# STATE OF KANSAS

## EFFICIENCY REPORT
## UPDATE REPORT

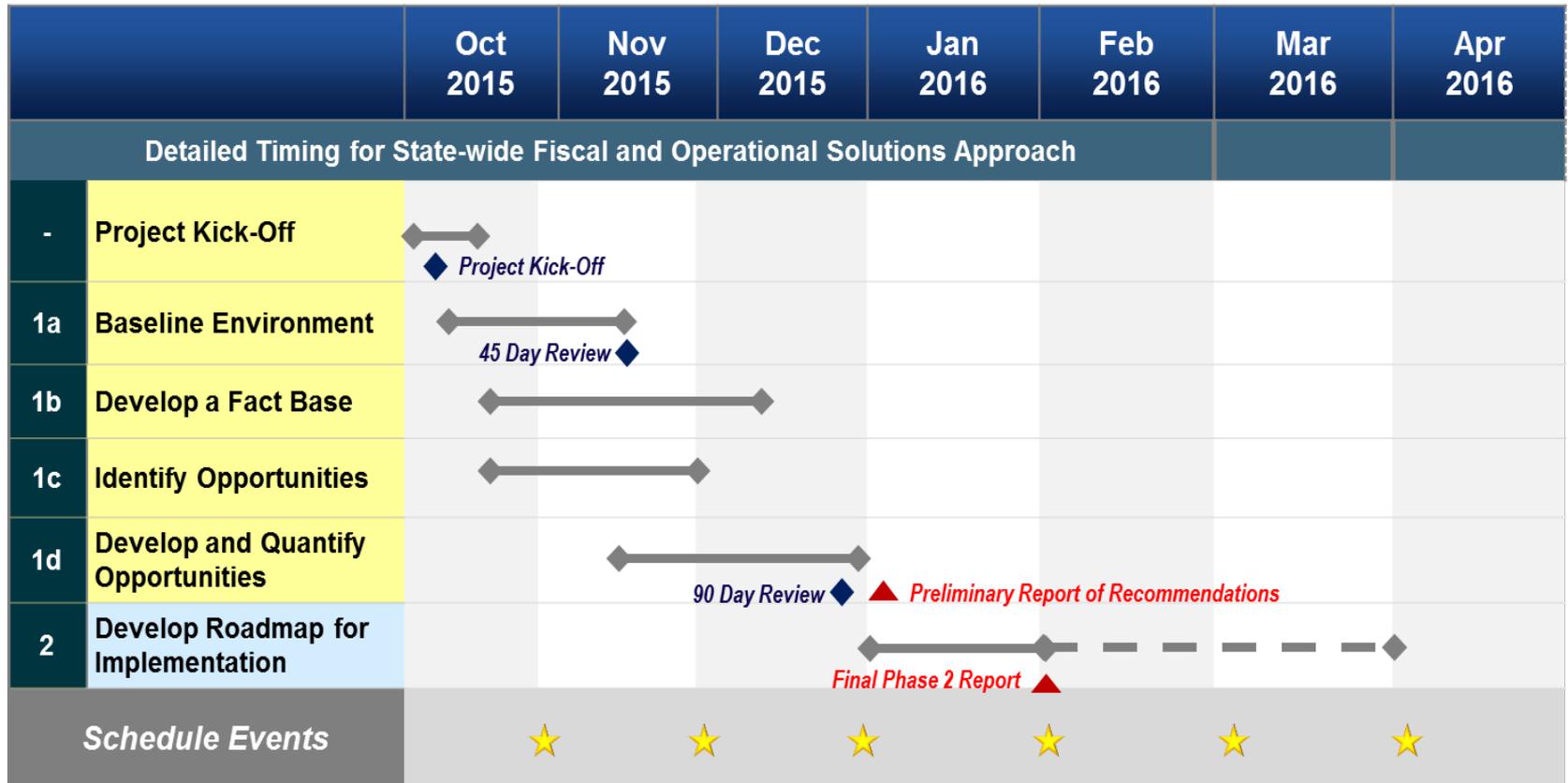**February 16, 2016**

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# OVERVIEW

**Since being retained by the State in early October 2015, Alvarez & Marsal has been engaged in a far-reaching review of State operations and spending. In January, we provided the interim results of the review which resulted in the identification of 105 recommendations. The recommendations reflected an intense three months effort undertaken by our team of more than 40 professionals in collaboration with State employees at all levels, gaining a detailed understanding of their missions, programs, objectives and challenges. The recommendations focused on achieving the following objectives to drive increased efficiency:**

- Service Delivery
- Shared Services – Internal and External
- Consolidation
- Privatization
- Government Role
- Improve Financial Management
- Increase Federal Funds

*Today, we are presenting the results of the second phase of our work, an implementation plan to support the realization of the recommendations.*

# OVERALL EFFICIENCY PROJECT SCHEDULE

## A&M's State-wide Fiscal and Operational Solution Proposed Timeline and Implementation Schedule

| | | Oct 2015 | Nov 2015 | Dec 2015 | Jan 2016 | Feb 2016 | Mar 2016 | Apr 2016 |
|---|---|---|---|---|---|---|---|---|
| | **Detailed Timing for State-wide Fiscal and Operational Solutions Approach** | | | | | | | |
