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### Key Findings:

- Many local governments lack administrative resources needed to effectively pursue all management and revenue-generating opportunities available to them.
- All local governments also participate in financial and human resource management functions such as payroll, accounts payable processing, and employee benefit management.
- These functions often create substantial costs for local jurisdictions that may go unrecognized and unmanaged.
- There are also substantial opportunity costs associated with approaching these functions on a fragmented or dispersed basis regionally.
- Opportunities to manage and reduce these costs exist, particularly through sharing these functions or developing and utilizing an automated system for this purpose.
- In light of the research, the CEC recommends that local governments cooperatively review opportunities for collaborative administrative functions, improved financial management, and automated and shared payroll and accounts payable systems.

**The Citizens' Efficiency Commission**  
Room 212  
200 South 9<sup>th</sup> Street  
Springfield, Illinois 62701  
Phone: 217.535.3110  
Fax: 217.535.3111  
[CitizensEfficiency@gmail.com](mailto:CitizensEfficiency@gmail.com)  
<http://www.sscrpc.com>

## **Citizens' Efficiency Commission Recommendation: Shared Administrative Functions and Automated Human Resource and Financial Management**

### **Introduction**

This report represents a formal recommendation by the Citizens' Efficiency Commission (CEC). Members of the CEC and its research staff have validated information contained in this report. The Commission expresses its hope that relevant local leaders will review the recommendation and take strides toward its implementation.

**In light of the research, the CEC recommends that local governments cooperatively review opportunities for collaborative administrative functions, improved financial management, and automated and shared payroll and accounts payable systems.**

The Commission is prepared to provide assistance to the greatest extent possible for the review and implementation of this recommendation. Although the CEC realizes that local governments may need additional information related to cost efficiency to make fully informed decisions on shared administration issues, it notes that the administrative functions that go unnoticed in local governments often lead to substantial costs without receiving significant review for possibilities for system improvements or collaboration. The CEC therefore suggests that this recommendation should be utilized as a platform for future consideration of collaborative opportunities related to these administrative functions.

### **Background Information**

Early in its establishing process, the CEC reviewed functions of government that are shared across numerous jurisdictions in order to develop a working understanding of potential opportunities for efficiency.<sup>1</sup> In this review and in much of its subsequent work, the CEC found that administrative and personnel management functions, or "back office" tasks of local governments, often go unnoticed. However, all local governments perform these functions, and often they are not managed intentionally in order to reduce costs and cultivate efficiency. Support functions for local governments, like human resource and financial management, can provide substantial savings opportunities in terms of both software and personnel costs. As a starting point for the current analysis, the CEC has examined a number of administrative functions at previous times during its tenure, including government employee

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<sup>1</sup> Springfield-Sangamon County Regional Planning Commission (October 26, 2011). "General Local Government Functions: A Preliminary Review," Information Brief for the Citizens' Efficiency Commission, Available at: [http://www.co.sangamon.il.us/Departments/RegionalPlanning/documents/CEC/Government%20Functions%20Brief\\_doc.pdf](http://www.co.sangamon.il.us/Departments/RegionalPlanning/documents/CEC/Government%20Functions%20Brief_doc.pdf).



healthcare costs and local official training.<sup>2</sup> Although these prior research efforts did not lead the CEC to develop full formal recommendations, the Commission's support for these efforts led the Administrative, Management, and Budget Committee of the CEC to continue its review of such functions.

Simultaneously, reviewing a number of sources of grant funding and efficiency opportunities available to local governments, the Public Works Committee of the CEC found that one of the biggest barriers to pursuing these opportunities is a lack of administrative capacity on the part of certain local governments. Local governments often do not have the staff resources available to manage as effectively as they otherwise might. Others may have staff capacity but choose not to pursue efficiency and effectiveness opportunities that are available in their administrative functions due to other priorities. This discovery led the CEC to voice support for the following finding from its Public Works Committee:

