

CHAPTER 7 – REENGINEERING STRATEGIES

“Our goal in state government should be to do more with less, to provide even more efficient and effective services for citizens.” State of the State Address 2000 – Governor Bill Owens

Previous chapters in this report have dealt primarily with opportunities to improve state government by improving technology. In the course of the NCC project, however, a number of opportunities to rethink current state policy or reengineering existing processes were noted.

This chapter discusses three such opportunities: consolidating or coordinating health care services purchased by the State; reducing travel costs; and examining current processes for purchase orders, formal contracts, and procurement cards.

Figure 7-1: Reengineering Strategies Recommendations

Recommendation	Estimated Cost Savings / Cost Avoidance	Support for NCC Goals	Status
7.1. The State should evaluate options for consolidated health care purchasing.	Pending	✓Efficiency and Effectiveness	In Progress
7.2. The State should work to reduce travel costs, better enforce its travel policies, and contract with a master vendor.	\$7.0 million savings (previously taken)	✓Efficiency and Effectiveness ✓Collaboration and Information Sharing	Ready to Implement
7.3 The State should revise its procurement thresholds to expedite the approval process and reduce unnecessary paperwork and review.	\$4.5 million cost avoidance	✓Efficiency and Effectiveness	Ready to Implement

HEALTH CARE SERVICES PURCHASING

NCC presents an opportunity to determine if initiatives to consolidate and coordinate the purchase and provision of health care services will generate efficiencies and curb the growth of expenditures while maintaining the quality of health care services for the State’s clients. The Health Care Services Purchasing project aims to build on the experiences of other states while providing an analysis of potential areas to consolidate within the State of Colorado. At this juncture, the team is in an exploratory stage and is conducting its initial evaluation, as described below. The team has not arrived at any conclusions regarding the feasibility, cost effectiveness, and efficiencies associated with various alternatives. Proposals will be evaluated over the next several months.

Opportunity Statement

Escalating health care costs pose budgetary challenges for all states. In response to significant increases in health care expenditures, many state governments have implemented policies to coordinate and consolidate some of their health care purchases. Up to this time, the State of Colorado has pursued such strategies primarily within individual departments. The experience of other states suggests that an investigation of statewide strategies is now warranted.

The State of Colorado currently finances a large portion of the costs associated with providing health care services, supplies, and pharmaceuticals for a variety of clients. As shown in Figure 7-2, Health Care Clients Served, the responsibility for purchasing health care services is spread across six of Colorado’s state departments.

Figure 7-2: Health Care Clients Served

Department	Clients Served
Personnel / GSS	State employees
Corrections	Inmates
Health Care Policy and Financing	Lower income and entitled
Higher Education	Students and non-classified employees
Public Health and Environment	Lower income and entitled
Human Services	Lower income and entitled

The use of specific health care services and high profile pharmaceuticals have increased significantly, and health care costs in general are increasing across the board. Consequently, as the growth of health care costs continues in Colorado, an increasing portion of the State's budget is devoted to health care expenditures.

The final report on health care purchasing will evaluate potential strategies to merge administration and purchasing to generate internal efficiencies and consolidate administrative expertise.

Assessment

In its initial analysis, the project will review the following areas for potential consolidation and / or internal coordination:

- ◆ Pharmaceutical Purchases: The cost of purchasing pharmaceuticals has risen more dramatically than other health care products and services in recent years, due both to increased costs and increased utilization of pharmaceutical products. Higher costs are attributable to the increased use of advertising, the costs of new patented drugs, and high research costs. Greater utilization is explained by aging populations, changes to medical protocols, direct-to-consumer advertising, and the shift to managed care. Managed care usually offers benefits for the price of a set co-pay and / or coinsurance, and emphasizes good disease management, including affordable access to needed drugs, to lower medical costs in the long-run. Potential benefits for consolidating pharmaceutical purchases include cost savings from volume purchasing as well as long-term savings through good disease management programs and good utilization practices.

- ◆ Medical Assistance Programs: Four entitlement programs constitute Colorado's medical assistance options: Medicaid, the Primary Care Physician Program, the Child Health Insurance Program, and the Colorado Indigent Care Program. They are among the State's costliest health care programs and sometimes provide duplicative services for the populations they serve. Since eligibility changes constantly, the same persons are moving out of one program into another, with consequent gaps in critical medical services and increased administrative processing costs.

- ◆ Program Consolidation: Coordination or consolidation of medical service programs could offer the opportunity to streamline administrative costs, standardize basic benefits, account for expenditures, and track utilization practices. From the client-service point of view, it could also encourage both continuity and responsible consumption of services and enhanced system accountability for clients, including a regular review and assessment of medical needs and utilization.

- ◆ Insurance Plan Contracts: Currently, health care programs in the six purchasing departments negotiate separate contracts for client services, pharmaceuticals, and supplies. Although the issues are many and complex, consolidating contracting functions could offer administrative efficiencies.

