

**THE GOVERNOR'S COMMISSION ON EFFICIENCY AND EFFECTIVENESS**  
**Final Report**  
**DECEMBER 12, 2002**

**INTRODUCTION**

Governor Mark R. Warner established the Governor's Commission on Efficiency and Effectiveness when he signed Executive Order Number 5. He asked former Governor L. Douglas Wilder to chair the Commission and Nigel Morris, President and COO of Capital One Financial Corporation, to be vice-chair.

In the Executive Order and in his charge to the Commission at its initial meeting, Governor Warner asked the Commission to develop recommendations that would enable the Commonwealth to serve its citizens more effectively and to manage its resources more efficiently.

Specifically, the Governor noted that the purpose of the Commission shall be to:

1. Identify redundant and ineffective services
2. Streamline and consolidate state agencies and programs
3. Better use technology to improve service delivery and reduce costs
4. Employ 21st century management tools, such as Six Sigma, to make state services more efficient.

As the Commission proceeded, the continuing budgetary challenges of the Commonwealth lent even greater urgency to its work, especially the mandates to streamline state government, to find ways of making it run more cost-effectively and to identify permanent sustainable savings in the operation of Virginia government.

The Commission has taken both its original charge and the obligations that recent circumstances have imposed very seriously. It has organized its major recommendations in three areas:

- **Proposals to streamline/consolidate/outsource and eliminate approximately 15% of existing state agencies and departments. (We estimate that the dollar amount that could accrue from these streamlinings, outsourcings and eliminations, including the privatization of ABC, could total more than \$500 million.)**
- **Specific identification of real and substantial savings totaling approximately \$750 million annually that can be achieved by changing the way the Commonwealth performs some of its business operations. These savings can be realized without any reduction in current services. The Commission believes that achieving \$750 million in permanent annual savings over a 2-4 year period is a realistic and feasible goal.**
- **Proposals for continuous improvement to ensure that the Commonwealth develops a clear vision, establishes and measures long-term objectives, and maintains a competitive advantage versus other states.**

The Commission understands that Virginia is a well-managed state and, in most areas, compares well to other states across the country. Virginia justly deserves the reputation it earned in the early and mid 1990's for sound financial management and governmental excellence. But in a rapidly changing world, Virginia's future cannot be secured merely by pointing to its previous success.

Virginia's reputation for sound financial management and governmental excellence was a hard won achievement, garnered because its leadership was willing to confront head-on the challenges it faced and to make tough decisions. Virginia will retain this reputation only if its leadership continues to exhibit these attributes.

## **STREAMLINING**

From the inception of the Commission, former Governor Wilder emphasized the critical importance of the Governor Warner's charge to streamline state government. Governor Wilder noted that the Commission's willingness to make tough decisions about governmental streamlining was crucial, both to its task of bringing real reform to Virginia state government and to demonstrating its seriousness to the citizens of the Commonwealth. Governor Wilder appointed a Streamlining Subcommittee to examine the current organization of Virginia state government and to make recommendations for reforming it.

The Commission's examination of the manner in which Virginia state government is presently organized reached a number of conclusion that reinforce the case for agency streamlining.

- **Virginia state government is not presently organized, even at the highest levels, to operate the basic business functions of state government in the most efficient and effective manner.**
- **Agencies have often been established and maintained as a means of responding to a specific issue or to the expressed needs of a particular**

**constituency. We believe that there are more efficient and effective ways of utilizing taxpayer dollars.**

- **It has been much easier to create and expand government units than it has been to reduce and eliminate programs and departments. We believe that there ought to be a continuous review of agency performance with consequences for not meeting expectations.**
- **There is considerable duplication of effort in activities undertaken by separate departments, agencies and programs.**
- **There are functions now being provided by state government that could be furnished equally well outside of government or by combining existing activities within government in a streamlined form.**

The Commission recommends that the following steps be taken to streamline and consolidate Virginia state government.

