes.” The State should consider solutions in the following categories: redesigning specific aspects of the personnel records management process, reassessing policies and procedures related to personnel records and implementing key enabling technologies.

The State should conduct a Lean event(s) to help streamline the processes associated with personnel record management, gain a deeper understanding of and document agency and statewide processes for future continuous improvement efforts. In concert with process improvement efforts, the State should reassess policies and procedures related to personnel record management in order to ensure alignment with optimized processes.

The State should conduct a full assessment of current technology resources used in agencies to identify best practices and determine how well they are meeting the demands of personnel record management. If gaps in technology or opportunities for establishing an enterprise solution are discovered in this assessment, the State should consider adding modules to current systems (i.e., SEMA4) or implement an enterprise-wide, mobile/remote accessible technology offering to manage personnel records that ideally integrates with the State’s PeopleSoft system. In addition, the State should implement an imaging system to allow back-scanning, indexing and archiving of past and future employee personnel records (e.g., active, inactive, etc.). Once an imaging system is in place, the State should consider expanding the use of it to support the automation of other critical files (e.g., Supervisory, Medical, etc.).

The initiatives mentioned above will require the State to increase the number of employees dedicated to personnel record management at the central HR office. Lastly, the State should ensure that adequate training support is in place for each initiative as appropriate.

**6. E. 2) a. Identified Tactics**

The following are key tactics, approaches or actions that would create momentum and/or address this opportunity:

Tactic	Level of Transformation	Dimensions	Duration	Investment	Return on Investment	Complexity
1 Conduct a Lean event(s) to help streamline and document agency and statewide retention guides, aides and/or requirements. Update policies and procedures, as necessary. Rollout, with training, as needed.	Grow	Proc	Med	<b>LOW</b>	Med	Med
2 Conduct an assessment on technology needs and requirements for employee personnel data management.	Grow	Proc	<b>LOW</b>	<b>LOW</b>	Med	<b>LOW</b>
3 Implement an enterprise-wide, mobile/remote accessible technology offering for Personnel Records, ideally integrated with PeopleSoft.	Grow	Tech	High	High	<b>HIGH</b>	High
4 Back-scan employee personnel records (e.g., active, inactive, etc.) and index the records.	Grow	Tech	High	Med	Low	Med
5 Consider expansion of technology to support the automation of other files (e.g., supervisory, medical, etc.).	Grow	Tech	Med	Med	Med	Med

**6. E. 2) b. Benefits of Change**

The following are key benefits the State may realize by addressing this opportunity.

<b>Accessibility</b>	<ul style="list-style-type: none"> <li>• Immediate ability to add a new document to a record</li> <li>• Ability to obtain the file and quickly review its contents</li> </ul>
<b>Availability</b>	<ul style="list-style-type: none"> <li>• Supports better decision support practices because managers have on-demand access to critical employee data and can draw comparisons within a division/work unit</li> <li>• Electronic employee personnel files:               <ul style="list-style-type: none"> <li>○ Are more readily available to MMB, agency HR staff, managers/supervisors</li> <li>○ Can be accessed remotely or off-site</li> </ul> </li> <li>• Would contain reliable information in a single location</li> <li>• Are protected from natural disaster (e.g., fire, flood) and loss (e.g., filing error)</li> <li>• Enhances the ability for HR to respond to employee inquiries:               <ul style="list-style-type: none"> <li>○ More quickly</li> <li>○ More accurately</li> <li>○ More comprehensively (i.e., across agencies)</li> </ul> </li> <li>• Provides the ability for MMB HR to oversee the “enterprise” (e.g., across agencies) and create enterprise reporting/metrics</li> </ul>

<b>Long-Term Cost Savings</b>	<ul style="list-style-type: none"> <li>• Eliminates the need for physical off-site storage</li> <li>• Reduces the need for printing; including paper, ink and potentially printers</li> <li>• Reliance upon less costly electronic storage</li> <li>• Industry benefits of platform consolidation and economies of scale</li> </ul>
<b>Increase HR Staff Efficiency</b>	<ul style="list-style-type: none"> <li>• Reallocates time away from lower value activities (e.g., walking, filing, reviewing, purging) to higher value, strategic contributions allowing HR staff to provide greater value services</li> <li>• All agencies use the same format which makes it easier to find information and maintain consistency across the State</li> </ul>
<b>Enhanced Data Practices</b>	<ul style="list-style-type: none"> <li>• Information about access to personnel files (e.g., who, when, how long) can be electronically retained and destroyed</li> <li>• Retention guidelines and rules can be automated</li> </ul>

**6. E. 2) c.      *Improvement Approach***

The following steps should be considered over the short, medium and long term.

**Short Term** – In the short term, the State should conduct a Lean event(s) to understand efficiencies, assess best practices and create a statewide process and standards. Additionally, the State should update policies and procedures on maintenance of personnel files and support guidelines with training.

**Medium Term** – In the medium term, the State should inventory, assess and select an enterprise-wide, mobile/remote accessible technology offering for personnel records, ideally integrated with PeopleSoft.

**Long Term** – Over the long term, the State should complete implementation of a technology to support electronic personnel record retention.

## 7. Improvement Opportunity Briefs – Payroll

Accurate and timely processing of payroll is foundational to maintaining public and employee trust in government operations. While much of the payroll process is centrally managed by MMB staff supported by enterprise systems, the processing of payroll is decentralized. As such, there is some variation across agencies due to different policies, procedures and systems.

There is potential to enhance processes and tools to better meet the needs of the State, reduce the need for corrections to payroll data and ease the process for employees, supervisors and agency staff.

### **7. A. *Functional Area Benchmark Data Insights***

According to the benchmarking data, the State has a high percentage of employees receiving payroll through direct deposit, a low number of voided checks and a low number of manual checks. The benchmarking data also confirmed the State’s strong performance by showing how the State performed better than peer groups, and in some cases, performed better than leading practice benchmarks.

At the same time, the benchmarking data confirmed that time entry and the allocation of time to a funding source (i.e., labor distribution) are areas with potential for improvement. Additionally, the number of prior period adjustments to time and funding sources remain high. As expected, agencies with 24/7 operations and/or with complex funding sources contribute to the volume of errors.

The benchmarking workshops provided insight into how individual agencies performed and created opportunities to learn how individual agencies can overcome challenges to become more efficient. The benchmarking workshops also provided an opportunity to explore the slow adoption of electronic business expense submission in order to understand and address agencies concerns.

## **7. B. Simplify the Time Entry Process for State Employees**

### **7. B. 1) Current State**

All State employees are required to maintain accurate time reporting for the purpose of paying employees properly, maintaining accurate leave balances, distributing payroll expenses to the appropriate funding and maintaining accurate overtime information for Fair Labor Standards Act (FLSA) purposes. For many employees, the existing time entry process is complex and sometimes challenging.

Time entry methods are:

<b>“Self-Service”</b>	<ul style="list-style-type: none"> <li>• The most common method</li> <li>• Uses “self-service” within the PeopleSoft/SEMA4 enterprise system</li> <li>• Process steps:             <ul style="list-style-type: none"> <li>○ Employee logs in to self-service and enters time sheet data</li> <li>○ Manager/supervisor approves time sheet</li> <li>○ Designated “time keepers” review time and submit timesheets for final processing</li> <li>○ System processing</li> <li>○ Agency staff review processed pay during a post audit/certification</li> <li>○ Employees receive payment (generally as an electronic deposit)</li> </ul> </li> </ul>
<b>“Interface” Time Entry</b>	<ul style="list-style-type: none"> <li>• For various reasons, some agencies maintain a separate time reporting application from PeopleSoft/SEMA4</li> <li>• To eliminate entry of timesheet data in multiple systems, agencies interface time data from the agency application to PeopleSoft/SEMA4</li> <li>• The nature of agency applications varies; but each application has the employee directly interacting with a system to record time electronically</li> </ul>
<b>Paper Time Sheets</b>	<ul style="list-style-type: none"> <li>• Employee, job or agency situations exist where the employee may be unable to interact with a system to record time electronically</li> <li>• Where self-service time entry or an agency interface is not used, the employee submits a paper time sheet to their supervisor/manager</li> <li>• Agency payroll staff enters the paper time sheets into PeopleSoft/SEMA4 for processing</li> </ul>

Employee time entry is a necessity; however, it should not be overwhelming or a resource intensive task. The State’s goal should be to reduce effort on the part of employees and agencies. Improvements can be made to the overall process and underlying technology to help streamline and simplify the process.