| - | **Project Kick-Off** | ◆ Project Kick-Off | | | | | | |
| 1a | **Baseline Environment** | 45 Day Review ◆ | | | | | | |
| 1b | **Develop a Fact Base** | | | | | | | |
| 1c | **Identify Opportunities** | | | | | | | |
| 1d | **Develop and Quantify Opportunities** | | 90 Day Review ◆ | ▲ Preliminary Report of Recommendations | | | | |
| 2 | **Develop Roadmap for Implementation** | | Final Phase 2 Report ▲ | | | | | |
| | **Schedule Events** | ★ | ★ | ★ | ★ | ★ | ★ |

**Key:**

★ Status Updates  ▲ Performance Objective  ◆ Briefings / Working Session  ◆—◆ Workstream  ◆- -◆ Briefing Period

Key: | Phase 1 | Phase 2 |

# INTRODUCTION TO THE IMPLEMENTATION PLAN

**The implementation plan is designed to promote the realization of the recommendations identified through focusing the highest impact activities, defining necessary support and oversight to achieve objectives and identify the necessary courses of action.  The plan supports the Legislature's and the Administration's analysis of the _105 recommendations identified_ with a cumulatively benefit of _over $2 billion in benefits to the State over the next five years_ and includes budget analysis and budget process reviews.**

**These recommendations are organized by agency or cross agency work stream and establish the groundwork for the state to implement the 105 recommendations.  Agency and cross agency project management plans include:**