- **Merge the Virginia Museum of Natural History into the Science Museum of Virginia**
- **Merge the Chesapeake Bay Local Assistance Department into the Department of Conservation and Recreation and maintain as a separate division within the department.**
- **Merge the Commission on Local Government into the Department of Housing and Community Development (maintaining the annexation functions and the collegial body within DHCD)**

- **Merge the State Milk Commission with the Department of Agriculture and Consumer Services (with input from the Milk Commission’s regulants about the best means of accomplishing this task.)**
- **Consolidate the Charitable Gaming Commission, Racing Commission and Lottery into a single department under the Lottery after a determination by the Governor of the most appropriate methods and timing for the consolidation..**
- **Merge the Council on Human Rights with the Office of the Attorney General. (Ensure the maintenance of all functions and the continuation of public input into its operations.)**
- **Integrate Richard Bland College into the Community College System.**
- **Eliminate the Center for Innovative Technology in its existing form and reconstitute it as part of a statewide initiative to enhance Virginia’s research and development infrastructure.**
- **The Governor should acquire sound business assessments of the real value of a privatized ABC retail operation and develop an RFP process to realize this value and authorize legislation for the 2003 General Assembly session.**  
**Privatization should be structured so as to provide at least as equal a revenue stream to the localities and to the state activities that are presently supported by ABC earned income.**
- **Merge Chippokes Plantation into the Department of Conservation and Recreation**
- **Move the office of Consumer Services from the Department of Agriculture**

- **Eliminate all general fund support for the Commonwealth Competition Council**
- **Merge the Department for the Blind and Vision Impaired, the Department for the Deaf and Hard of Hearing and the Department of Rehabilitative Services in a manner that will result in an enhancement and not a diminution of services. The Commission believes a consolidation plan that can result in the provision of more effective services needs to have genuine input and participation from the stakeholder groups.**
- **Develop a common chart of accounts that can identify with precision the total amount of dollars spent on consultants, utilize a return on investment criteria for consultant engagements and implement periodic external reviews of consultant utilization and renewal procedures.**
- **Eliminate the Commonwealth's function as a power plant operator by developing an energy management process that will enable the private sector to take over the management, upkeep and upgrade of power plants.**
- **The Governor should develop a plan for reforming the administration and funding of local constitutional officers. This plan should examine: a) ways of eliminating duplication of efforts between constitutional officers and local officials; b) the possible regional provision of services currently provided by constitutional officers; c) the possible use of constitutional officers in collecting state receivables to offset potential reductions in general fund support; and d) possible streamlinings and consolidations that could be achieved in the agencies- The Compensation Board and the Commonwealth**

**Attorneys Services Council- that currently administer and support constitutional officers.**

### **Savings in Government Operations**

The Commonwealth of Virginia is a large enterprise. If the states were included with businesses in the S&P 500, a 1996 Duke University study noted that Virginia would rank 50<sup>th</sup> on the list. For this reason, it is imperative for Virginia to examine how well its business practices compare to those of other large enterprises, not only in the public sector but in the private sector as well.

The Commission spent considerable time evaluating Virginia's business practices- in financial management, procurement, information technology, human resources, receivables, real estate management, and inventory control. Virginia is deservedly proud of the recognition and rewards it has received for excellence in financial management.

But the Commission discovered that there is substantial room for improvement in almost all the basic business practices in which the Commonwealth is engaged. Virginia does not do an especially good job of obtaining available procurement savings. State government does not purchase and utilize information technology in the most cost-effective manner. It does not manage its extensive real estate holdings in a manner befitting the size of the portfolio. Its receivables practices could be far more effective in collecting dollars that the state is legitimately owed. And its human resource policies need major revision.

The Commission discovered similar problems with almost every major business practice.

- **Information necessary for developing an enterprise-wide approach to the basic business practices of the Commonwealth is often not collected or not accessible to the agencies that could effectively utilize it.**
- **There is limited systematic analysis about how the Commonwealth can save taxpayer dollars by reforming the way it purchases goods, organizes its information system, collects receivables, and manages its real estate holdings.**
- **Best practices utilized by the private sector to reduce their costs have only been partially and incompletely incorporated into Virginia state government.**
- **Responsibility for the basic business practices of state government is either ill defined or so widely diffused across agencies that it has become virtually impossible to leverage the size of the Commonwealth's activities and maximize savings opportunities.**

The savings that could accrue to the Commonwealth from changing the way it does business are extraordinarily large, ultimately reaching \$750 million annually. It is important to note that the savings that the Commission has identified in reforming the business practices of the Commonwealth will not require any reduction in the services that are provided to the citizens of Virginia. It requires the will, the management skill and the tenacity to change the way business is currently done.