**7. B. 1) a. Benefits**

Key benefits of the current state are:

<b>Consistency</b>	<ul style="list-style-type: none"> <li>• The payroll date is consistent across the State</li> <li>• Employees have confidence in the process</li> <li>• Employees can rely upon the regularity of the biweekly pay cycle</li> <li>• Time entry is a repetitive task, therefore employees have become highly efficient</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• The technology provides important checks-and-balances</li> <li>• The technology is easily accessibility to remote workers</li> <li>• Payroll and accounting both use PeopleSoft software, simplifying the learning curve</li> <li>• Agencies have some flexibility in determining processing deadlines, while still utilizing an enterprise system</li> </ul>

**7. B. 1) b. Challenges**

Key challenges of the current state are:

<b>Process Lifecycle</b>	<ul style="list-style-type: none"> <li>• There is a 10-day duration between the end of the pay period (which is also the employee deadline to submit time) and the pay date</li> <li>• Many human and technology tasks are required during the 10-day duration</li> <li>• The 10-day duration is difficult to extend</li> <li>• The process lifecycle includes lags to handle “non-compliance”</li> <li>• Variation in agency processing deadlines results, in some instances, in the employee’s deadline to enter time occurring before the end of the pay period, which requires employees to anticipate how time will be incurred and the associated labor distribution</li> <li>• Time reporting estimates contribute to a high volume of prior period adjustments or expense transfers (changes to funding based on activity)</li> </ul>
<b>Mandatory Time &amp; Cost Allocation</b>	<ul style="list-style-type: none"> <li>• Some projects require detailed time recording in order to receive monies from the funding source, such as federal projects or grants</li> <li>• Some employees have highly complicated time reporting in order to capture the complex funding and labor distributions</li> </ul>
<b>Complicated Payroll Rules</b>	<ul style="list-style-type: none"> <li>• Policies and procedures that govern payroll are complicated and vary</li> <li>• All persons involved with the process (e.g., employees, supervisors/managers, etc.) must be knowledgeable of all policy nuances</li> </ul>

**Inefficient Technology Design/Tools**

- For internal control purposes, employees cannot “copy” timesheets from pay period to pay period. However, employees with highly complicated funding sources spend significant time entering funding information
- Employees can use “speed charts” to facilitate time entry where employees must record funding for all hours worked. To prevent application of percentage splits from occurring multiple times, the current process does not store “speed charts” after use. Supervisors find it difficult to determine what “speed charts” were used to arrive at the funding, or how the employee changed the funding after application of the “speed chart”
- There are a lot of screens to navigate
- Supervisors/managers may approve each employee’s time without reviewing further detail, leading to more “quality control” steps/checks

**7. B. 2) Improvement Opportunity**

According to the IBM Benchmarking Report, “the State’s payroll operations appear to be resource intensive in the ‘report time’ process area.” Additionally, the benchmark data suggests that the State is below most leading practice benchmarks in processing time records error free. In order to further simplify and optimize the time entry process, the State should consider solutions in the following categories: improvement of training for time entry policies; changes to rules, regulations and policy related to employee time reporting; an upgrade to the most recent software version for PeopleSoft; implementation of changes to self-service time entry to address usability issues when recording complex labor distributions; and extension of the self-service time entry validation rules to be processed at the employee level.

Certain complexities exist within the State’s payroll operations due to the variety of funding sources, number of bargaining units and broad range of position classifications. As such, there is a wide variety of processes, policies, rules and guidelines that exist for employee time recording.

While the State has implemented training to address the time recording process (e.g., self-service time entry webinars, training for agency payroll staff, etc.), opportunities may exist to improve, expand and/or increase the frequency of training. The State’s training strategy should ensure coverage of all new hires and routine updates for all staff. Appropriate and timely training of staff can reduce non-compliance with time reporting policies and processes and reduce prior period corrections.

Currently, the deadline for time recording is often the last day worked for each employee, rather than a time following the last day worked. This practice leads to some employees being required to anticipate the number of remaining hours worked and their corresponding funding source. Optimally, hours and funding source should be recorded after the fact.

Furthermore, there are two contributors to the payroll processing tasks during the 10-day lag; people and technology. Currently, there are lengthy technology batch processes, which are run overnight and on weekends. The lengthy batch processing contributes to tight deadlines in the area of time recording. Increased efficiencies in batch processing would mean that there would be:

1. More time for human tasks and
2. Increased flexibility in deadlines which would reduce time reporting errors.

The State currently uses the PeopleSoft/SEMA4 system to handle several functions related to payroll, including time entry. Stakeholders have mentioned several improvements the State should consider during an upgrade project. These improvements may streamline the process associated with time entry. Further, the State should also consider modifying the user interface to address usability issues for employees recording both time and funding sources, thereby increasing ease-of-use and speed of processing time entry transactions. Lastly, PeopleSoft/SEMA4 has greater capacity for time entry rule validation. The State should consider the best way to use these features for optimizing the time entry process by extending the validation to the employee level.

Furthermore, the State should evaluate manual timesheets submitted and require electronic submission whenever possible. Recent APQC research has found that top performers process 88.5% to 100% of their time records electronically. Top performers “consistently employ fewer manual processes in the collection of time records, which results in more productivity and lower cost for the “report time” function within the payroll process.”<sup>7</sup> While the State processes over 92% of time records electronically via self-service time entry or through interface time entry, the possibility remains for additional improvements in the area of electronic submission of time.

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<sup>7</sup> APQC Report. Payroll Time Function Performance. 2010

**7. B. 2) a. Identified Tactics**

The following are key tactics, approaches or actions identified during the workshop as potential approaches to create momentum and/or address this opportunity:

Tactic	Level of Transformation	Dimensions	Duration	Investment	Return on Investment	Complexity
1 Conduct a Lean event(s) to evaluate and define the process improvement opportunities in one or more pilot agencies with a goal of shortening the process so that the time entry deadline is after time worked (eliminating the need for employees to anticipate hours).	Grow	Proc	<u>LOW</u>	<u>LOW</u>	<u>HIGH</u>	<u>LOW</u>
2 Upgrade the current PeopleSoft/SEMA4 system version to take advantage of updated features.	Run	Tech	Med	Med	Med	Med
3 Modify the self-service time entry user interface to address usability concerns.	Run	Tech	Med	Med	<u>HIGH</u>	Med
4 Improve the batch processing duration, so the lifecycle is less impacted by technology delays.	Run	Tech	Med	Med	Med	Med
5 Continue to work with agencies to address time reporting problem areas.	Grow	Proc	Med	<u>LOW</u>	Med	Med
6 Extend the current self-service time entry validation rules.	Grow	Tech	High	<u>LOW</u>	Low	High
7 Improved employee training of existing time entry policies.	Run	Proc	<u>LOW</u>	Med	<u>HIGH</u>	<u>LOW</u>

**7. B. 2) b. Benefits of Change**

The following are key benefits the State may realize by addressing this opportunity.

<b>Accuracy</b>	<ul style="list-style-type: none"> <li>Reduction of prior-period adjustments which require time and effort across many roles (i.e., employees, managers/supervisors, payroll, HR and accounting)</li> <li>Allows employees to accurately report time that has been worked</li> <li>Enterprise reports are accurate and consistent</li> </ul>
<b>Staff Efficiency</b>	<ul style="list-style-type: none"> <li>Simplify and reduce the amount of non-value added tasks required of employees and managers/supervisors, allowing them to be more productive in their day-to-day functions</li> <li>Errors are detected prior to downstream processing</li> </ul>

**7. B. 2) c. Improvement Approach**

The following steps should be considered over the short, medium and long term:

**Short Term** – In the short term, the State should work with agencies to improve training of employees and supervisors in the existing time entry policies.

**Medium Term** – In the medium term, the State should complete a software upgrade to the most recent version of PeopleSoft. During the software upgrade, the State should address concerns with batch processing duration and the usability of the self-service time entry. If combined with the software upgrade, these initiatives are anticipated to be moderate in nature and completion time would be reduced due to the nature of testing efficiencies realized throughout the upgrade.

Additionally in the medium term, the State should reevaluate the process and deadlines related to time entry in order to more accurately capture timecard data. There are several groups of employees in certain agencies that are unable to adhere to current time entry deadlines, which cause unnecessary inaccuracies and delays in time reporting. The State should conduct a Lean event(s) in the short term to address this issue.

**Long Term** – In the long term and upon completion of the software upgrade and streamlining the process, the State should capitalize on these improvements and identify opportunities for further simplifying policies and streamlining processes.

## ***7. C. Streamline the Business Expense Processing for State Employees***

### **7. C. 1) Current State**

All State employees who incur business expenses are responsible for submitting an expense report to receive reimbursement of expenses. Expense report guidelines are governed by State statute, administrative rules, State policy, agency policy, collective bargaining unit contracts and compensation plans.

The existing business expense report process is complex, with agencies using a mix of manual and electronic processing.

There are two common Expense Report processes:

<b>Manual</b>	<ul style="list-style-type: none"> <li>• *An employee downloads the Microsoft Excel expense report template. The employee completes their report. Once completed, the employee prints and signs a copy of the report before attaching the required receipts.</li> <li>• The employee provides the expense report with required receipts to their supervisor/manager for approval.</li> <li>• *In reviewing the expense report, the employee’s supervisor/manager approves or rejects the expense report. If approved, the employee’s supervisor/manager provides the expense report to the agency’s payroll or finance department for processing. If rejected, the employee’s supervisor/manager returns the expense report to the employee with an explanation of the rejection.</li> <li>• *The agency’s payroll or finance personnel enter the information from the expense report into PeopleSoft/SEMA4. Additionally, they perform a review/approval of the expense report. The expense report is filed in a filing cabinet.</li> <li>• The PeopleSoft/SEMA4 system processes the biweekly timesheets and expense reports. Reimbursement is made on the employee’s paycheck.</li> </ul>
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<b>Electronic (Optional at Agency's Discretion)</b>	<ul style="list-style-type: none"> <li>• *An employee logs into self-service and enters their expense report detail.</li> <li>• The employee provides the required receipts to their supervisor/manager.</li> <li>• *The employee's supervisor/manager logs into self-service and accesses the employee's expense report. In reviewing the expense report, the supervisor/manager approves the expense report within self-service, or explains to the employee the reason for a rejection.</li> <li>• The employee's supervisor/manager provides the required receipts to the payroll or finance department.</li> <li>• *The agency's payroll or finance department logs into PeopleSoft/SEMA4. In reviewing the electronic expense report, the agency personnel reviews/approves the expense report. The receipts required for the expense report are filed in a filing cabinet.</li> <li>• The PeopleSoft/SEMA4 system processes the biweekly timesheets and expense reports. Reimbursement is made on the employee's paycheck.</li> </ul>
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*Note: An asterisk (\*) indicates a step in the process where employees, managers/supervisors and HR staff are required to have detailed expense report knowledge including State statute, administrative rules, State policy, agency policy, collective bargaining unit contracts and compensation plans.*

The current processes result in measurable duplication of work. Additionally, all employees involved in the process are required to know various rules, policies, contracts and plans. Various opportunities have been identified to streamline and simplify the process.