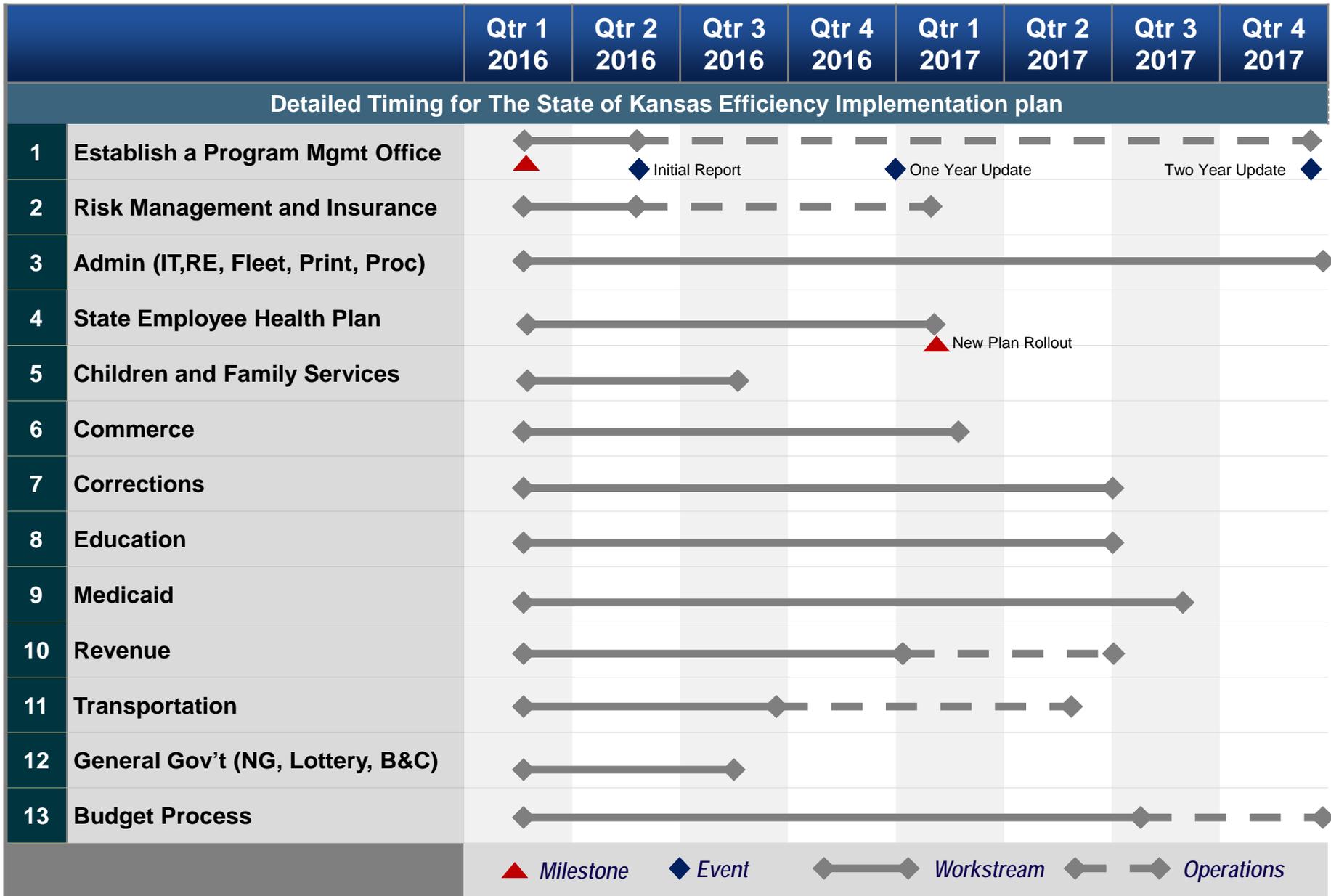| Revenue | Information Technology | Procurement | Risk Management and Insurance | State Employee Health Plan |
|---|---|---|---|---|
| Children and Family Services | Print Services | Fleet | Real Estate | Budget Process |
| Governor's Grants Office | Transportation | Commerce | National Guard | Boards and Commissions |
| Medicaid | Corrections | Lottery | Kansas Public Employees Retirement System | |

**The recommendations were segmented into three categories:**

- **Highest Value – Category A recommendations**
- **Transformational – Category B recommendations**
- **Long Term Impact – Category C recommendations**

**Recommendations were further divided into recommendations for program management office (PMO) oversight. A small team will form the PMO and will:**

- **Work across the state agencies to oversee project status, manage the reporting cycle, and host weekly round table calls with the project managers from each agency and cross-agency work stream.**

- **Coordinate with each involved agency should assign a project manager to oversee the agency specific projects and report to the PMO on progress of the implementation.**