The \$750 million dollar figure was reached by adding the realistic savings that could be achieved from modifying the following business practices.

**Procurement: (\$500 Million)**



Achieving substantial procurement savings will require the development of better analytical tools, better procurement planning and better collaboration across state government. With the exception of a recommendation to continue reverse auctioning, we do not envision the need for much legislative change. Reforms such as the Public-Private Education Act and the Public-Private Infrastructure Act have provided needed flexibility.

***Major Recommendations:***

- **Develop enterprise wide approaches to purchasing and gathering information about agency spending patterns, promoting collaboration between departments and agencies.**
- **Reengineer the capital outlay process to eliminate the gap between contract cost and actual final cost on transportation and construction projects.**
- **Premise the procurement of prescription drugs on a preferred drug plan with a three tier system.**
- **Authorize legislation to enable the use of reverse auctioning as a permanent procurement tool.**
- **Remove Virginia Correctional Enterprises as a mandatory supplier for universities**
- **Develop an effective Minority Supplier Program that provides better information about minority supplier availability, centralizes information about opportunities for minority suppliers and holds agencies accountable for better performance. (See Appendix One- Procurement Report)**

***Background Information:***

At every point on the procurement continuum- from upfront analysis of savings opportunities to the evaluation of how well a contractor has performed- the Commission identified key elements that were either not working optimally or simply broken. This was evident in both the purchase of goods and supplies and in the procurement of large capital outlay projects.

- **At the most rudimentary level, the Commission discovered that the Commonwealth had never systematically collected the kind of information that would be necessary to organize procurement to make the best use of taxpayer dollars.**
- **The lack of a good information base is compounded by inadequate upfront planning on large projects. This is especially true in capital outlay construction projects and in the development of information technology systems.**
- **There are also serious deficiencies in contract negotiation and contract management. Vendors themselves told the Commission that the Commonwealth often does not obtain the best discounts.**
- **Finally, there is also considerable evidence to suggest that Virginia has not achieved adequate supplier diversity. Virginia state government's performance does not match that of either effective private sector companies or a number of other states.**

In the last decade many private sector companies have made procurement reform a major feature of both the reengineering process and productivity improvement. The reason that procurement reform in the private sector has become so widely discussed is

simple. Corporations that have seriously addressed procurement matters have been able to achieve savings and productivity improvement that make notable additions to the bottom line. Expectations of real savings in the range of 10%-20% on the total spend over a two-to-three year period are common in the corporate world today.

The Commission believes that the low-end figure of 10% is a realistic figure for Virginia state government. Virginia should save \$500 million annually on a total spend of \$5 billion. These annual savings of \$500 million should be fully realized in a 2-4 years.

**Information Technology: (\$100 million)**

Information technology savings can be achieved, in part, by better procurement of information technology, by eliminating the purchase of duplicative administrative information systems, by utilizing technology to perform work tasks more efficiently, and by providing better customer service through technology.

*Major Recommendations:*

- **Negotiate statewide contracts for information technology purchases that leverage purchase volume into substantial discounts.**
- **Consolidate administrative information systems projects across agencies.**  
**(See Appendix Two: KPMG Consulting Report)**
- **Combine data centers to increase effectiveness and cost savings**
- **Use technology to consolidate business processes such as payroll processing and accounts receivable.**

- **Use web-based technology to organize customer service activities such as licensing and permitting more efficiently and effectively in a one-stop shop. (See Appendix Three- Commission Work Team IT Recommendations)**

Background:

There are four specific areas related to the organization and use of information technology that were the focus of the Commission's work:

- **The procurement of information technology hardware, software and services**
- **The duplication of expensive administrative information systems across agencies departments and agencies**
- **The extent of human resources that are assigned to tasks that can be done with more efficiency by utilizing technology**
- **The capacity of the Commonwealth to provide better customer service by deploying information technology more effectively.**

The information technology area presently suffers from many of the same deficiencies that are evident with the general procurement practices noted above. Because of the fragmented nature of the state procurement system, the Commonwealth does not negotiate the best available discounts on information technology purchases.