**7. C. 1) a. Benefits**

Key benefits of the current state are:

<b>Technology</b>	<ul style="list-style-type: none"> <li>• A highly automated technology service offering is readily available</li> <li>• Proven accuracy and usability</li> <li>• High documentation and approval trail</li> </ul>
<b>Commonality</b>	<ul style="list-style-type: none"> <li>• A significant percentage of all expense reports include meals, mileage or a combination of the two, which do not require receipts</li> </ul>
<b>Process</b>	<ul style="list-style-type: none"> <li>• Highly defined process leaves little or no room for ambiguity</li> <li>• Multiple steps with multiple reviewers creates a solid process for oversight and accuracy</li> </ul>

**7. C. 1) b. Challenges**

Key challenges of the current state are:

<b>Technology</b>	<ul style="list-style-type: none"> <li>• Usability issues about the system (e.g., usability due to multiple page entry, etc.)</li> <li>• Approvals do not show within self-service, although PeopleSoft/SEMA4 has the data and the data is available on reports for agency use</li> <li>• All employees may not have access to a computer or internet</li> <li>• Some expense reports have a large number of line items making them cumbersome to enter (e.g., concerns exist about employee efficiency versus the efficiency realized from a data entry person)</li> </ul>
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<b>Receipt Processing</b>	<ul style="list-style-type: none"> <li>• Receipt handling is a completely manual process, as the system currently does not include functionality for images</li> <li>• Current policy dictates that if receipts are required, then “original” receipts must be provided rather than copies or electronic versions</li> <li>• When receipts are required, agency practice varies about who retains the receipts and how the receipts are stored</li> </ul>
<b>Rules, Guidelines &amp; Statutes</b>	<ul style="list-style-type: none"> <li>• Many policies and procedures exist, including State statute, administrative rules, State policy, agency policies, collective bargaining unit contracts and compensation plans</li> <li>• Detailed knowledge of the policies and procedures must exist at many layers</li> <li>• Tax rules are complex and vary by expense type (e.g., the taxability of meals — meals are taxable if combined with lodging otherwise meals are non-taxable)</li> <li>• The State maintains strict rules to preserve its “accountable plan” status under IRS regulations and exclude many reimbursements from taxable income</li> </ul>
<b>Process</b>	<ul style="list-style-type: none"> <li>• Statute requires reimbursement of actual expenses</li> <li>• Internal control concerns exist over possible duplicate entry or submission of expenses</li> <li>• In order to preserve “accountable plan” status under IRS regulations, employers must not exclude from income expense reimbursements submitted after a reasonable period of time has passed (e.g., 60 days)</li> <li>• Late submission of expenses results in the unnecessary taxability of expense reports — in Calendar Year 2012, a total of \$72,000 was assessed to the State for the employer portion of Social Security and Medicare due to late expense processing</li> </ul>
<b>Tolerance</b>	<ul style="list-style-type: none"> <li>• There is a significant amount of public scrutiny if inaccurate expense reimbursement occurs (i.e., one inappropriate expense can have a detrimental effect to the reputation of the entire State)</li> </ul>

### 7. C. 2) Improvement Opportunity

The IBM Benchmark Report recommends that the State, “Leverage technology and automation solutions to reduce manual processing in expense reimbursement.” The State currently has a self-service system for expense reimbursement. Use of this system for expense reporting is optional for agencies and employees, thus usage has a low participation rate. In order to streamline the business expense reporting process, the State should consider solutions in the following categories: changes to business expense reporting policies and processes; upgrades and improvements to the PeopleSoft/SEMA4 expense reporting platform; and implementation of a statewide business expense imaging system.

The State should reevaluate how it processes business expense reports with the goal of simplifying and standardizing processes. Specifically, the State should implement the following rules and initiatives:

- Standardize expense reporting policies across the State.
- Require that expense reports be submitted electronically where possible.
- Allow copies of receipts to satisfy the proof requirement.
- Establish minimum expense amounts where receipts are not required.

In addition to policy and process changes, there are several software upgrades and changes that can be made to the SEMA4/PeopleSoft platform that would further streamline and improve the expense reporting process. The State should consider the following system improvements and enhancements:

- Upgrade the system to take advantage of new features.
- Activate all agencies to enable electronic expense reports submissions.
- Modify the user interface to address usability issues (e.g., streamlining the navigation/page flow, display defaults, etc.)

APQC reports that organizations, “when performing the matching and manual audit process, used more FTEs to perform actual expense line item processing than to review and approve expense reimbursements.” Implementing the above policies can reduce the amount of manual processing that is required by expense reporting FTEs.

Lastly, the State should consider implementing an imaging system that can interface with the PeopleSoft/SEMA4 platform that enables a fully paperless expense reporting process (i.e., the ability to upload scanned receipts, etc.). A recent APQC report states that “using an expense system with receipt capture and validation for expense reporting increases productivity and reduces transaction costs” and further that “the use of automation results in more expense reimbursement line items processed per FTE, a lower percentage of processing exceptions, a higher percentage of electronic disbursements and a lower cost per disbursement.”<sup>8</sup>

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<sup>8</sup> APQC Report. Current Practices in Expense Reimbursement Processing: Processing expense reimbursements can be cost efficient. 2011

**7. C. 2) a. Identified Tactics**

The following are key tactics, approaches or actions identified during the workshop as potential approaches to create momentum and/or address this opportunity:

Tactic	Level of Transformation	Dimensions	Duration	Investment	Return on Investment	Complexity
1 Activate all agencies for electronic expense reports.	Grow	Proc	<u>LOW</u>	<u>LOW</u>	Med	<u>LOW</u>
2 Require an electronic expense report, when possible for the employee.	Grow	Proc	<u>LOW</u>	<u>LOW</u>	<u>HIGH</u>	<u>LOW</u>
3 Upgrade the current PeopleSoft/SEMA4 system version to take advantage of updated features.	Run	Tech	Med	High	Med	Med
4 Modify PeopleSoft/SEMA4’s expense processing self-serve user interface to address usability issues (e.g., streamlining the navigation/page flow, display defaults, etc.).	Run	Tech	Med	Med	<u>HIGH</u>	Med
5 Extend the PeopleSoft/SEMA4 self-service validation rules (e.g., to include variable limits by bargaining units).	Grow	Tech	Med	Med	<u>HIGH</u>	Med
6 Simplify the administrative guidelines associated with expense processing. Specifically, allowing receipt copies and establishing a minimum expense amount where receipts are not required.	Grow	Proc	<u>LOW</u>	<u>LOW</u>	<u>HIGH</u>	<u>LOW</u>
7 Simplify business expense policies, rules and guidelines for the State with the goal of standardization for employees across the State.	Trsfrm	Proc	High	<u>LOW</u>	<u>HIGH</u>	High
8 Implement an imaging system interfaced with PeopleSoft/SEMA4 to support paperless processing of employee expense reports.	Grow	Tech	High	High	<u>HIGH</u>	High

**7. C. 2) b. Benefits of Change**

The following are key benefits the State may realize by addressing this opportunity.

<b>Improved Accuracy</b>	<ul style="list-style-type: none"> <li>Fewer errors caused by manual data entry</li> <li>Elimination of dual entry (e.g., employee and agency staff)</li> <li>Fewer errors caused by lack of understanding regarding guidelines/rules</li> <li>Avoid errors caused by intentional failure to comply with guidelines/rules</li> </ul>
<b>Cost Savings</b>	<ul style="list-style-type: none"> <li>Eliminates duplicate data entry task for manual expense reports</li> <li>Reduces tax burden due to enforced submission deadlines</li> <li>Reduces the need for physical filing cabinets and office space</li> <li>Eliminates the need for physical off-site storage</li> <li>Reduces the need for printing including paper, ink and potentially printers</li> <li>Reliance upon less costly electronic storage</li> </ul>

<b>Process Efficiency</b>	<ul style="list-style-type: none"> <li>• Improves knowledge of guidelines/rules</li> <li>• Creates a streamlined process from submission through approvals and payment</li> <li>• Allows employees to view status of approval in self-service</li> <li>• Deters duplicate submission</li> <li>• Opportunity to apply the recent Lean findings for DLI throughout other agencies and the State</li> </ul>
<b>Staff Efficiency</b>	<ul style="list-style-type: none"> <li>• Reallocates time away from lower value activities (e.g., data entry, filing, reviewing, purging, etc.) to higher value employee contributions</li> <li>• Enhances transferability of employee knowledge across agencies</li> </ul>

**7. C. 2) c.      *Improvement Approach***

The following steps should be considered over the short, medium and long term:

**Short Term** – In the short term, the State should activate all agencies for electronic expense reporting and, whenever possible, require that employees use it. Some agencies are already activated, so this will require activating the remaining agencies. For newly activated agencies, agency staff will require notification and training. For large agencies this may require a phased approach to allow sufficient time to notify and train employees. The process may begin in short order.