- **For high value, category A projects, with larger implementation efforts, the responsible agency should identify an additional project specialist to ensure that the goals of these high priority recommendations are met alongside the PMO**
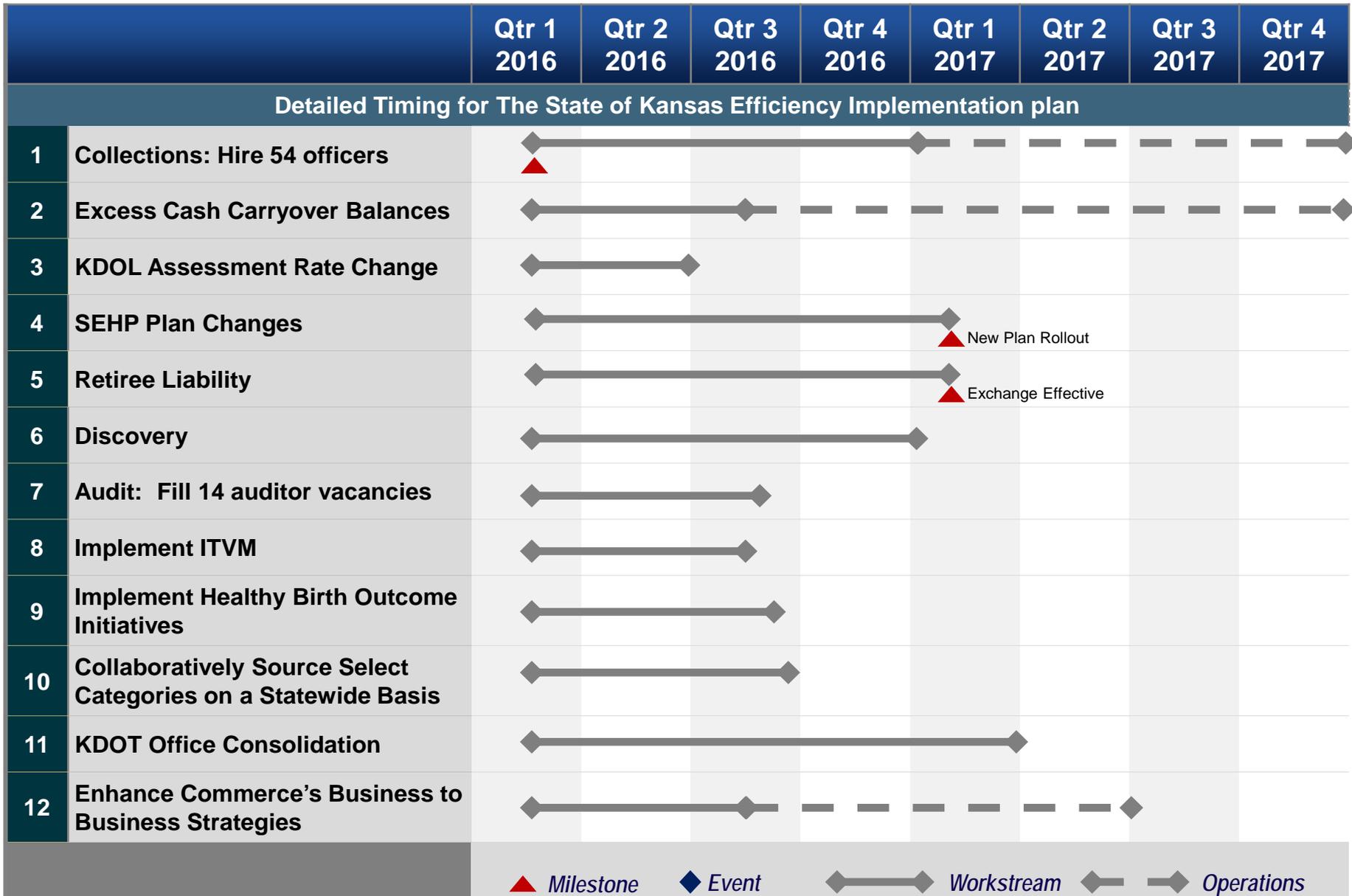
# IMPLEMENTATION PROJECT SCHEDULE