Moreover, the lack of upfront planning, good project specification and sound management of IT projects has resulted in wasteful use of taxpayer dollars. Finally, the separate purchase of expensive administrative systems by agencies and departments in lieu of an enterprise-wide collaborative approach has not been the highest and best use of IT resources. .

As a benchmark comparison, the KPMG Consulting study noted that both Pennsylvania and Florida are redesigning their administrative systems on an enterprise wide basis for less than half the amount that has been spent in Virginia (over \$560 million on independent systems since 1996).

For example, it is common practice for large businesses to decide upon a single ERP system (Enterprise Resource Planning) system for the enterprise. In Virginia at present, different agencies own every major ERP system on the market. And when different agencies purchase the same system, there is no evidence of volume discounts obtained through a collaborative purchase.

The current strategic plans of state agencies provide further evidence for the lack of integration in this regard. The written strategic plans for Virginia state agencies call for implementing 13 different financial management systems, 3 different payroll systems and 3 different human resource systems.

Based on estimates developed by the Secretary of Technology and a KPMG Consulting study, the Commission believes that annual savings of \$100 million dollars can be achieved in the information technology area within three years.

### **Real Estate Operations (60 million)**

Paying more focused attention to real estate leasing and related issues may save the Commonwealth \$60 million dollars. It is an area that has not received adequate attention.

Major Recommendations:

- **Develop a portfolio management system for handling real estate in the Commonwealth with clearly identified lines of responsibility.**

- **Reduce the vacancy rate in office space leased by the Commonwealth to less than 5%**
- **Strategically manage the lease expiration and renewal process, including the 212 leases that will expire in the next year.**
- **Explore beneficial sale-leaseback opportunities for the property that the Commonwealth presently owns. (See Appendix Four: Real Estate Opportunities)**
- **Maximize possible beneficial sales and public-private development of surplus property by developing better methods for designating property as “surplus” and by reexamining the opportunities for property that has already been designated as “surplus.”**

Background:

- **The Commonwealth currently manages an assemblage of real estate assets with a decentralized management approach.**
- **As a result, critical real estate data such as vacancy rates are maintained at the agency level or are not captured at all.**
- **Co-location possibilities for state offices are often not pursued because real estate decisions are often made on an agency-by-agency basis.**
- **The Commonwealth does not have a procedure for taking the best advantage of lease expirations, including the 212 leases that will expire in the next year.**
- **The state has not seriously examined the possibility of sale-leaseback opportunities for the property that it currently owns.**

The Commission estimates that the Commonwealth may achieve \$60 million in savings if it managed its real estate holdings as a portfolio, actively sought to reduce leased office spaces through co-location of agencies and reduced vacancy rates in the space that it currently leases. As a point of comparison, the federal government was able to achieve a 42% reduction in average vacancy rates over a four year period in the late 1990's when it moved to a portfolio management system.

### **Inventory Management** (*\$50 million*)

The Commonwealth could achieve a \$34 million one-time savings by reducing overall inventory to the level that existed two years ago. More sophisticated methods of inventory management could further enhance overall savings.

#### *Major Recommendations:*

- **Reduce inventory balances in VDOT, DOC and ABC by 20%**
- **Request that the Auditor of Public Accounts develop a standard mandating that all inventories in excess of \$10,000 be classified as inventory in the state accounting systems.**
- **Standardize inventory management practices across state agencies**
- **Centralize distribution systems**
- **Involve suppliers in inventory reduction efforts (See Appendix Five: Virginia State Inventory Findings)**

#### *Background:*

- **The existing inventory balances of \$172 million are more than 25% higher than they were only 2 years ago.**

- **Inventory management in the Commonwealth is decentralized across the state. Inventory management practices are not standard across agencies and metrics are not universally in place.**
- **Accounting policies do not require inventory of less than \$1 million per agency to be captured in the accounting system as inventory.**

A 20% reduction in inventory balances in just three agencies- VDOT, DOC, ABC- would provide a \$34 million one time savings opportunity for the Commonwealth. Over time, there is considerable opportunity for more significant inventory reduction by developing better statewide systems of inventory management, centralizing distribution systems across agencies and involving suppliers in inventory reduction opportunities.