Additionally in the short term, the State should consider changes to the business expense policies, which would simplify the process. There are several policy changes that, if implemented, could further streamline the business expense reporting process for both the employees who are submitting expense reports and the employees who are processing them, including requiring electronic submission of expense reports and allowing copies of receipts.

**Medium Term** – In the medium term, the State should begin by upgrading the current PeopleSoft/SEMA4 system. While this is an improvement to a large IT system, this initiative is moderate in nature and should take approximately one year once started. During the upgrade, the State should address any usability concerns with the self-service application.

**Long Term** – In the long term, the State should assess the possibility of standardizing business expense policies across the State. Additionally in the long term, the State should consider implementation of an imaging system that enables a fully paperless expense reporting process.

## 8. Improvement Opportunity Briefs – Procurement

The procurement function allows agencies to purchase the goods and services essential to deliver public service. Overall, the benchmark metrics for the procurement function show good performance relative to leading practice benchmark levels, yet all areas have potential improvement opportunities. Most specifically, leveraging technology could provide the most gains across the entire procurement function. There are significant opportunities to build on procurement tools in SWIFT and other systems to ease workload related to ordering goods and services. In addition, the State should explore opportunities to

reduce the effort required for transactional activities to allow additional focus on more beneficial strategic activities.

### ***8. A. Functional Area Benchmark Data Insights***

The State performed relatively well in procurement-related benchmarks. There are, however, caveats to the benchmark data, which are particularly relevant in the area of procurement. When analyzing procurement benchmarking results, the following information should be considered:

- Less than 1% of the benchmark data used is from government entities. It comes largely from manufacturing (79%) and retail/wholesale (11%) industries. Comparisons to “peer groups” should be understood in this context.
- Many public policy goals are built into public procurement law and rules, dictating that the State of Minnesota should not operate like a private sector organization from a procurement perspective.
- The SWIFT procurement module implementation is scheduled for early 2013 and process improvements are planned to help streamline procurement activities performed centrally and in agencies.
- As part of the SWIFT project, the State is currently implementing contract document (e.g., form) creation and electronic signatures.
- IBM reported that companies that utilize a centralized, electronic procurement system outperform average companies and that consolidating common purchases across an enterprise has provided the first great wave of procurement savings for many leading organizations. The Materials Management Division (MMD), a division of the Department of Administration, has already undertaken significant efforts to consolidate common purchases. The centralization of the State’s IT functions provides MN.IT with further consolidation opportunities.
- The underlying data used to calculate this metric may be distorted due to the shutdown of government operations in July 2011 and discount opportunities not being captured within SWIFT.
- Agency-level benchmarking results show a wide variation of procurement performance.

### ***8. B. Improve Vendor Management to Strengthen Procurement Strategies***

#### ***8. B. 1) Current State***

The State’s procurement function is dependent upon its relationships with its vendors. Its roles include:

- Knowing its vendor base
- Communicating with vendors in a timely and meaningful manner
- Tracking the volumes for each vendor (e.g., underutilization, available discounts, pricing terms, etc.)
- Understanding overall vendor performance (e.g., addressing poor or underperforming vendors, debaring, etc.)
- Ensuring targeted businesses have access to the appropriate opportunities
- Monitoring that all qualified and available vendors are able to participate in the State procurement process, fairly and equitably and without bias or prejudice

While the current vendor base and management programs meet the State’s basic needs, more can be done to benefit both State and vendor needs. Some key changes can be made to improve the State’s overall relationships with its vendors and ensure responsible interactions.

**8. B. 1) a. Benefits**

Key benefits of the current state are:

<b>Fair</b>	<ul style="list-style-type: none"> <li>• The State has a very large number of suppliers, compared to the private sector, with the purpose and obligation to provide openness and opportunity to many businesses throughout Minnesota</li> <li>• The State has specific legislation and rules to ensure fair and equitable procurement relationships are executed</li> </ul>
<b>Centralized Procurement</b>	<ul style="list-style-type: none"> <li>• Helps streamline agency processes</li> <li>• Lessens the burden and redundancy across agencies</li> <li>• Maintains strict procurement practices, reducing the risk of unfair practice litigation</li> <li>• Helps create a single point of contact for vendors</li> <li>• Vendors have two phone-support help desks available to support them with procurement and finance support</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• The State has one, existing data source for master vendor information in SWIFT, referred to as the Vendor File</li> <li>• The Vendor File is accessible to suppliers via the Supplier Portal</li> </ul>

**8. B. 1) b. Challenges**

Key challenges of the current state are:

<b>Vendor Management</b>	<ul style="list-style-type: none"> <li>• Managing a vendor base as large as the State of Minnesota can be overwhelming</li> <li>• Vendor management could be improved in order to streamline processes</li> <li>• The complication of legislation and rules associated with the Human Rights certification process slows down procurement activities for vendors and the State and is challenging to agency procurement staff</li> <li>• With the implementation of SWIFT, decisions remain to be made regarding when inactive vendors are to be purged from the system and without purging, the Vendor File continues to grow and may contain outdated information</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• The Vendor File is inconsistently updated</li> <li>• Vendors report that the Supplier Portal, used to update the Vendor File, is complex and cumbersome</li> <li>• There are no clear incentives or requirements for a vendor to keep the data updated, therefore it often contains outdated information</li> </ul>
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>• Due to lack of complete and current vendor information in the State’s Vendor File, vendors may be missing key opportunities to do business with the State</li> </ul>

## 8. B. 2) Improvement Opportunity

The IBM Benchmark Report supports this initiative. According to the report, “The State should work to improve its performance in vendor management by either modifying the default settings in its current vendor system and/or providing additional training to staff on using the settings in the system.”

The State should consider solutions in the following categories: reevaluate the existing vendor management program, optimize specific vendor processes, review procurement policies and laws and review and update vendor management systems.

A recent APQC report states that “[vendor] relationship management programs that drive effective collaboration with suppliers and supply chain synchronization are critical success factors in serving customers and meeting strategic goals.”<sup>9</sup> In order to drive towards best practices, the State should reevaluate the existing vendor management program to determine whether enhanced vendor management is necessary to support a more optimal process. As SWIFT procurement functionality continues to be implemented, the State should also review and assess the vendor experience in the new system. In its review, the State needs to determine that SWIFT is as user friendly as is practicable.

In order to further streamline the processes associated with vendors, the State should conduct a Lean event(s) that is aimed at reviewing and optimizing the procurement rules related to Human Rights certification. In addition to, and in concert with, process reviews, the State should thoroughly review any supporting procurement policies and laws that are currently inhibiting the State from achieving a more efficient vendor process (e.g., opportunities to consolidate suppliers, certification of suppliers, Ombudsmen, etc.).

The State currently uses its SWIFT system to handle several functions related to vendor management, including the “Supplier Portal” and “Vendor File.” In order to ensure that the database actively reflects all vendor information, the State should consider incorporating data feeds and purging or deactivating vendors. If a business owner is currently not assigned to this task, the State needs to identify an appropriate person to own this process.

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<sup>9</sup> APQC Report. Relationship Management: Collaboration for Win-Win Competitive Advantage: An overview of findings from APQC’s Collaborative Benchmarking research. 2011

**8. B. 2) a. Identified Tactics**

The following are key tactics, approaches or actions that would create momentum and/or address this opportunity:

Tactic	Level of Transformation	Dimensions	Duration	Investment	Return on Investment	Complexity
1 Ensuring the State has an accurate understanding of the breadth, capabilities and demographics of its current vendor base by ensuring accurate vendor database through updating of the “Vendor File.” The State should identify the appropriate business owner, process, policies and usage.	Run	Proc	Med	<u>LOW</u>	Low	<u>LOW</u>
2 Reviewing the strengths and weaknesses of the existing vendor management program to determine whether enhanced vendor management is necessary (e.g., Ombudsman, certified status requirements, etc.).	Grow	Proc	<u>LOW</u>	<u>LOW</u>	Med	<u>LOW</u>
3 Conduct a Lean event(s) specific to streamlining the Human Rights certification process.	Grow	Proc	<u>LOW</u>	<u>LOW</u>	Med	<u>LOW</u>
4 Ensure that the State’s procurement system (SWIFT) accurately contains the list of and details about the active vendor base. Consider data feeds, purging/deactivating. Need to assess the appropriate data retention policy.	Grow	Tech	Med	Med	Med	Med
5 Work for continuous improvement of SWIFT as it relates to the vendor experience with a goal of reducing vendor complaints, increasing vendor satisfaction, ensuring adherence to procurement policies/rules and eliminating non-value-added work for vendors as well as State employees.	Grow	Tech	Med	Med	<u>HIGH</u>	High

**8. B. 2) b. Benefits of Change**

The following are key benefits the State may realize by addressing this opportunity.