| | | Qtr 1 2016 | Qtr 2 2016 | Qtr 3 2016 | Qtr 4 2016 | Qtr 1 2017 | Qtr 2 2017 | Qtr 3 2017 | Qtr 4 2017 |
|---|---|---|---|---|---|---|---|---|---|
| | **Detailed Timing for The State of Kansas Efficiency Implementation plan** | | | | | | | | |
| 1 | **Establish a Program Mgmt Office** | | Initial Report | | | One Year Update | | Two Year Update | |
| 2 | **Risk Management and Insurance** | | | | | | | | |
| 3 | **Admin (IT,RE, Fleet, Print, Proc)** | | | | | | | | |
| 4 | **State Employee Health Plan** | | | | New Plan Rollout | | | | |
| 5 | **Children and Family Services** | | | | | | | | |
| 6 | **Commerce** | | | | | | | | |
| 7 | **Corrections** | | | | | | | | |
| 8 | **Education** | | | | | | | | |
| 9 | **Medicaid** | | | | | | | | |
| 10 | **Revenue** | | | | | | | | |
| 11 | **Transportation** | | | | | | | | |
| 12 | **General Gov't (NG, Lottery, B&C)** | | | | | | | | |
| 13 | **Budget Process** | | | | | | | | |

▲ *Milestone*   ◆ *Event*   ←→ *Workstream*   ◆- -◆ *Operations*
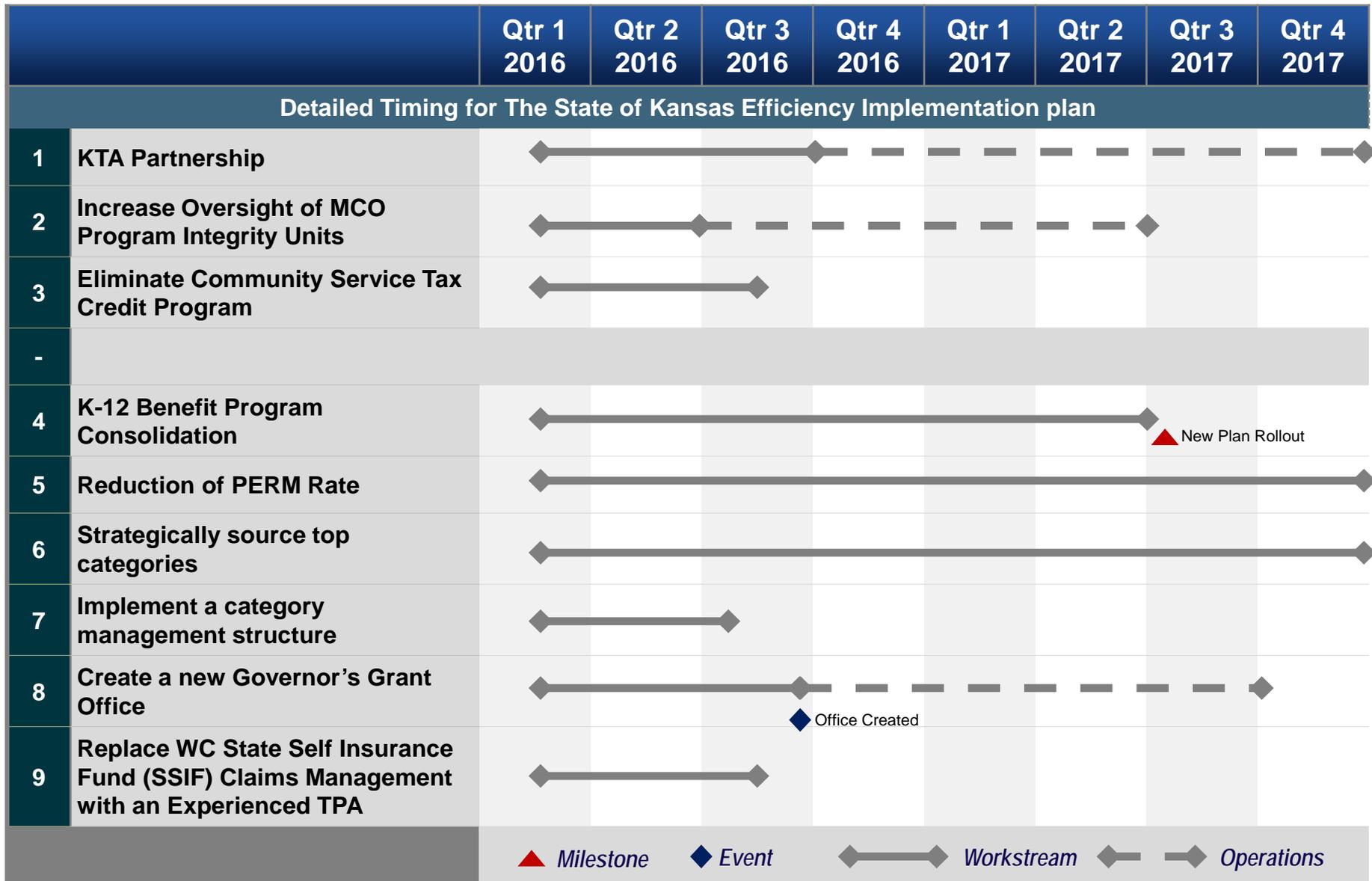
# TOP PRIORITY RECOMMENDATIONS