*Throughout its work, the CEC has recognized that many local government budgets at all levels are strained. Dwindling resources available to local governments threatens both jobs and services for citizens. In this context, it is vital that, to the greatest extent possible, local governments take advantage of appropriate, non-traditional revenue streams from both public and private sources. Identifying potential funding sources of this type is a separate function from that of making successful application for funding. Though this function may be successfully accomplished on a limited basis within individual agencies or governments, it may be better accomplished within an office created cooperatively by the several local governments within the county. The Committee therefore requests the full support of the CEC to assess the potential benefit in local governments to work together to engage the services of a shared administrator and/or staff to identify potential external funding sources thus ensuring that all reasonable efforts to acquire these revenues are pursued.*

While this finding focused primarily on revenue-generating administrative activities, many administrative and support functions provide substantial opportunities for greater management and sharing. The CEC provides an overview of many such functions below and explore some of the costs and benefits that could be associated with shared administration of these functions. The thematic nature of administrative capacity needs across the CEC's work highlights the importance of a review related to shared administrative and "back office" functions that extends into many avenues of local governments' functions.

## **Efficiency Research Questions**

As it pursued its research on this matter, the CEC asked questions such as:

- What administrative functions provide opportunities for individual or shared efficiency? What are alternative models for shared regional administrative support?
- Are reasonable opportunities for local improvement and funding acquisition being passed over due to lack of administrative support?

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<sup>2</sup> Citizens' Efficiency Commission (January 30, 2013). "Governmental Employee Health Insurance Best Practices."; Citizens' Efficiency Commission, Public Works Committee Minutes of Meeting (March 11, 2013 and April 8, 2013).



- What tools are available to local governments for use in reducing their administrative costs? How might local governments reduce expenditures through more intentional management of administrative functions?
- Are there opportunities to leverage these tools collaboratively in order to reduce regional costs and create greater effectiveness?
- What are obstacles that would prevent these tools from being fully utilized?

## Overview of Existing Services

### *Basic Information*

Under the current arrangement, the various local government jurisdictions in Sangamon County handle their administrative functions in a disaggregated and dispersed fashion. This functionality reflects the decentralized nature of decision-making in this area. There are many units of local government, ranging from small townships up to larger users like the Springfield Mass Transit District, City of Springfield, and Sangamon County. Each of these units performs accounting, auditing, accounts payable, payroll, and human resource management functions differently. There are typically a number of personnel responsible for these functions in larger units of government, whereas smaller municipal examples the CEC encountered tend to have one to two part- or full-time administrative support personnel conducting all of these functions.

Software is also typically an important component of conversations on administrative functions. This is particularly the case because of the integrated nature of financial accounting systems that effect administrative management. Software is primarily in use for payroll and accounting functions. To the best of the CEC's awareness, the software systems in use vary in smaller units of government in the county, such as municipalities. Jurisdictions may have software systems such as Quickbooks, Locus, Kronos, or other customizable vendor packages for payroll provision.<sup>3</sup> Some small jurisdictions may manually perform calculations as well. Generally speaking, smaller jurisdictions, most of which have few employees, do not have a fulltime staff member for handling human resource management and financial administration. Some local jurisdictions provide weekly payroll payments, while others utilize a more efficient method of bi-weekly payroll services.<sup>4</sup> In terms of larger users, Sangamon County currently uses an integrated system from New World Software for payroll, accounting, financial management, and criminal justice records. The City of Springfield utilizes an in-house Enterprise Resource Planning system (ERP) to perform these functions.<sup>5</sup>

Many local government administrative personnel lack capacity or direction from their executives to pursue administrative savings through proactive financial management tools. The CEC heard from a number of local jurisdictions that these issues were matters of concern, and that an effort to provide shared regional administrative support could be of benefit.<sup>6</sup> Whether it is due to lack of time, alternative priorities, or a limited understanding of the benefits that can be accrued by both employers and employees through intentional financial management, workforce administration, and other administrative functions, many local governments voiced a need for greater resources in this area. Since some local

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<sup>3</sup> Personal communication from John Swinford, Village of Sherman Manager (April 17, 2013), and Angie Bristow, Village of Divernon Financial Management Contractor (June 20, 2013).

<sup>4</sup> Personal communication from Bill McCarty, Budget Director, City of Springfield (October 24, 2013).

<sup>5</sup> Personal communication from Bill McCarty, Budget Director, City of Springfield (October 24, 2013).