<b>Vendor Satisfaction</b>	<ul style="list-style-type: none"> <li>• Vendors are better supported</li> <li>• Improved view of opportunities</li> <li>• Rewards for good performance or high volumes</li> </ul>
<b>Employee Efficiency</b>	<ul style="list-style-type: none"> <li>• Clarity of the process</li> <li>• Ability to execute the process faster and efficiently</li> </ul>
<b>Equitable</b>	<ul style="list-style-type: none"> <li>• Better measurement and oversight of debarments/poor performance</li> </ul>

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### **8. B. 2) c.      *Improvement Approach***

The following steps should be considered over the short, medium and long term:

**Short Term** – In the short term, the State should conduct a Lean event(s) to identify Human Rights certification process improvements. Additionally, the State should identify and assign a State employee(s) to own the process of keeping the “Vendor File” up to date.

**Medium Term** – In the medium term, the State should begin reviewing and validating policies and laws that support the vendor management process to discover and resolve any inefficiency including any changes that result from the Lean event(s). Further, the State should assess the SWIFT system to ensure a supplier friendly experience and remove any obstacles to mandating use of SWIFT by suppliers. Ensure that the State’s procurement system (SWIFT) accurately contains the list of and details about the active vendor base. Consider data feeds, purging/deactivating. Need to assess the appropriate data retention policy.

**Long Term** – Over the long term, the State should ensure oversight mechanisms are in place to validate that prior improvements have been implemented correctly and no additional changes are needed to accommodate them.

### **8. C.    *Create Efficiencies within the State’s Order Processing Function***

#### **8. C. 1)    *Current State***

The IBM Benchmark Report indicated that the State is “significantly underinvested in strategic procurement activities / processes and inefficient in tactical procurement activities / processes.”

Order processing is a very tactical activity. It was discussed and assessed for ways to:

- Reduce the complexity and efforts for placing orders
- Create more resource capacity for strategic procurement activities

A number of changes are recommended to improve the efficiency of order processing with the State.

**8. C. 1) a. Benefits**

Key benefits of the current state are:

<b>Agency Processes</b>	<ul style="list-style-type: none"> <li>Some agencies have a highly developed and streamlined order processing model</li> <li>Agencies that have a “centralized” model report that it works very well</li> </ul>
<b>Pre-Requisition Systems</b>	<ul style="list-style-type: none"> <li>In addition to SWIFT, some agencies have chosen to implement integrated pre-requisition systems that streamline agency processes</li> <li>Pre-requisition systems have been customized to meet agency-specific needs</li> <li>Pre-requisition systems record and display key approval and workflow data</li> <li>Agencies using pre-requisition systems value the available data and the consistent, standardized reporting</li> <li>Most are custom built and free from technology licensing fees</li> <li>Reduce paper processes, filing and retention</li> </ul>
<b>Product Consistency</b>	<ul style="list-style-type: none"> <li>The State maintains a large number of enterprise contracts, thus eliminating the responsibility of agencies to maintain contracts individually</li> <li>A high percentage of purchase order line items are standardized, commodity products</li> </ul>

**8. C. 1) b. Challenges**

Key challenges of the current state are:

<b>Lack of Consistency</b>	<ul style="list-style-type: none"> <li>Each agency is responsible for defining agency pre-requisition approval processes and guidelines</li> <li>Each agency’s approval processes and standards differ, there is no statewide consistency</li> <li>Agency ordering models widely vary, some agencies have a highly centralized approach while others are highly decentralized</li> </ul>
<b>Agency Demographics</b>	<ul style="list-style-type: none"> <li>Agency needs vary widely based on agency locations, demographics and purchasing needs</li> <li>Some agency buyers and receivers are in disparate and/or remote locations adding complexity to the overall procurement process</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>Several pre-requisition systems exist across the State, there is no standard</li> <li>Pre-requisition systems only support order requests/approvals, therefore: <ul style="list-style-type: none"> <li>Double entry is required into other systems (e.g., asset management, SWIFT financial system, etc.)</li> <li>Buyers must access other/additional systems to track the order through fulfillment and payment</li> </ul> </li> </ul>

### Sales Tax Complexity

- The State is a “taxable” business entity therefore sales tax rules apply to state purchases
- Sales tax rules are highly complex – a single product is not consistently taxable/non-taxable and can depend upon the downstream consumption rules or usage
- Accurately applying sales tax rules adds a significant amount of:
  - Complexity and inefficiency in the overall buying process
  - Cost for system modifications and supporting business rules
  - Burden on agency buyers to know the intricacies of the tax rules
- The internal accounting activities required for agencies to shift sales tax collections between agencies are both time consuming and highly complex

### 8. C. 2) Improvement Opportunity

The IBM Benchmark Report supports this initiative. According to the report, “The State’s resource allocation for FTEs appears to be heavily focused on tactical activities (i.e., ‘order materials /services’ process area). Compared to peer group benchmarks, the State has over allocated personnel resources to the ‘order materials / services’ process and under allocated personnel resources to the ‘appraise and develop suppliers’ process.” The State should consider solutions in the following categories: increase collaboration and coordination within the order processing operation, optimize and standardize the order processing process, promote policy changes that support a more efficient order processing operation, update existing systems and consider implementation of new systems.

To begin, the State should create a working group of experts with intimate knowledge of order processing to increase coordination and sharing of best practices, and more specifically to more effectively match buying needs with buyer expertise and continuously improve order processing. This will simplify the ordering process and reduce the need for end-users to have detailed SWIFT knowledge.

The State should conduct a Lean event(s) to fully understand and improve all ordering processes and identify efficiency opportunities across State agencies. During the process optimization stage, the State should also be considering standardization of order processing policies, rules and guidelines to ensure a more consistent process across the State. These efforts should be supported with supplemental training and change management efforts operation.

Results from APQC’s Open Standards research in procurement suggest that “greater integration of various systems (e.g., inventory, general ledger, production, fixed assets, sales, etc.) with the system for ordering materials/services is associated with positive outcomes.” The State currently uses its SWIFT system to handle several functions related to order processing. There are several system performance and usability issues that the State should address in order to reduce the time it takes employees to process orders. In addition to existing system improvements, the State should consider implementing an enterprise standard “order request” (pre-requisition) application that is more user-friendly and intuitive to supplement the SWIFT platform (consider existing systems currently used within the State, such as EIOR). APQC also reports that “organizations with greater integration take a day less to place purchase orders. Decreasing the time needed for tactical activities such as placing a purchase order enables procurement staff members to spend more time on strategic activities such as building relationships

with suppliers and evaluating their performance. Additionally, the integration across systems should lead to less rework and fewer errors.”<sup>10</sup>

**8. C. 2) a. Identified Tactics**

The following are key tactics, approaches or actions that would create momentum and/or address this opportunity:

Tactic	Level of Transformation	Dimensions	Duration	Investment	Return on Investment	Complexity
1 Conduct a Lean event(s) to acquire a deeper understanding of the ordering process and identify efficiency opportunities across State agencies.	Grow	Proc	<u>LOW</u>	<u>LOW</u>	Med	<u>LOW</u>
2 Standardize pre-requisition processing policies, rules and guidelines for the State and agencies, creating a consistent process. Support with various training aides. Support with standard order guidelines for standard, commodity purchases.	Grow	Proc	High	<u>LOW</u>	Med	<u>LOW</u>
3 Establish an enterprise standard “order request” application to supplement SWIFT and is more easy and intuitive. Consider existing systems within the State, such as EIOR.	Grow	Tech	High	High	<u>HIGH</u>	High
4 Within agencies, create a central or shared group of employees with knowledge and expertise, matching buying need with buyer expertise, to execute order processing, thus simplifying the process for and alleviating some end-users from needing detailed SWIFT knowledge.	Tnsfm	Ppl	Med	<u>LOW</u>	<u>HIGH</u>	<u>LOW</u>
5 Inefficient agencies should explore creating a central buying unit to execute commodity purchases and assist their buyers with routine purchasing needs.	Tnsfm	Ppl	<u>LOW</u>	<u>LOW</u>	<u>HIGH</u>	Med
6 Address SWIFT system performance and usability issues in order to reduce the time it takes employees to execute tasks.	Run	Tech	Med	Med	<u>HIGH</u>	<u>LOW</u>

<sup>10</sup> APQC Report. Procurement System Integration: The more we get together, the happier we’ll be. 2009

**8. C. 2) b. Benefits of Change**

The following are key benefits the State may realize by addressing this opportunity.

<b>Strategic Advancements</b>	<ul style="list-style-type: none"> <li>• Consistent guidelines and process would promote enterprise purchasing and consumption information</li> <li>• Enterprise purchasing and consumption information would support:               <ul style="list-style-type: none"> <li>○ More strategic sourcing where volumes indicate an opportunity</li> <li>○ Reduction in off-contract spending</li> <li>○ Improved and more accurate forecasts and asset planning</li> </ul> </li> </ul>
<b>Cost Savings</b>	<ul style="list-style-type: none"> <li>• Leveraging “best” product costs would occur more:               <ul style="list-style-type: none"> <li>○ Consistently</li> <li>○ Easily</li> </ul> </li> <li>• As a result, higher volumes of commodity purchases could qualify for volume discounts</li> </ul>
<b>Employee Efficiency</b>	<ul style="list-style-type: none"> <li>• Infrequent buyers would be relieved of the obligation to know complex rules and technology</li> <li>• Frequent buyers would build process efficiencies by repetitive task execution</li> </ul>
<b>Agency Efficiency</b>	<ul style="list-style-type: none"> <li>• Many small agencies with small volume needs would have a much needed enterprise resource for knowledge and resource support</li> <li>• Eliminates redundant agency obligation to define and maintain agency level guidelines and policies, allowing the agency to focus on core agency business</li> </ul>

**8. C. 2) c. Improvement Approach**

The following steps should be considered over the short, medium and long term:

**Short Term** – In the short term, the State should conduct a Lean event(s) to identify process improvement opportunities in order processing, including changes to, and standardization of, existing policies, rules and guidelines. During this phase the State should also be planning for future technology improvements to SWIFT modules related to order processing.