**The top 20% of the recommendations represent 87.1% of the total efficiency opportunities**

| A&M Work Stream | # Rec's | Total Savings and Revenue Estimate [$000s] | | | | | | | Percent |
| | | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | Total | Of the Total |
|---|---|---|---|---|---|---|---|---|---|
| **Category A** | | | | | | | | | |
| PMO Oversight | 15 | 7,800 | 190,969 | 227,632 | 232,608 | 237,625 | 235,077 | 1,131,711 | 55.5% |
| Implementation Support | 6 | - | 58,077 | 143,197 | 147,372 | 147,421 | 147,471 | 643,539 | 31.6% |
| **Total Category A** | 21 | 7,800 | 249,046 | 370,829 | 379,979 | 385,047 | 382,548 | 1,775,250 | 87.1% |
| **Category B** | | | | | | | | | |
| PMO Oversight | 53 | 12,229 | 46,056 | 47,727 | 40,226 | 41,364 | 45,715 | 233,316 | 11.4% |
| Implementation Support | 5 | (70) | 4,944 | 4,944 | 4,663 | 4,573 | 4,573 | 23,626 | 1.2% |
| **Total Category B** | 58 | 12,159 | 50,999 | 52,671 | 44,888 | 45,937 | 50,288 | 256,942 | 12.6% |
| **Category C** | | | | | | | | | |
| PMO Oversight | 25 | 38 | 1,111 | 1,402 | 1,397 | 1,393 | 1,390 | 6,731 | 0.3% |
| **TOTAL Savings and Revenue Estimates** | 105 | 19,996 | 301,157 | 424,901 | 426,265 | 432,377 | 434,226 | 2,038,923 | 100% |