<sup>6</sup> Personal communication from Eric Smith, Sherman Chief of Police (November 1, 2013).; CEC Interview with Amy Ihnen, Director, Chatham Public Library (February 14, 2013); CEC & Regional Mayors' Meeting, Public comments by Tom Paige, President, Village of Buffalo (August 7, 2013).



governments are able to or choose to dedicate only very limited time and resources to improving their administrative functions, little performance management in these areas is likely to occur under the current system. This can cause local governments to incur opportunity costs in a number of ways.

For example, some units of local government suggest that locating and applying for grant funding is an area in which they lack the administrative capacity they would like to have.<sup>7</sup> With greater administrative support, local governments in the region may be better equipped to explore opportunities to generate non-traditional revenues from both public and private sources.

Additionally, transition planning is often a low-level priority or does not occur at all with changing elected officials, local leaders, and new employees.<sup>8</sup> Local governments therefore may lack critical information and resources necessary to effectively make decisions for their jurisdictions. Shared administration and improved “back office” management could assist in eliminating the opportunity costs associated with these concerns, because administrative personnel would be more likely to be retained across administrations and build institutional knowledge needed for strong local government operations. Finally, more intentional efforts to share the burdens of administration regionally could lead to increased regional consistency in functions, allowing for opportunities for shared resources and information to be identified and pursued.

#### *Payroll and Accounts Payable Examples*

As an illustration of the benefits that could be gained from greater cooperation on these issues, the CEC endeavored to provide greater detail on two important core human resource and financial administration functions: payroll and accounts payable. It was of particular importance to the CEC to develop these two concrete examples because a general overview of administrative functions and opportunities for savings associated with them is by definition broad, and can therefore be difficult to explore in detail. The CEC selected payroll and accounts payable for its illustrative review because these functions of local government require considerable attention and generate significant costs in terms of time and personnel expenditures. These functions also rely heavily on supporting software and can lead to higher personnel and technology costs. Therefore, the CEC endeavored to explore alternatives through which local jurisdictions might reduce these costs or explore greater cooperation and effectiveness on similar core functions.

#### *Personnel Costs*

The most significant cost center associated with most human resource and administrative functions is that of personnel. Personnel costs include both direct and indirect labor costs. Direct costs are those associated specifically with managing payroll, workforce administration, time and attendance, and health and welfare administration, as well as other administrative functions. Time spent in processing payroll can be an assumed or

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<sup>7</sup> CEC Interview with Amy Ihnen, Director, Chatham Public Library (February 14, 2013); Citizens' Efficiency Commission (May 8, 2013). “Expand Local Government Cooperation with Institutions of Higher Education to Develop and Share Professional Resource Base.” Available at: <http://www.co.sangamon.il.us/Departments/RegionalPlanning/documents/CEC/High%20Education%20Recommendation.pdf>.

<sup>8</sup> Personal communication from Jeremy Nunes, President, Village of Dawson (August 20, 2013).



overlooked cost on the part of local governments, yet some estimates indicate that costs can be up to \$2,000 per employee per year for mid-size organizations.<sup>9</sup>

As noted by one local administrator, these costs are often difficult to quantify or recognize, because often these functions represent only a portion of an employee's full time equivalent costs (FTE).<sup>10</sup> In some local jurisdictions, time-keeping and approvals are still performed distinct from the payroll process, with paper timesheets and manual data entry undertaken each pay period. Research suggests that up to 14% savings can be accrued by integrating these functions through an automated system where time and attendance data are entered directly into an automated system for electronic supervisor approval before payroll is "batched" and distributed.<sup>11</sup>

On top of the time and opportunity cost of labor invested to manually enter data, process payroll regularly, update employee information, and perform other routine functions for payroll and account management, personnel costs are also increased by training needs. Administrative functions often require complex knowledge of both the systems in place for financial management and the local, state, and federal policies impacting human resources. Developing the local understanding of personnel policies, pension regulation updates, procurement mandates, and software platforms can be burdensome for local governments. For example, changing tax rate tables, worker's compensation restrictions, and unemployment reimbursement costs all represent areas in which local jurisdictions have to develop expertise.