**Medium Term** – In the medium term, the State should begin formation of an order processing work group, including assessing which agencies should be involved and what the optimal working group structure is (e.g., central vs. shared groups). At this point, the State should begin implementing process improvements, statute changes and SWIFT enhancements that were identified in the Lean event(s).

**Long Term** – Over the long term, the State should consider implementing an enterprise wide pre-requisition system in order to further consolidate and simplify the “order request” process.

**8. D. Maximize Vendor Prompt Pay Discounts**

**8. D. 1) Current State**

One of the IBM Benchmarking Report’s top recommendations is to, “take advantage of all payment discounts made available.” The report adds that the State’s ability to take advantage of prompt payment discounts was below nearly all peer group medians and benchmarks.

The State of Minnesota, by law, currently pays invoices in 30 days. An industry standard prompt pay discount is 2% 10/net 30 (or 2% off the invoice if paid in 10 days, otherwise the net is paid in 30). A review of the procurement function metrics suggests there is a significant opportunity for “prompt pay discounts.”

A combination of changes is recommended to develop a holistic prompt pay program within the State.

**8. D. 1) a. Benefits**

Key benefits of the current state are:

<b>Employee Expertise</b>	<ul style="list-style-type: none"> <li>• Central procurement and AP staff are knowledgeable about the concept of prompt pay programs</li> <li>• Prompt pay discounts:               <ul style="list-style-type: none"> <li>○ Are default terms in most bid and proposal documents</li> <li>○ Are routinely negotiated</li> <li>○ Already exist on many State contracts</li> </ul> </li> </ul>
<b>Reputation</b>	<ul style="list-style-type: none"> <li>• The State has a proven and significantly high track record for paying on time per statute</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• The State has one existing implemented technology (i.e., SWIFT) to support order entry and accounts payable functions across all agencies</li> </ul>

**8. D. 1) b. Challenges**

Key challenges of the current state are:

<b>Process Clarity</b>	<ul style="list-style-type: none"> <li>• While guidelines exist, there is lack of agency and end-user clarity on the proper guidelines and approach for utilizing</li> <li>• The use of SWIFT is inconsistent across agencies</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• Prompt payment terms exist on many contracts recorded in SWIFT but are not easily identified by buyers</li> <li>• Prompt payment terms exist in SWIFT but do not default on purchase orders or contract release orders</li> <li>• Because orders do not show prompt payment terms, AP does not always know when prompt pay terms are available</li> <li>• When orders are eligible for prompt pay discounts and paid per the prompt pay terms, the appropriate discount may not be taken when payment is made</li> <li>• SWIFT does not take full advantage of automated workflow that would help streamline and speed up the AP process</li> <li>• Within SWIFT, inconsistent document retention processes:               <ul style="list-style-type: none"> <li>○ Do not meet business user needs, thus supplemental processes (and often paper) are retained outside SWIFT</li> <li>○ Are not optimal, as documents are attached in multiple places with varying searchable metadata and are often difficult to locate</li> </ul> </li> </ul>

<b>Agency Limitations</b>	<ul style="list-style-type: none"> <li>Agency processes may not support the ability to turn around invoices within the prompt pay terms</li> </ul>
<b>Regulation &amp; Laws</b>	<ul style="list-style-type: none"> <li>By law, the State must pay invoices in 30-days, which is already “prompt” in many vendors’ perspectives</li> <li>By law, the State cannot negotiate prompt pay discounts on bids (RFBs) but can on proposals (RFPs)</li> <li>Ambiguity exists regarding the regulation and requirements pertaining to “original” invoices leading to widely varying processes and possible redundancy of tasks</li> </ul>

### 8. D. 2) Improvement Opportunity

The IBM Benchmark Report supports this initiative. According to the report, “The State should consider solutions in the following categories: optimizing the prompt pay program, updating the systems that support the prompt pay program, negotiate more favorable terms with vendors and consider changes to the laws associated with prompt pay discounts.”

The State should begin optimizing the vendor prompt pay process by conducting a Lean event(s) to acquire a deeper understanding of the process and expose efficiency opportunities across State agencies. As soon as process changes are identified, the State should immediately implement them so that prompt pay timelines are met and discounts are captured. These process changes may need to be supported with a statewide training program.

The State currently uses its SWIFT system to handle several functions related to AP and the capturing of prompt pay discounts. In order to fully utilize the SWIFT system, the State should ensure that prompt pay terms are entered onto contracts and default from contracts to orders in SWIFT and that all terms are transparent to buyers and emphasized/prioritized to AP staff. In addition, the State should review the outcomes of the Lean event(s) related to supporting system changes and make those changes immediately. Lastly, the State should more fully implement SWIFT to enhance automated workflow and electronic invoicing in order to further streamline the AP process.

APQC reports that “the interdependencies between the procurement and accounts payable functions often provide significant opportunities for improvement.” In order to fully take advantage of the best prices offered by vendors, the State should continue to negotiate favorable terms in all allowable contracts with vendors. Additionally, APQC reports that “the inefficiencies or ‘process leakage’ that occurs between the upstream (supplier management, procurement, etc.) and the downstream (i.e., accounts payable) processes, is where the re-work and leakage typically occur. Such leakage results from the failure to recognize and evaluate these interdependent processes as a system of output; consequently, increased costs and loss of available vendor discounts often go unaddressed.”<sup>11</sup>

<sup>11</sup> APQC Report. Best Practices and Decision Support: Procure to Pay. 2009

**8. D. 2) a. Identified Tactics**

The following are key tactics, approaches or actions that would create momentum and/or address this opportunity:

Tactic	Level of Transformation	Dimensions	Duration	Investment	Return on Investment	Complexity
1 Conduct a Lean event(s) to acquire a deeper understanding of the process and expose efficiency opportunities across agencies. Implement process changes so that prompt pay timelines could be met in order to take advantage of discounts. Support, as needed, with a statewide training program.	Grow	Proc	<u>LOW</u>	<u>LOW</u>	Med	<u>LOW</u>
2 <i>Overlapping tactic from procurement opportunity brief, "Improve Vendor Management to Strengthen Procurement Strategies":</i> Ensuring the State has an accurate understanding of the breadth, capabilities and demographics of its current vendor base by ensuring accurate vendor database through updating of the "Vendor File." The State should identify the appropriate business owner, process, policies and usage.	Run	Proc	Med	<u>LOW</u>	Low	<u>LOW</u>
3 Enhance SWIFT to ensure prompt pay terms default from contracts to orders, are transparent to buyers and emphasized/prioritized for Accounts Payable staff. Additionally, enhance SWIFT to include automated workflow and electronic invoicing in order to streamline the AP process.	Grow	Tech	Med	Med	<u>HIGH</u>	Med
4 Negotiate prompt pay discounts in all new or renewal proposals (RFPs).	Grow	Proc	<u>LOW</u>	<u>LOW</u>	<u>HIGH</u>	<u>LOW</u>
5 Consider changing the law to allow the State to negotiate more flexible payment terms, so that vendors might be further incented to participate in a prompt pay program.	Tnsfm	Proc	Med	Med	<u>HIGH</u>	<u>LOW</u>
6 <i>Overlapping tactic from finance opportunity brief, "Redesign the Accounts Payable Process":</i> Implement an enterprise wide electronic document management system (EDMS).	Tnsfrm	Tech	High	High	<u>HIGH</u>	High

**8. D. 2) b. Benefits of Change**

The following are key benefits the State may realize by addressing this opportunity.

<b>Cost Savings</b>	<ul style="list-style-type: none"> <li>• Goods and services will cost less through the prompt payment discount program</li> <li>• Goods and services purchased from vendors offering prompt payment discounts could increase due to the transparency in the system</li> </ul>
<b>Employee Efficiency</b>	<ul style="list-style-type: none"> <li>• Obtaining prompt payment discounts can become automated and not require employee knowledge or tasks</li> <li>• Streamlining the overall process will provide employees more time for other activities</li> <li>• Ensuring a consistent state process for vendor contracts, negotiation, payments will create transferrable knowledge across agencies</li> <li>• Moving to a more comprehensive electronic process would:             <ul style="list-style-type: none"> <li>○ Alleviate the hard/soft costs associated with a partially paper based-process</li> <li>○ Create process efficiency and decrease process duration</li> </ul> </li> </ul>
<b>Reporting</b>	<ul style="list-style-type: none"> <li>• Standardized use of SWIFT and the Vendor File will increase the awareness of involvement and utilization of the prompt pay program</li> <li>• Promote accurate and effective reporting across agencies</li> </ul>
<b>Vendor Relations</b>	<ul style="list-style-type: none"> <li>• Vendors will have clarity and transparency of the expected payment terms/fees</li> <li>• Vendors offering prompt-pay discounts may realize higher sales volumes as the program is fully supported by process and technology</li> </ul>

**8. D. 2) c. Improvement Approach**

The following steps should be considered over the short, medium and long term:

**Short Term** – In the short term, the State should begin reviewing and optimizing the prompt pay program to ensure that State and agency processes fully support it, most specifically to understand what is acceptable as an “original” invoice.