#### **Receivables (\$30-45 million)**

The Commonwealth could significantly enhance its process of collecting the money it is legitimately owed. **The Commonwealth currently has \$5.6 billion of receivables that are either past due or considered “uncollectible.”**

#### *Major Recommendations:*

- **Collection management should be standardized across agencies**
- **The current time period for declaring accounts delinquent should be shortened**
- **The Commonwealth should develop better collections agency strategies through the utilization of multiple agencies, through differentiating commission based on values and by providing settlement guidelines to agencies.**



- **Legislation should be submitted to the 2003 General Assembly enabling the Commonwealth to use “debt sales” to raise dollars from its “uncollectible” and “unworked” receivables. (See Appendix Six: Receivables Opportunities)**

*Background:*

The Commonwealth of Virginia has \$2.5 billion of receivables, of which \$1.6 billion are past due and \$1.2 billion are more than 90 days past due. Additionally, \$3.1 billion of receivables are deemed un-collectible.

The Commission’s examination of the Commonwealth’s receivables process noted that there are significant opportunities for enhancement. The current time period for declaring an account delinquent should be shortened. Processes for selecting and using external collections agencies are not consistent with best practices evident in the private sector. And “un-collectible receivables” that are currently not being pursued.

The Commission estimates that there is a \$30-\$45 million opportunity for the Commonwealth if it optimized receivables collections if it took steps to improve collections agency strategies and took action with unpursued “un-collectible receivables.”

**Human Resources (\$11 million)**

The Commission believes that there are two areas in the administration of human resources-payroll processing and training- where substantial savings can be realized.

*Major Recommendations:*

- **Individual agency payroll systems should be folded into service bureaus.**
- **The feasibility of a payroll system serving all Virginia colleges and universities should be explored.**

- **The Commonwealth should minimize the use of “training incidentals” (travels, meals, lodging) by promoting the use of e-training and videoconferencing.**
- **The Commonwealth should develop a comprehensive approach to training that defines appropriate roles/responsibilities for the Department of Human Resource Management Services, individual state agencies, higher education, private providers and the V-SHARE workforce development consortium.**  
**(See Appendix Seven: Human Resource Opportunities)**

*Background Information:*

The state payroll function is currently performed in a variety of ways. Some agencies perform it in-house while others use centralized service bureau processing. A study developed for the Commission noted that the existing service bureaus are 50% more efficient in payroll processing than the existing in-house processes. Increasing the use of service bureaus can save \$2 million annually and optimizing the performance of service bureaus could save an additional \$3 million dollars for a total save of \$5 million per year.

The Commonwealth currently spends **\$66 million per year** on training. **The largest percentage (36%) of the training budget is spent on “training incidentals”- travel, lodging food, etc.** The Commonwealth could conservatively save \$6 million dollars annually without any reduction in training opportunities by changing its mode of delivering instruction where appropriate. The Commonwealth should minimize the use of training incidentals by maximizing its use of e-training.

## **CONTINUOUS IMPROVEMENT**

The previous sections of our report have described the steps that Virginia needs to take to streamline its bureaucracy and operate with the level of efficiency that its citizens deserve. However, if we as a state are to avoid the continual recurrence of such challenges and maintain our reputation for fiscal responsibility and management strength, Virginia's leadership must establish an enduring process of continuous improvement in the management of state government.

Essential components of this process should include:

- Reforms that will enable the government to operate against long-term goals and long-term objectives.
- Managing performance and ensuring accountability in a systematic manner over the short and long term.
- Developing practices to optimize the contribution of Virginia's workforce
- Developing ways of ensuring the most efficient and effective use of the state budget dollars that are presently distributed to localities and to promote regional cooperation.

### **Reforms to Enhance Governmental Planning/Efficiency**

The Commission recommends three reforms to enhance the capacity of Virginia government to promote the long-term interests of the citizens and the Commonwealth.