This is especially the case in light of the fact that in smaller jurisdictions administrative functions typically are not the only matter capturing these employees' attention. Since these processes and requirements are not employees' primary focus on a year-round basis, training and re-training requirements can be particularly burdensome and lead to opportunity costs. Finally, maintaining personnel to engage in these functions will likely only increase in cost in future years, as pension and healthcare costs per employee rise.

### *Technological Costs*

The second major set of costs related to financial administration in local jurisdictions includes those associated with software and hardware costs. Technological costs can include system installation and upgrade costs, maintenance costs, and personnel costs for staff associated with maintenance and system upkeep, particularly for an in-house system. Technological programs utilized to manage local finances, including payroll and accounts payable functions, can be costly. Often, they require annual updates at an additional cost. Moreover, after these updates, retraining employees on new software is costly, time consuming, and allows for error and time loss. One local jurisdiction indicates that its software updates for this purpose annually are approximately \$1,000-1,200.<sup>12</sup>

Given the costs of technology for these purposes and the amount of understanding and integration required to have a fully functional relationship with a software provider for

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<sup>9</sup> PricewaterhouseCoopers, LLC (2011). "The hidden reality of payroll & HR administration costs." Available at: <https://www.adp.com/solutions/employer-services/time-and-attendance/~media/537AFF0800014C7389FBBB5874517FB6.ashx>.

<sup>10</sup> Personal communication from John Swinford, Village of Sherman Manager (April 17, 2013).

<sup>11</sup> PricewaterhouseCoopers, LLC (2011). "The hidden reality of payroll & HR administration costs." Available at: <https://www.adp.com/solutions/employer-services/time-and-attendance/~media/537AFF0800014C7389FBBB5874517FB6.ashx>.

<sup>12</sup> Personal communication from Trevor Claffelter, Mayor, Village of Sherman (October 29, 2013).



financial management, local jurisdictions are often not inclined to undertake transitions from one software system to another once they have an established relationship. Accordingly, little competition is introduced into software systems' pricing. Moreover, local jurisdictions tend to undertake minimal updates in technologies as a result of these challenges. Some local jurisdictions, for instance, continue to utilize an AS400 "green screen" system when a web-based technology would allow easier and more streamlined access, due to historical use patterns. This can also lead to increased hardware costs, as older technologies can require a hardware installation or unique module that is unnecessary for web-based systems.

Finally, since jurisdictions currently do not attempt to work together to minimize these costs, potential economies of scale associated with software costs are not being explored. Collaboration among jurisdictions in terms of procurement may lead to greater savings over time and merits exploration.<sup>13</sup>

### *Opportunity Costs*

As discussed above, the CEC emphasized payroll and accounts payable systems as illustrations of the specific benefits of shared administration. In addition to hard costs associated with these administrative functions, less intentional financial and workforce administration can lead to opportunity costs for local governments. The CEC identified opportunity costs particularly in the areas of payroll management/workforce administration and accounts payable.

The CEC learned, for instance, that some local jurisdictions are unaware of workforce administration steps that can be taken to reduce employer tax liability. By paying insurance costs pre-tax and by enrolling employees in Cafeteria Plans, or programs in which certain designated costs (unreimbursed medical expenses, dependent care, and parking) can be taken from employees' gross wages pre-tax, Sangamon County reduces its FICA/Medicare tax liability by \$350,000 annually.<sup>14</sup> Historically, over the past five years, this arrangement has saved the County \$1.4 million. Cafeteria Plans benefit both local governments and their employees, by providing employees opportunity to cover certain expenses and reduce the gross wage on which they pay federal and state income taxes as well, thereby reducing their tax liability.

Often, localities do not have enough employees with a workforce administration focus to invest the time and effort required to fully understand and implement such programs, and therefore bypass opportunities to cultivate such savings. Greater understanding and management of administrative functions would allow local governments to recapture funds lost to these opportunity costs while providing benefits to employees. Similarly, in addition to payroll-related workforce administration questions, many local governments do not have the capacity or expertise to effectively manage employee retirements.