- ◆ Purchases of Medical Supplies and Equipment for State-run Hospitals and Nursing Homes: State-run hospitals and nursing homes are entitled to purchase their supplies and equipment separately, although some participate in regional agreements. Volume discounts and administrative efficiencies could be achieved if this function was centralized.

Recommended Solution

Recommendation 7.1: The State of Colorado should evaluate options for consolidated health care purchasing.

Prior to arriving at a recommended solution, the project team will evaluate the potential areas for consolidation and coordination according to the following criteria:

- ◆ Quality of medical services and its impact on clients;

- ◆ Net administrative savings;
- ◆ Net savings in purchases of medical services;
- ◆ Impact on private sector employers;
- ◆ Impact on medical utilization by clients;
- ◆ Potential externalities and market disruptions;
- ◆ Restrictions posed by federal requirements;
- ◆ Impact on medical service, equipment, and pharmaceutical providers;
- ◆ Limitations posed by the State's current medical contracts; and
- ◆ Geographic equity issues.

Based on the evaluation results, the team will focus on one or two areas that are well-suited for consolidation and / or coordination, completing an in-depth analysis of the savings expected to result from the chosen areas of consolidation.

Justification

The consolidation of health care purchasing should result in efficiencies to reduce costs or avoid some cost increases. In addition, consolidation should result in improved collaboration and information sharing between state agencies.

Efficiency and Effectiveness

Increases in health care costs are especially problematic in Colorado where the six percent General Fund growth limitation forces health care programs to compete with other important state programs. Other states also face this issue, and have tried various measures to cut, or at least minimize the growth of, health care costs. Some have been successful, others have not, but many initiatives warrant further analysis for their possible application in Colorado.

To date, no state has succeeded in truly consolidating all of its health care purchasing. Some consolidation is possible, but it must be practical. Many lessons can be learned from the efforts in other states. The State of Colorado must be sensitive to complex economic issues in making decisions. All economic sectors must be able to adapt to the State's efforts to reduce its costs.

NCC believes that the State should phase in any restructuring. Trying to restructure the entire system at once inevitably brings political opposition. It is also counter-productive to use enhanced market purchasing power to simply squeeze from providers / vendors rates that are below cost and capitulated for unrealistic periods of time. Responsible consumption,

accountability, and a regular review and reassessment of medical needs and utilization is essential.

According to the National Governor's Association, states need to improve their knowledge of what drives up health care services' costs. Without a realistic understanding of the root causes of rising health care costs, Colorado may end up solving the symptoms while the underlying problems remain.

TRAVEL MANAGEMENT

Opportunity Statement

In an earlier NCC Report, several areas for improvement in the State's current travel practices were noted. NCC determined that travel costs could be reduced by 15 percent with less travel and smarter travel.

- ◆ Traveling Less: State employees currently travel over 20 million miles within the State each year. The State could achieve significant savings by reducing travel and increasing the use of videoconferencing. The State currently maintains an investment of over \$5.0 million for videoconferencing equipment alone, yet departments use less than five percent of its availability.
- ◆ Traveling Smarter: The State could also achieve savings through adherence to established policies and the use of a master vendor for managing travel arrangements, bookkeeping, and data management. The State has existing hotel, car rental, and airfare price agreements, but their uses are not monitored, in part because the current system cannot produce reliable data on travel patterns. Procedures should be strengthened to assure obtaining the most cost-effective travel.

In addition, the State is not making use of new technologies, such as web-based booking, to manage its travel costs. A master vendor contract that maintains subcontracts with multiple travel agencies could reduce travel costs by using these new technologies and by ensuring that all travel is booked and paid in accordance with established travel policies. The State could put travel management functions out to bid to a consortium of travel service firms that includes local travel agents. This would leverage the national buying power of major travel firms while supporting in-state business.

Assessment

This continuing effort has three parts: developing strategies to reduce the amount of travel, improving adherence to existing travel policies, and selecting a master travel vendor to manage travel arrangements, travel data, and bookkeeping.

- ◆ **Travel Reduction:** According to the Strategic Target Attainable Results Team (START) report, 70 percent of travel expenses are incurred by institutions of higher education. Reductions may be difficult in agencies where employee travel is primarily mandated, as it is for inspectors, examiners, and auditors. Departments, and institutions of higher education, should focus first on identifying and reducing non-mandatory travel.
- ◆ **Adherence to Travel Policies:** Because use of the state travel card is not enforced, data on travel practices cannot be centrally captured. This makes it impossible to effectively monitor adherence to the State's travel policies and to the use of hotel, car rental, and airfare agreements. At the same time, employees can cite many instances where they have a compelling reason not to follow established policy. A process for evaluating and approving legitimate exceptions needs to be established. Individual instances where a better price can be obtained need special scrutiny, since an employee's ability to obtain a better price for a single transaction will not usually outweigh the benefits to the State of negotiating for lower prices based on volume considerations.
- ◆ **Selection of a Master Travel Vendor:** The Statewide Travel Management Program (STMP) is initiating the process of selecting a master vendor and is also currently in the process of re-bidding the state travel card. This process may provide a unique opportunity to contract with one entity to manage travel arrangements and bookkeeping and to issue the state travel card as well. Such an arrangement would vastly enhance the State's ability to gather and use reliable data in making future travel management decisions.