**Medium Term** – In the medium term, the State should continue to negotiate prompt pay discounts with vendors and ensure that all vendors offering discounts are appropriately loaded in SWIFT and defaulted on the order. The State should consider changes to allow more flexibility in payment terms to provide incentives for vendors to offer discounts. Changes to statutes should be proposed and made as necessary.

**Long Term** – Over the long term, the State should ensure that existing systems fully support a prompt pay program (e.g., appropriate defaults, workflow, electronic invoicing, etc.) and consider implementing new applications as necessary. Additionally, the State should review and validate that all prompt payment terms are fully integrated into the system.

## 8. E. Automate Purchasing through Use of a Supplier e-Catalog

### 8. E. 1) Current State

With the support of central procurement’s master contracts and vendor offerings, each agency independently executes its own purchasing activities within the framework set by MMD. Each agency has adopted guidelines or processes to support its agency buyers. While challenges exist, agencies are generally successful in meeting agency procurement needs.

However, purchasing throughout the State is challenged in these areas:

1. Procurement is challenged by the lack of comprehensive data regarding on- and off-contract spend, as well as useful analytic tools and dashboards.
2. Agencies and local units of government buying from State contracts lack access to a user-friendly, one-stop shopping experience (e.g., an Amazon experience).

There is opportunity to better support agencies through the use of technology, with significant benefit to the State’s overall procurement operations.

#### 8. E. 1) a. Benefits

Key benefits of the current state are:

<b>Product Offerings</b>	<ul style="list-style-type: none"> <li>• Central procurement maintains a high volume of master contracts, thus eliminating agency needs to maintain contracts and streamlining agency purchasing</li> </ul>
<b>Low Price Options</b>	<ul style="list-style-type: none"> <li>• The State has a significant, annual spend on products and services</li> <li>• The State has the proven ability to negotiate low price options because of State procurement levels and combined buying power</li> <li>• The State operates a Cooperative Purchasing Venture (CPV) on behalf of other public sector and non-profit entities, thus               <ul style="list-style-type: none"> <li>○ Passing along lowest cost options to CPV participants</li> <li>○ Increasing the State’s overall buying power</li> </ul> </li> <li>• MMD is nationally recognized for its strategic sourcing successes</li> </ul>

#### 8. E. 1) b. Challenges

Key challenges of the current state are:

<b>Higher Price Purchases</b>	<ul style="list-style-type: none"> <li>• Validation of “on-contract” or “off-contract” purchasing choices is cumbersome</li> <li>• Agency buyers can easily procure products “off-contract”, thus missing the opportunity for lower priced product offerings</li> <li>• Agency buyers are sometimes unaware they are purchasing “off-contract”</li> <li>• Buying “off-contract” impedes procurement’s ability to negotiate lowest price options</li> <li>• “Off-contract” purchasing is difficult to identify and correct</li> </ul>
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<b>Lack of Procurement Metrics</b>	<ul style="list-style-type: none"> <li>• Procurement does not have line-by-line detail for purchases, thus losing valuable intelligence (e.g., specific product purchases, volumes, vendor preferences, etc.)</li> <li>• Lack of procurement metrics reduces the State’s ability to accurately forecast future spend</li> </ul>
<b>Lack of Technology Support</b>	<ul style="list-style-type: none"> <li>• The current technology often requires buyers to double enter procurement data</li> <li>• The current technology does not provide defaults, suggestions or limitation of product choice</li> <li>• The current technology does not present the best product choices/value in the most user friendly, usable way</li> <li>• Purchasing request systems do not easily provide buyers the transparency into contract or pricing discounts, therefore the most economical product choices may not always be ordered</li> <li>• Purchasing errors or inefficiencies occur</li> <li>• State procurement does not have the full opportunity to guide buying behavior (e.g., lower price options, discounted options, targeting volume opportunities, etc.)</li> </ul>

### 8. E. 2) Improvement Opportunity

The IBM Benchmark Report supports this initiative. According to the report, “The State should consider solutions in the following categories: creating a central buying unit, creating off-line capabilities, updating current systems and consider implementing new systems.”

SWIFT should be expanded to include an integrated, eCatalog technology offering that supports a more efficient buying process.

#### 8. E. 2) a. Identified Tactics

The following are key tactics, approaches or actions that would create momentum and/or address this opportunity:

Tactic	Level of Transformation	Dimensions	Duration	Investment	Return on Investment	Complexity
1 Review existing purchasing guides/aides to ensure they are accessible, current and user-friendly.	Run	Proc	<b>LOW</b>	<b>LOW</b>	Med	<b>LOW</b>
2 Expand SWIFT to include an integrated, eCatalog technology offering.	Grow	Tech	High	High	<b>HIGH</b>	High

**8. E. 2) b. Benefits of Change**

The following are key benefits the State may realize by addressing this opportunity.

<b>Consistency &amp; Standards</b>	<ul style="list-style-type: none"> <li>• Statewide product consumption would become more standardized</li> <li>• Agency buyers would be guided towards best value products and vendor offerings</li> <li>• Buying errors would be reduced</li> </ul>
<b>Employee Efficiency</b>	<ul style="list-style-type: none"> <li>• Statewide procurement processes would become more standardized</li> <li>• Agency buyers are assisted in the responsibility of performing product price comparisons</li> <li>• Agency buyers purchasing process is simplified by eliminating the step of “on” or “off” contract verification</li> <li>• Agency buyers would have an easier approach to ordering</li> <li>• Repetitive tasks become executed by knowledgeable staff rather than infrequently among all staff</li> </ul>
<b>Cost Savings</b>	<ul style="list-style-type: none"> <li>• The State would have improved metrics to support volume-based price negotiations</li> <li>• Vendors may offer additional price discounts due to electronic order transmissions</li> <li>• Better insights into state and CPV spending to enable more sophisticated forecasting</li> </ul>
<b>Income Retention</b>	<ul style="list-style-type: none"> <li>• CPV participants would not leave the program for lack of technology offerings/ease, thus retaining their volumes and income</li> </ul>
<b>Product Mix</b>	<ul style="list-style-type: none"> <li>• Some products are strong candidates for an eCatalog because they:             <ul style="list-style-type: none"> <li>○ Are purchased repetitively</li> <li>○ Are purchased frequently</li> <li>○ Have a high volume</li> <li>○ Are commodity based</li> <li>○ Have limited vendor choices</li> <li>○ Must be procured in a quick or immediate timeline</li> </ul> </li> </ul>

**8. E. 2) c. Improvement Approach**

The following steps should be considered over the short, medium and long term:

**Short Term** – In the short term, the State should review existing purchasing guides/aides to ensure they are accessible, up-to-date and user-friendly.

**Medium Term** – In the medium term, the State should develop a project charter, as needed, and begin identifying the required funding to proceed with the eCatalog initiative.

**Long Term** – Over the long term, the State should complete implementation of an eCatalog system that meets all of the goals listed above.

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## 9. Key Themes

The functional areas evaluated are broad and, as such, the opportunities are numerous and varied. IBM's Benchmark Report and the functional area workshops have highlighted key themes above and beyond the specific tactical opportunities identified in the workshops.

A description of each key theme follows.

### ***9. A. Above Average Performance***

**The State's performance in benchmarked functions is generally above average but varied widely from measure to measure.**

In October 2012, the Department of Administration contracted with IBM to benchmark the State's performance against other public and private organizations and assess the efficiency and effectiveness of the State government's finance, human resources, payroll and procurement processes. In many instances, the State's performance was better than the median (and occasionally better than the benchmark — defined as the 80th percentile) level of peer groups, especially when compared to government peer groups. The State's performance in these functional areas should be applauded given the following:

- The absence of technology and productivity tools in many processes.
- Resource constraints partially due to the priority given to statewide system implementations (e.g., SWIFT implementation).
- Underfunding in many of the functional areas.
- Productivity constraints caused by State laws, policies, statutes and bargaining unit contracts.

While the State performed above average overall, the benchmark data illustrated areas where the State's performance fell below that of leading practices. In those instances, the workshops confirmed there are opportunities for improvement through process redesign, implementation of technology and potentially changes to organizational structures.

### ***9. B. Agency Performance Varies***

**There is significant performance variation between agencies.**

Another theme that came out of the Benchmarking Study was a wide variance in performance across State agencies. In several of the metrics, the State outperformed the benchmark at the aggregate State level even though several individual agencies were considerably below leading practice and median levels. While some of the underperformance of the individual agencies is due to exception (i.e., a mismatch between the metric and the nature of the work of the individual agency), the workshops illustrated that some of the underperformance can be attributed to:

- A lack of standardization in business processes across the State (e.g., each State agency has a different way of processing Accounts Payable).

- Manual processing of core functions despite opportunities to utilize available automation (e.g., expense reimbursement).
- Inconsistent utilization of existing State systems (e.g., submitting a paper timecard instead of submitting through the State’s electronic time reporting system).
- Deployment of non-enterprise applications (e.g., one agency using a customized software application).