Additionally, some payroll vendors offer software that provides greater opportunities for time and attendance management. With web-based systems, for example, employees in the field can clock in and out. Managers can review staffing levels in real time to inform scheduling decisions including adjustments to control overtime costs. Although these types of tools are not currently in common use by governmental units, there are beneficial

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<sup>13</sup> Citizens' Efficiency Commission (February 13, 2013). "Joint Procurement Efforts in Sangamon County Municipalities and Special Districts." Available at: <http://www.co.sangamon.il.us/Departments/RegionalPlanning/documents/CEC/Procurement%20Recommendation-%20Updated.pdf>.

<sup>14</sup> Personal communication from Angie Bristow, Sangamon County Payroll Administrator (January 16, 2013).



opportunities associated with an intentionally managed payroll administration process supplemented with automated tools.

Opportunity costs can occur in relation to the procurement and accounts payable portion of financial administration as well. With greater attention to vendor payment, early pay discounts can be captured, overbilling and duplicate billing can be avoided, and invoice management can be aligned across departments, functions, or billing cycles in order to cultivate economies of scale. One study notes that automated accounts payable functions improve visibility, cash flow, tracking and reporting capabilities, and financial controls.<sup>15</sup> Mechanisms the study cites that can be put in place to attain these benefits include electronic invoicing of vendors, electronic repositories and archives, and automated vendor payments through ACH systems. While these aspects of accounts payable management are considered industry standard best practices, many local governments do not engage in them due to lack of capacity or invoice volume. Local governments are also typically slower than private sector counterparts to utilize state-of-the-market tools.

## **Best Practices**

Systems automation and integration are often described as foundational best practices for administrative functions. In discussing these best practices, the CEC again relies heavily on the examples of payroll and accounts payable. However, it is important to note that these best practices are more broadly applicable to other administrative functions as well.

### *Electronic Environment*

Functioning workforce administration is most effective when integrated with automated timekeeping mechanisms. One resource indicates that vendors staying up to date on payroll regulations and integrating compliance into regular software updates is essential to a well-functioning system.<sup>16</sup> Web-based technologies also offer opportunities that non-web hardware systems do not, particularly in terms of timekeeping and data conveyance from off-site locations.

Similarly, the CEC learned that companies and jurisdictions often mistake a *scanned* processing environment for an *electronic* environment.<sup>17</sup> This is particularly relevant in terms of accounts payable vendor interactions. Typically, local governments issue hard copy invoices to vendors, or receive scanned invoices via email. This system can be the result of continued historical trends, or desire for hard invoices for officials to review and approve. However, this does not reduce the necessity for payments to be entered into an accounting system or produce opportunities for reducing steps or streamlining information transfer. Scanned documents, rather than electronically created invoices fields that capture data, also preclude some of the procurement tracking capabilities that a truly electronic system could cultivate. In capturing information related to overpayments, early payment discounts, and economies of scale, electronic systems provide opportunities that stagnant systems do not. The CEC finds that these types of procurement management efforts would be of benefit

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<sup>15</sup> Aberdeen Group (2010). "The E-Payables Solution Selection Report: A Buyer's Guide to Accounts Payable Optimization."

<sup>16</sup> Attendance on Demand (2011). "Payroll Best Practices." White paper available at: <http://www.advancedtime.com/images/downloads/PayrollBestPracticesAug2011.pdf>.

<sup>17</sup> Personal communication from Laura Kaye, Corporate Sales Manager, Procure to Pay (September 10, 2013).



for local systems.<sup>18</sup> Literature in the field also suggests that large percentages of vendors are willing to adapt to electronic invoicing when approached.<sup>19</sup> Other benefits of electronic systems include reduced error and labor costs, improved visibility, quick dispute resolutions, and eliminated need for invoice reprinting. Working in a fully electronic environment also allows local governments opportunity to better manage performance. Real-time financial reporting can be available, and payroll/overtime costs can be effectively tracked and managed. Moreover, this type of performance reporting or “dashboard” review may allow employees to become more engaged in their own time management and performance improvement.