Recommended Solutions

Recommendation 7.2: The State of Colorado should work to reduce travel costs, better enforce its travel policies, and contract with a master vendor.

The State's ability to make good policy decisions and arrange advantageous rates depends on its ability to gather good data about travel patterns, which in turn depends on its ability to track all travel and to analyze data effectively. This dependence requires that all users participate in travel agreements and follow established policies. A process for evaluating and approving legitimate exceptions to the rules must be in place to make the system realistically workable for state employees and their managers. The STMP should work with departments and higher education institutions to clarify exceptions to policies and to improve enforcement of policies and approved rate agreements.

Recommendation 7.2a: The STMP should work with departments and higher education institutions to identify and implement ways to reduce travel costs, with an initial focus on discretionary travel.

Travel often occurs to allow face-to-face communication. The necessity for face-to-face communication can run the gamut from convenient to necessary to critical. Decisions to travel thus involve judgment on the part of employees and managers alike. The STMP Director has suggested developing clearer justification and better evaluation methods. The NCC project agrees with this approach.

Technology offers alternative, and possibly much less expensive, means of communication. The State's 50 videoconferencing centers appear to be underutilized, in part because agencies either do not know about their availability, or do not have ready information about the sites. The STMP should request that information about these sites be posted on the State's web page, including the teleconferencing site name, address, contact person (and their phone number and e-mail address), hours of operation, cost, capacity, and available equipment. The STMP should refer to this information on its web page and provide a hyperlink to the main video conferencing page. The program should actively market this capability to the departments and higher education institutions.

NCC agrees with the STMP Director's suggestion to perform an effectiveness and cost / benefit analysis of videoconferencing within the next year to determine how well it is meeting user needs.

Recommendation 7.2b: The State of Colorado should improve enforcement of travel policies and agreements.

The State's ability to make good policy decisions and arrange advantageous rates depends on gathering good data about travel patterns, which in turn depends on its ability to track all travel. This requires that all users participate in travel agreements and follow established policies. A process for evaluating and approving legitimate exceptions to the rules must be in place to make the system workable for state employees and their managers. The STMP should work with departments and higher education institutions to clarify exceptions to policies and to improve enforcement of policies and approved rate agreements.

Recommendation 7.2c: The STMP should pursue the opportunity to contract with a master vendor to manage several travel functions.

Since the STMP is currently re-bidding the state travel card and initiating the process of selecting a master vendor, an opportunity exists to combine the travel card program with other travel functions (e.g., managing travel arrangements, bookkeeping, travel data collection, and developing an automated booking system) under one master vendor. For example, the State could issue a master vendor request for proposal that contains the option to bid for the state travel card award, along with the other travel management functions.

Justification

Three of the Governor's transformation goals are addressed by these recommendations.

Efficiency and Effectiveness

The START report noted that if state travel is reduced by 15 percent, the estimated net savings would be \$7.4 million, including \$2.8 million from the General Fund. These reductions have already been applied to the state budget.

Innovative Technology

An automated booking system would save time both for traveling employees and for STMP employees, and would help employees analyze multiple travel options.

However, the primary focus on this recommendation is not on technology implementation.

Collaboration and Information Sharing

A master travel vendor with an automated booking system used by all agencies would give the State, for the first time, reliable data about travel patterns that would boost its ability to make fact-based decisions. This should help improve central decision making, and should provide additional information to state agencies.

PROCUREMENT THRESHOLDS

The State of Colorado processes a large volume of purchasing paper work each year. Accordingly, many resources are dedicated to the procurement and contracting processes. There are several mechanisms to purchase goods and services within the State, including purchase orders, formal contracts, and procurement cards. Some opportunities for process efficiencies were identified.

Opportunity Statement

Based on a review of transactions under \$25,000, it costs the State two-cents in procurement-related efforts to purchase \$1.00 worth of goods or services.

The estimated cost for processing contracts in the State is approximately \$1.9 million annually, or \$900 per contract; however, a large portion of this effort is spent on lower-dollar value contracts. A majority (54 percent) of procurement contracts have a dollar value less than \$50,000.

The procurement card program has not been fully implemented or utilized throughout the State. It is only used for seven percent of the transactions annually, representing less than one percent of the dollar volume of purchases.