### ***9. C. Technology Improvements are Needed***

**Substantial technology improvements are needed.**

Minnesota has made many of the core investments required to transition to modern business practices in its HR, payroll, procurement and finance functions. Particularly in the area of payroll, much of Minnesota’s process is already automated for most State employees. That said, several areas of investment are needed, such as:

- A consistent document management and imaging system
- Enhanced abilities to receive electronic documents from vendors and others
- Improved portals for business expense entry
- An interfaced requisition system to help agencies perform purchasing

### ***9. D. Inefficient Business Processes***

**Inefficient business processes require remarkable efforts from employees.**

While many of the benchmark measures indicate relatively efficient performance in Minnesota, workshop discussions of the processes indicate that many processes are especially onerous. State employees bear the primary burden of these bureaucratic processes — completing challenging, paper-intensive processes based on deep knowledge of the process steps and performing necessary workarounds. Additionally, many processes seem to have obsolete and/or redundant steps.

As Minnesota’s workforce retirements accelerate in the coming years, these processes and workarounds will become increasingly difficult to maintain. Fixing these business processes (as well as using technology to enable more efficiency) is an essential and urgent need. Furthermore, all processes discussed during the workshop could benefit from a Lean redesign.

### ***9. E. Limited Resources***

**Staff resources are limited to implement new initiatives.**

The SWIFT project implementation and IT consolidation effort continue to consume significant capacity from State staff in all of the functional areas. While some of the demands from these projects may begin to decrease this spring, ability to undertake significant new initiatives will continue to be constrained for at least the next year.

## **9. F. Chronic Underfunding**

**There is chronic underfunding of functional areas, particularly in HR.**

Across most of these functions, Minnesota is highly decentralized with most resources residing in the agencies. Central HR support, in particular, has endured dramatic budget cuts and funding pressures for the last several years. The MMB HR staff faces an impossible challenge in leading an organization of more than 35,000 (along with significant support to MnSCU and others) with a relative small handful of staff. The Governor's change item to enhance central HR staffing is an essential first step to rebuilding critical capacity, but more resources and focus will be needed over time.

## **9. G. Complicated Processes due to Statute/Policy/Contract**

**State processes are exceptionally complex due to statute, rule, agency policies and bargaining unit contracts.**

Across the functions, State staff must accord with highly complex and variable laws, rules and bargaining unit contracts. As functional staff begins to retire at increasing rates, challenges of complying with this complex environment will continue to grow. In addition, these complexities place a heavy burden on supervisors throughout agencies. As an example, the appropriate payroll treatment of a holiday varies by bargaining unit — so supervisors must know what rules apply to their employees based on their bargaining unit contracts and administer them accordingly. Similar variations apply on business expenses, requiring staff to understand a range of rules in order to appropriately approve expenses.

## **9. H. Low Cost Functional Areas**

**The four assessed functions have relatively limited impact on the overall State budget.**

The finance, HR, payroll and procurement functions are essential to State operations, yet their overall cost consumes a relatively small share of the overall State budget. Even a significant percentage reduction in the cost of these functions would have a small State budgetary impact.

# **10. Recommendations & Next Steps**

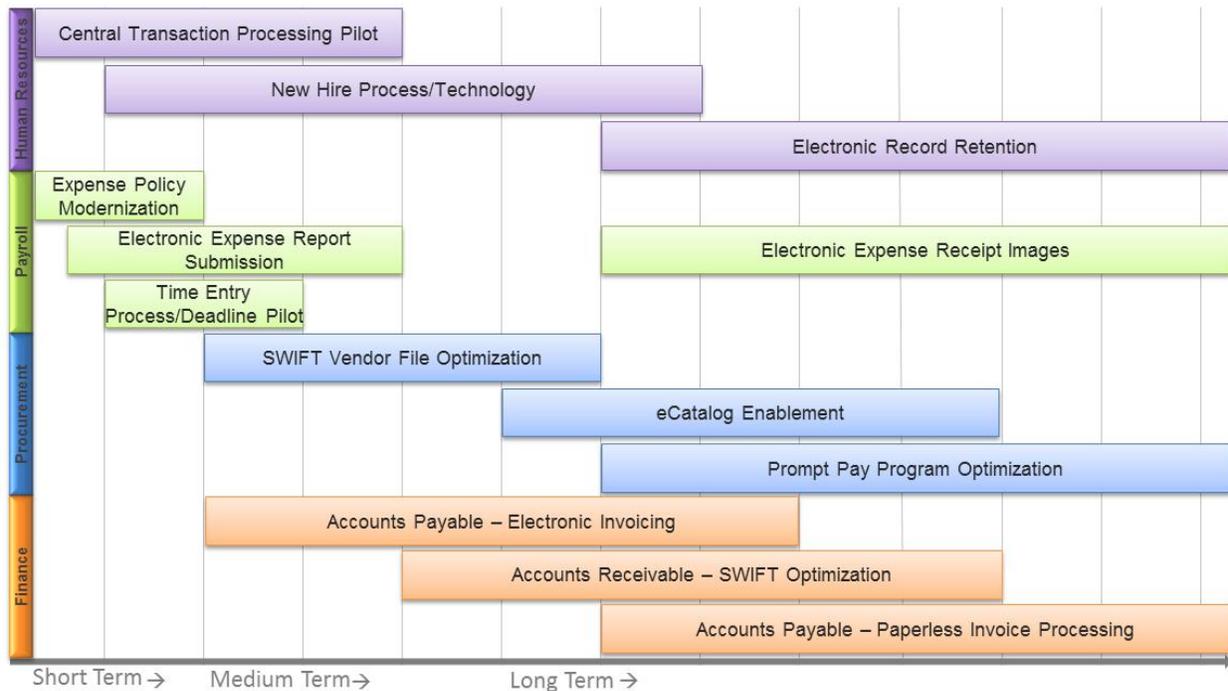
The benchmarking project has highlighted a range of opportunities for improving operations across Minnesota state government. Through these efforts, Admin identified a series of tangible, high impact and most achievable initiatives that should be advanced in the coming months and years. The initiatives identified during this beginning phase of the benchmarking project are intended to take the following into account:

- Size of opportunity in comparison to the perceived return on investment
- The State and functional area's desire and perceived capacity to successfully implement
- Measurable impact on citizens, vendors and employees

This beginning phase of the benchmarking project identified a variety of initiatives based on preliminary analysis. Considering the strong interdependency with ongoing State projects/operations, further work is necessary to create a detailed implementation schedule for upcoming activities. There also should be a focused effort to further define and plan each initiative, along with a detailed cost benefit analysis and ROI.

### 10. A. Priority Initiatives

Admin’s prioritized initiatives are below. While these initiatives are the recommended top priorities, each functional area should proceed with the initiatives and tactics contained in the opportunity briefs.



### 10. B. Supporting Efforts

In addition to the prioritized initiatives for each functional area, several cross-functional, supporting efforts have been identified that should be addressed over the short term. Additional resources should be allocated to the following:

- Defining interdependencies with other priority projects across the enterprise and scheduling resources appropriately
- Identifying statute changes, with the potential of including them in Governor Dayton’s proposed legislative “Unsession”<sup>12</sup>

<sup>12</sup> In his recent State of the State Address, Minnesota Governor Dayton proposed an “Unsession,” a legislative session dedicated to streamlining government mandates and regulations. <http://mn.gov/governor/newsroom/pressreleasedetail.jsp?id=102-54689>

- Identifying policy changes that can be implemented
- Defining opportunities to work with agencies to re-engineer processes

### **10. C. Key Success Factors**

Three key success factors are essential to the execution of these initiatives and supporting efforts that will maintain the momentum established by the benchmarking project:

1. Active governance from a steering committee
2. Executive sponsorship
3. Dedicated resources to support project teams

#### **10. C. 1) Governance**

The BGBM sub-cabinet should assign a steering committee for the initiatives. This group's oversight should be three-fold:

- Actively supporting the prioritized initiatives identified here (and modified as needed) to ensure that the right personnel, funding and support are available for the project to succeed.
- Encouraging the successful implementation of the smaller initiatives being driven by the functional areas and confirming progress towards successful implementation.
- Building support and maintaining communications with key stakeholder groups

#### **10. C. 2) Sponsorship**

The BGBM sub-cabinet should provide active, visible sponsorship of these and other business improvement initiatives—engaging leaders at the cabinet level across State government. Executive sponsorship from the agencies with enterprise responsibility for finance, human resources and procurement (MMB and Admin) is also necessary.

#### **10. C. 3) Resources**

Dedicated resources to support these activities are essential to project success. While any successful project will require active participation from employees within the business functions, they must be supplemented by staff that has day-to-day focus (in a program management and/or program architect role) on moving these initiatives forward. If the Governor's budget requests for staffing in Lean (within Admin) and the Results Management Initiative (within MMB) are funded, these staff resources should be considered to support project teams. In addition, each functional area, with support from MN.IT on IT initiatives, would also need to demonstrate commitment to improvement by securing/allocating their own resources to support initiatives.

While this report identified many areas of opportunity, it is essential that an appropriate structure be established to move forward with implementation. The challenges facing the State, including a rapidly retiring workforce and ever tighter budget resources, are too significant to do less.