### *Outsourcing Functions*

Beyond the time and cost savings associated with automated software and an electronic environment, vendors that manage payroll or procurement functions out-of-house also have ability to effectively reduce local government costs. Since local governments, especially those that are larger in size, typically require personnel to administer payroll systems, exploration of contracting out for these services could be of benefit for local jurisdictions.<sup>20</sup> By engaging in a flat contract with a vendor, local governments alleviate their personnel expenses for salaries and related benefits. Outsourcing these functions also allows for elimination of processing time, wage garnishment and other challenging responsibilities, and continuing costs for system upgrades and detailed retraining with changes in the regulatory environment.<sup>21</sup>

### **Local Example**

To assist in exploration of the benefits of automation on local government processes, the CEC worked with one vendor to more fully understand how a local user’s system could be changed or updated. The CEC used Sangamon County as a case study in this instance because of its size and willingness to explore automation options. Although the details provided in this example represent only one potential vendor’s solutions among an array of possibilities, the CEC used this process to better understand the realities of decision-making related to these functions.

### *Accounts Payable*

Sangamon County currently processes approximately 26,400 invoices per year. Its current accounting software vendor is New World Systems.<sup>22</sup> Under the current decentralized system, the purchasers, regardless of department, are responsible for coding, assigning an invoice number, and an account. These individuals are responsible for budgetary monitoring, and there is very limited collective strategy for supplier negotiation or management. Invoices, after being coded, are routed to accounts payable, entered into the accounting system, and processed into a requisition sheet for county board committee signoff. Packets with

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<sup>18</sup> Citizens' Efficiency Commission (February 13, 2013). “Joint Procurement Efforts in Sangamon County Municipalities and Special Districts.” Available at: <http://www.co.sangamon.il.us/Departments/RegionalPlanning/documents/CEC/Procurement%20Recommendation-%20Updated.pdf>.

<sup>19</sup> Automatic Data Processing, Inc. (n.d.). “ADP Procure-to-Pay and Supplier Enablement: Myth vs. Reality.”

<sup>20</sup> Personal communication from Bethany Benn, District Manager, ADP Major Accounts (May 8, 2013).

<sup>21</sup> Personal communication from Bethany Benn, District Manager, ADP Major Accounts (May 8, 2013).

<sup>22</sup> Analysis of current Sangamon County system developed in conversation with Mark Crawford, Deputy Sangamon County Treasurer; Charlie Stratton, Sangamon County Director of Human Resources; Paul Palazzolo, Sangamon County Auditor; and Laura Kaye Corporate Sales Manager, Procure to Pay.



sign-off sheets for committee-approved invoices are also reviewed by the Auditor's office before final approval, and then provided back to the purchasing departments and to the Treasurer's office to cut and distribute checks. A visual depiction of this process is included as Appendix A. The vendor with whom the CEC had discussions, ADP, offers an offsite invoice processing system, where many of the functions currently performed by Sangamon County employees are handled offsite through an invoice processing team. This would allow an outside party to negotiate with suppliers for electronic processing, and in situations without electronic processing, to open, enter, handle inquiries, and sort information pertaining to invoices. A visual depiction of this process as captured by the vendor is attached as Appendix B.

### *Payroll*

Similarly, in exploring payroll processes, the CEC found that most Sangamon County departments have some form of written timesheet, which is entered into the AS400 system by a payroll clerk, batched, and sent to the payroll administrator for processing.<sup>23</sup> The Public Health Department has individual employee entry into the timekeeping system with electronic supervisor approvals, but other departments primarily have a payroll clerk responsible for providing these functions as part of their position responsibilities.<sup>24</sup> A visual depiction of this system is available as Appendix C. In contrast, an outsourcing vendor offers the capability for employees to enter their time directly and receive supervisor approval via web-based software, followed by vendor processing of paychecks through ACH, wage garnishments, benefits, and other functions.<sup>25</sup> A visual depiction of potential system changes is in Appendix D.

### *Important Considerations*

For both of these processes, integration into the current accounting system, which is heavily intertwined with the property tax collection and payment system utilized by the county, is an essential component that complicates explorations of system changes or upgrades. Furthermore, a strong working relationship with open communication is essential to the implementation of any outside or automated vendor system. These functions are integral to employee well-being and organizational success, and should be carefully considered. Finally, the CEC notes that, although it shares this example because of the informative nature of the vendor exploration process it observed, it does not espouse any single solution, but offers this case as an illustrative example.