Assessment

Possible efficiencies can be obtained by the revision of the Colorado Revised Statutes and the State Fiscal Rules creating the current purchasing and contract review thresholds. Internal controls will need to be reviewed and possibly adjusted to ensure the State's accountability to taxpayers.

The State has already begun improvement of the contract process by developing the Colorado Contract

Improvement Team and its executive committee, the Central Approvers Task Force. Henceforth, legal review by the Office of the Attorney General will not be required for the following:

- ◆ Contracts having a value of no more than \$25,000 and construction contracts that utilize State Buildings Programs forms or other forms approved by the State Controller, having a value of no more than \$50,000; and
- ◆ Amendments to contracts where the total value of the contract remains within the \$25,000 threshold (\$50,000 for construction contracts using State Buildings Programs forms or other forms approved by the State Controller).

Policies and procedures are currently being drafted by the State Controller's Office (SCO) wherein a review would still take place in the SCO. The NCC urges the SCO to consider a sampling approach instead of reviewing all contracts.

The Office of the Attorney General also rewrote the terms and conditions of the purchase order, expanding it to cover services providing broader protection to the State. This could potentially reduce the number of contracts under \$25,000.

It is estimated that the State spends \$25 to process and print a warrant. When this amount is combined with a purchase order, the combined transaction is estimated to cost \$96. At an estimated cost of \$16 per transaction, the procurement card is a more efficient form of payment. Other opportunities presented through the use of procurement cards include:

- ◆ Improved relationships with the State's vendors;
- ◆ Use of real time and historic information in transaction and ad-hoc reporting;
- ◆ Increased electronic workflow for approvals; and
- ◆ Minimized paper flow between process points.

Recommended Solution

Recommendation 7.3: The State should revise its procurement thresholds to expedite the approval process and reduce unnecessary paperwork and review.

The State should consider the following changes to further improve the contracting process:

- ◆ Remove the dollar reference of \$2,500 from Section 24-30-202 (20.1), C.R.S. and replace this

with revised language that would stipulate that the dollar threshold be set by Fiscal Rule;

- ◆ Explore elimination of the legal review by the SCO of contracts under \$25,000, weighing risk against benefit, after a comprehensive and ongoing training program is in place;
- ◆ Encourage the increased development of waived contracts by departments;
- ◆ Develop a process to allow electronic routing and approval (digital signatures) of all contracts;
- ◆ Encourage the use of purchase orders in lieu of contracts for procurements under \$25,000; and
- ◆ Raise the encumbrance and central contract approval threshold.

The State should also consider the following to develop an enhanced training program for contracts:

- ◆ Consider the need for more funding of outside training programs for procurement professionals and persons actively involved in contract management and development;
- ◆ Add functional area experts from the SCO, State Purchasing Office, Attorney General's Office, and other agencies / institutions having particular expertise in relevant procurement / contracting topics, to improve Department of Personnel / General Support Services (GSS) contracting training programs;
- ◆ Tailor training to be commodity and services specific;
- ◆ Consider a statewide planning initiative to integrate accreditation programs into state procurement; and
- ◆ Consider issuing an Executive Order, making the procurement card the preferred method within the State for small purchase payments.

In addition, the Department of Personnel / GSS – Division of Finance and Procurement should:

- ◆ Commit additional resources for implementation, training, and administration of the Procurement Card program;
- ◆ Establish a goal to convert most state agencies to use procurement cards by January 2001; and
- ◆ Actively promote the advantages of the procurement card program to those agencies that have not implemented the program.

It is recommended that the State Controller, in cooperation with the Governor's Office and the

Attorney General's Office, champion this project and assume responsibility for its implementation.

Justification

Managing the State's purchasing transactions is a labor-intensive, and therefore a costly effort. Purchase order thresholds and contract reviews are important internal controls to ensure accountability for state funds, but they need to be evaluated and revised periodically to balance their costs against the risks they contain. This recommendation addresses one of the Governor's transformation goals.

Efficiency and Effectiveness

If the State is able to reduce the number of purchase orders encumbering less than \$1,000 by 90 percent, and the number of purchase orders encumbering \$1,000 to \$3,000 by 50 percent, it would recognize a savings of approximately \$1.0 million.

Analysis by the NCC team determined that it costs the State \$900 to process each contract. Last year, the State processed 3,663 contracts. By implementing the above recommendations, the State may be able to achieve savings approaching \$1.4 million. These savings do not account for any costs associated with an increase in risk.

Analysis by NCC determined that it costs the State \$71 to process each purchase order, \$25 to process each payment voucher (PV), and \$16 to process each procurement card transaction. Last year, the State processed 883,143 PVs under \$1,000 and 89,443 PVs between \$1,000 and \$3,000. By implementing the above recommendations, the State may be able to achieve savings that approach \$2.8 million. These figures do not account for any purchase order savings.