# IMPLEMENTATION PROJECT SCHEDULE

| | | Qtr 1 2016 | Qtr 2 2016 | Qtr 3 2016 | Qtr 4 2016 | Qtr 1 2017 | Qtr 2 2017 | Qtr 3 2017 | Qtr 4 2017 |
|---|---|---|---|---|---|---|---|---|---|
| | **Detailed Timing for The State of Kansas Efficiency Implementation plan** | | | | | | | | |
| 1 | **Collections: Hire 54 officers** | | | | | | | | |
| 2 | **Excess Cash Carryover Balances** | | | | | | | | |
| 3 | **KDOL Assessment Rate Change** | | | | | | | | |
| 4 | **SEHP Plan Changes** | | | | | | New Plan Rollout | | |
| 5 | **Retiree Liability** | | | | | | Exchange Effective | | |
| 6 | **Discovery** | | | | | | | | |
| 7 | **Audit: Fill 14 auditor vacancies** | | | | | | | | |
| 8 | **Implement ITVM** | | | | | | | | |
| 9 | **Implement Healthy Birth Outcome Initiatives** | | | | | | | | |
| 10 | **Collaboratively Source Select Categories on a Statewide Basis** | | | | | | | | |
| 11 | **KDOT Office Consolidation** | | | | | | | | |
| 12 | **Enhance Commerce's Business to Business Strategies** | | | | | | | | |

▲ *Milestone*   ◆ *Event*   ◆——◆ *Workstream*   ◆‑ ‑◆ *Operations*

# IMPLEMENTATION PROJECT SCHEDULE

| | | Qtr 1 2016 | Qtr 2 2016 | Qtr 3 2016 | Qtr 4 2016 | Qtr 1 2017 | Qtr 2 2017 | Qtr 3 2017 | Qtr 4 2017 |
|---|---|---|---|---|---|---|---|---|---|
| | **Detailed Timing for The State of Kansas Efficiency Implementation plan** | | | | | | | | |
| 1 | **KTA Partnership** | | | | | | | | |
| 2 | **Increase Oversight of MCO Program Integrity Units** | | | | | | | | |
| 3 | **Eliminate Community Service Tax Credit Program** | | | | | | | | |
| - | | | | | | | | | |
| 4 | **K-12 Benefit Program Consolidation** | | | | | | | | |
| | New Plan Rollout | | | | | | | | |
| 5 | **Reduction of PERM Rate** | | | | | | | | |
| 6 | **Strategically source top categories** | | | | | | | | |
| 7 | **Implement a category management structure** | | | | | | | | |
| 8 | **Create a new Governor's Grant Office** | | | | | | | | |
| | Office Created | | | | | | | | |
| 9 | **Replace WC State Self Insurance Fund (SSIF) Claims Management with an Experienced TPA** | | | | | | | | |

▲ *Milestone*  ◆ *Event*  ◆——◆ *Workstream*  ◆- -◆ *Operations*

# TOP 21 RECOMMENDATIONS

| Unique Identifier | Recommendation Name | Recommendation Description |
|---|---|---|
| KDOR.02 | Collections: Hire 54 officers | Hire collection agents to fill current vacancies. The average collection agent currently produces about $1M in collections annually. |
| ED.01 | Excess Cash Carryover Balances | Excess cash reserves could be used to offset future education funding, provided that the USDs have assurance of stability and reliability of funding. We recommend absorbing this "one-shot" over a five year period. |
| INS.02 | KDOL Assessment Rate Change | Increase revenue by adjusting the Administrative Fund assessment charged to state Workers' Compensation carriers to 1% based on written premium from the current 2.79% based on prior year paid losses. |
| SEHP.01 | Plan Changes | Total Replacement - Only offer High Deductible Health Plans (Plan C) and remove the Plan A option. Tie employer Health Savings Account and Health Reimbursement Account contribution to wellness participation |
| SEHP.02 | Retiree Liability | Implement OneExchange platform for retirees to remove all retirees from self-funded SEHP onto fully insured plans removing risk and lowering GASB liabilities |
| KDOR.03 | Discovery | Coordinate new audits with Collections, General Counsel and Policy to have a more effective centralized audit plan that would be defensible through appeals and litigation. |
| KDOR.01 | Audit:  Fill 14 auditor vacancies | Re-hire retired auditors in order to fill current audit department vacancies.  The average auditor currently produces about $934k in collections annually. |