## **Obstacles to Adoption and Collaborative Potential**

As with many innovations and efficiency-generating opportunities, one of the chief obstacles faced by local governments is that of cost. Established systems are generally built into the budget, and there are substantial costs associated with transitions to new systems that are so thoroughly integrated with the day-to-day organizational functions of a local government.

Moreover, many officials may not recognize the costs that go into payroll processing, as numerous steps are taken in order to complete administrative processes. Steps that require

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<sup>23</sup> Personal communication from Angie Bristow, Sangamon County Payroll Administrator (June 21, 2013).

<sup>24</sup> Personal communication from Charlie Stratton, Sangamon County Director of Human Resources (May 8, 2013).

<sup>25</sup> Personal communication from Bethany Benn, District Manager, ADP Major Accounts (May 8, 2013).



minimal investment individually add up to substantial time and labor costs over the course of a year, which is why the CEC felt it important to recommend a thorough review of these systems. Additionally, when discussing these processes for smaller jurisdictions, many positions for personnel that deal with these functions also handle a variety of other tasks. These shared responsibilities make it difficult to quantify costs associated with personnel savings, as redirection of time and appropriate management are essential for cost savings to be associated with outsourcing if a full position is not saved.

Particularly for these smaller jurisdictions, it may be difficult to find a fully-automated and updated supplier arrangement with software or vendor services that are not cost prohibitive. Accordingly, the CEC also preliminarily explored options of multiple jurisdictions contracting together to provide these back-office functions. The CEC found that local jurisdictions currently have some software arrangements that allow them to process payroll for other jurisdictions. For example, Sangamon County processes payroll for the Emergency Telephone Systems Department and for Capital Township.<sup>26</sup> Although these two entities each have some statutory relationship with Sangamon County, there are other jurisdictions with similar relationships that currently manage payroll functions independently, such as the Springfield Metro Sanitary District and Springfield Mass Transit District.

Additionally, the CEC found from vendor discussion that even unrelated municipalities may be able to structure a contract such that one lead agency serves as a connecting point for others. This could lead to savings for all jurisdictions, since a typical break-even point for a payroll system as analyzed by one vendor was approximately 800 employees. Collaborating to explore such a system could therefore allow smaller jurisdictions to capture economies of scale. The CEC also confirmed that typically vendors can create multi-user systems with separate security levels and accounts, allowing for a complex system with numerous users that have various benefit and payment schedules. Since the CEC did not have an opportunity to assess interest in all prospective users, it was difficult to generate a pricing estimate related to these features. However, pricing for the single large user example of Sangamon County was approximately \$50,000 annually plus a smaller fixed one-time implementation fee for accounts payable outsourcing and software, with similar costs for a payroll component for the system. Depending upon the added complexity of multiple users, it is reasonable to assume that the small number of transactions that would be added by many jurisdictions in Sangamon County would only increase these costs marginally.

It is also important to note that systems of this variety may require time to fully generate the return on investment that local jurisdictions would require in order to make them feasible. Through attrition and on-going investment in supplier relationships, economies of scale, and improved “back office” management are likely results. Other drawbacks of some systems discussed above are the non-local component of payment management. By outsourcing to an out-of-state vendor, jobs lost through attrition would not be regained locally. Finally, some level of local system control is lost by engaging a vendor of this type, particularly in the event that a combined solution is proposed in order to share costs across jurisdictions and create economies of scale.

## **Alternatives**

Several options are available on a region-wide basis related to the existing dispatch network. These alternatives include:

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<sup>26</sup> Personal communication from Charlie Stratton, Director of Human Resources, Sangamon County (May 8, 2013).



**Alternative 1**—Maintain the status quo. This alternative, though functional, carries opportunity costs in terms of personnel, software, and intentional financial management savings. As discussed above, collaborative efforts, particularly those fostered by electronic software or system automation, may have opportunity to benefit local governments, and should at minimum be explored in order to fully consider this potential.