#### *Change the Budget Cycle*

At present, a new Governor must submit budget amendments to the biennium budget proposed by his predecessor within a few days of assuming office. This is an extraordinarily difficult task for an incoming Governor. In addition, it leaves Virginia's

Governor without the capacity to craft his own budget in its entirety until his third year in office. The Commission recommends a change in the budget cycle so that an incoming Governor would offer modifications to the second year of a biennial budget upon taking office. The incoming Governor would then craft his own biennial budget in the second year of his term. We recommend legislation to change the budget cycle beginning with the Governor elected in 2005.

#### *The Right of the People to Re-Elect the Governor*

At present, Virginia is the only state in which the people do not have the right to reelect their Governor to consecutive terms. In addition, the Governor is the only state elected office-holder in Virginia who can not be reelected. A good case can be made that long-term planning and accountability would be enhanced by granting this right to the public. The Commission recommends giving the public the right to decide whether it wishes to have the power to reelect a Governor for consecutive terms.

#### *Enhancing Government Operations*

If Virginia is to implement and achieve the savings identified in this report, it needs to ensure that state government is organized to work proactively and collaboratively. At present, primary responsibility for a number of key business practices is not clearly assigned. In addition, Virginia could do a better job of analyzing savings opportunities at the front end of its governmental processes. The Commission recommends that the Governor develop a plan to reorganize Cabinet functions in a manner that assigns clearer responsibility and authority on matters that are currently the responsibility of multiple officials.

## **Promote Governmental Excellence and Accountability**

We believe that the Commonwealth should develop a vision for its future, long-term objectives for services and opportunities it provides to the citizens, and a system of state government accountability that can measure and assess:

- Current service performance
- Productivity improvement
- Progress against long-term objectives.

We recommend the adoption of a Roadmap for Virginia's future that includes the development of guiding principles, a long-term vision and a system of accountability emphasizing performance management that will allow citizens to be informed and engaged and will provide information to elected officials as they determine and fund services. An ongoing, bi-partisan Council on Virginia's Future should be established to monitor and report on its implementation. (See Appendix Eight: Continuous Improvement Opportunities)

## **Optimize Virginia's Workforce**

A study conducted for the Commission noted that the Commonwealth's compensation philosophy employs a number of features consistent with those utilized by

best-in-class organizations. But the study also noted that the compensation practices of the Commonwealth are not consistent with its stated objectives.

Direct compensation lags behind its peers and the Commonwealth has never seriously funded or implemented its performance based compensation system. At the same time, benefits such as paid time off are far more generous than in most private sector organizations, The practical result is an incentive package and a culture that are neither adequate for employees nor for the Commonwealth's need to have the highest possible performing workforce.

Compensation practices should be reformed to place greater emphasis on real merit pay and direct compensation and to reduce the amount of paid time-off. (See Appendix Seven: Human Resource Opportunities) In addition, the Commission recommends that state government revisit the actuarial assumptions of the retirement system and consider whether it would be appropriate to have a partial or whole conversion to a defined contribution or hybrid plan.

### **Promote Regionalism**

Many of the principles and actions being recommended for the improved efficient and effective delivery of state services should be equally applicable to localities. Virginia's structure of local government and method of state funding for localities fails to incentivize cooperation, efficiency, and effectiveness and places many localities at a competitive disadvantage. Since the Hahn Commission Report in 1967, there have been 13 additional commissions that have made reports. Yet the challenge of promoting vibrant, competitive regions while retaining existing local identity and boundaries still

remains. (See Appendix Nine: Commissions that have Addressed regional Matters since 1967)

Examining the manner in which state funding can be utilized effectively and efficiently at the local and regional levels is a logical complement to the work of this Commission. We recommend that the Governor develop a process to do so, but one that is explicitly designed to overcome the lack of action that has too often has been the real outcome of previous reports.

## **CONCLUSION**

In challenging economic times, most state governments will simply hunker down and make the kind of adjustments that will enable them to get through the immediate budget cycle. This Commission has articulated a far more ambitious response for the Commonwealth, one that calls for responding to the current challenges proactively and creatively by streamlining government, changing the ways it conducts its business and developing a real capacity for establishing and meeting long-term goals.

We do not suggest that implementation will be easy. But we believe that our ideas will position the Commonwealth to maintain its commitment to governmental excellence and to retain a competitive edge in comparison to other states. The citizens of Virginia deserve nothing less.