| Unique Identifier | Recommendation Name | Recommendation Description |
|---|---|---|
| LOT.01 | Implement ITVM | Allow the Lottery to use Instant Ticket Vending Machines in Kansas |
| ED.05 | Collaboratively Source Select Categories on a Statewide Basis | The school districts should join with the Department of Administration and strategically source specific spend categories to drive greater cost savings for the school districts |
| MED.05 | Implement Healthy Birth Outcome Initiatives | Implement healthy birth outcome initiatives to improve women and child health care outcomes and manage costs |
| DOT.02 | Office Consolidation | Eliminate area offices, moving administration to Districts and operations to sub area offices |
| COM.01 | Enhance Commerce's Business to Business Strategies | Enhance Commerce's Business to Business Strategies with increased financial modeling, research analysis, project auditing, and marketing/sales service support efforts |
| DOT.01 | KTA Partnership | Maximize KTA and KDOT Partnership |
| MED.02 | Increase Oversight of MCO Program Integrity Units | Improved oversight and training of the MCO program integrity (PI) units will increase fraud, waste and abuse recoveries |
| COM.04 | Eliminate Community Service Tax Credit Program | Eliminate Community Service Tax Credit Program |

| Unique Identifier | Recommendation Name | Recommendation Description |
|---|---|---|
| ED.04 | K-12 Benefit Program Consolidation | Consolidate K-12 benefit plans under one benefit plan similar to SEHP, utilizing SEHP network, staff, processes and procedures. This would reduce the overall plan administration expense for the SEHP through adding additional membership to current contracts and spreading cost of administration across larger population |
| MED.01 | Reduction of PERM Rate | The agencies should institute broad operational improvements to lower the state's Medicaid eligibility error rate |
| DOA.01 | Strategically source top categories | Short Term - Conduct a statewide strategic sourcing exercise of a select group of high spend categories.  This sourcing event will involve taking each category through a complete strategic sourcing exercise which will include the followings steps:  spend analysis, category assessment, category strategy, souring event, negotiation and selection, contracting and supplier transition. A&M can lead the execution with assistance from DOA category managers to ensure that the approach can be repeated by DOA staff in future events. |
| DOA.02 | Implement a category management structure | Medium Term - Establish a standardized, unified, center-led strategic sourcing and category management capability within DOA.  The purpose of this function should be to develop deep expertise in the highest spend categories that state agencies consume, track and report spend across the state, maintain a list of key local/agency requirements for each category, have deep market place knowledge and be responsible for offering creative, viable solutions for satisfying needs for goods and services. |

| Unique Identifier | Recommendation Name | Recommendation Description |
|---|---|---|
| GGO.01 | Create a new Governor's Grant Office focused on Statewide Federal Funding | Create a Federal Funds Office to enable a coordinated, prioritized, and compliance-driven approach to maximizing the amount and effective use of federal funds and provide compliance oversight to state and local agencies. |
| INS.04 | Replace WC State Self Insurance Fund (SSIF) Claims Management with an Experienced Third Party Administrator Overseen by ORM | Reduce WC SSIF claims costs by replacing current WC SSIF claims staff with an experienced TPA overseen by the recommended new ORM, for management of new go-forward claims and closeout of open runoff claims at FY 16 end.<br>- Capital Outlay investment for moving WC claims function to new TPA on a go-forward basis as of FY 17.<br>- Projected cost savings generated by reduced WC claims costs and claims volume, and enhanced risk management, brought by outsourced TPA with ORM oversight.<br>- Projected cost savings to replace existing $136K/year Systema claims software and $1.7M/year CompAlliance TPA limited-services contracts with new full-service TPA as of FY17.<br>- Projected cost savings for discontinued facility operations and overhead expense (other than staffing overhead) associated with WC SSIF claims staff elimination at FY 16 end.<br>- Projected Salaries and Wages cost savings by elimination of 16 FTE KDHE WC SSIF claims personnel salaries and staffing overhead at FY 16 end. |

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