**Alternative 2**—Explore improved administrative management and financial administration automation on a jurisdiction-by-jurisdiction basis. This alternative is an improvement upon the status quo because it suggests that local governments consider the best practices described above and others identified upon further review, and attempt to increase understanding and implement procurement goals. However, as noted previously, jurisdictions may not have the capacity or directive to explore these best practices or the potential to benefit from the same economies of scale that larger jurisdictions possess. Furthermore, because local governments may not have the understanding or procedures in place to manage their financial administration processes toward these goals, investment of resources in training on an on-going basis by each jurisdiction would be required in order to prevent opportunity costs.

**Alternative 3**—Explore shared administration and financial administration cooperation possibilities within the existing technological frameworks of each jurisdiction. This alternative may increase opportunities to share knowledge and expertise related to core administrative functions. It would offer local governments some of the general benefits of shared administration described above, and assist them in eliminating some of the opportunity costs that result from their limited individual capacity. In terms of the specific examples of payroll and accounts payable best practices, current technological disparities and the lack of web-based software on the part of any jurisdictions involved would likely preclude serious opportunities to benefit from existing technological tools. However, shared administrative personnel that are part-time in multiple jurisdictions could provide consistent resources of expertise, thereby potentially eliminating some of the opportunity costs and training needs that are associated with the current disparate system of administration.

**Alternative 4**—Explore shared administration across the region alongside collaborative automation software purchases to facilitate collaborative financial administration. This alternative would allow local governments to benefit from greater administrative capacity. As indicated above, this alternative also has potential to remove barriers to updates and automation in “back office” and administrative functions by allowing smaller jurisdictions to benefit from technological economies of scale. Particularly with a web-based software system in place, a larger organization could process payroll on an in-house or outsourced basis for a smaller jurisdiction. This arrangement could potentially provide benefits to both organizations. Although such an arrangement is dependent upon the technological and licensing possibilities available, the CEC suggests that it merits further exploration in the areas of accounts payable, payroll, and potentially other systems as well.

## **Recommendations**

**In light of the research, the CEC recommends that local governments cooperatively review opportunities for collaborative administrative functions, improved financial management, and automated and shared payroll and accounts payable systems.**

The benefits of implementing the recommendation detailed above include:



- Greater control of data collection and monitoring in relation to negotiated and combined procurement, early pay discounts, and employee time use.
- Cost savings through reduced personnel needs or redirected staff time toward other critical functions.
- Scalability of automated systems, or flexibility for allowing expansion to include multiple jurisdictions, ultimately leading to economies of scale.

## Steps toward Implementation

In order to implement this recommendation, the CEC recommends that the following course of action would be beneficial:

- Discuss potential for regionally shared administrative staffing, potentially through the Regional Leadership Council. Pursue the creation of such a position via intergovernmental agreement as deemed beneficial and appropriate.
- Convene a working group of decision-makers and technological/administrative experts from large and small jurisdictions to fully discuss and document existing payroll and accounts payable systems, potentially facilitated through the Regional Leadership Council of chief executives.
- Establish interest levels on the part of all jurisdictions, particularly a larger or lead agency.
- Develop documented understanding of system needs, and reach out to multiple vendors for requests for system proposals.
- Review proposals for viability of solutions for local needs, and work toward adoption as deemed appropriate on an individual or collaborative basis.

The CEC offers its support for these implementation efforts. If the CEC can provide any further assistance in facilitating efforts toward cooperation, it would be pleased to do so.

Finally, as is frequently the case in its work, the CEC has identified a number of themes during its research process that should be highlighted for on-going review and improvement on a region-wide basis. In researching this recommendation, the CEC found yet again that local governments do not have the capacity to manage their performance as well as possible due to lack of available information and staff resources. The CEC noted a similar theme in its recommendation calling for area colleges and universities to engage local governments and assist in providing these resources as well.<sup>27</sup> By working collaboratively to confront this situation of scarce administrative resources, local governments in the region may be able to more proactively engage in resource generation, workforce management, and financial administration efforts that reduce costs, ultimately enabling the region to become more efficient and effective as a whole.

Respectfully submitted,

Hon. Karen Hasara, Chair  
on behalf of the  
Citizens' Efficiency Commission  
for Sangamon County

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<sup>27</sup> Citizens' Efficiency Commission (May 8, 2013). "Expand Local Government Cooperation with Institutions of Higher Education to Develop and Share Professional Resource Base." Available at: <http://www.co.sangamon.il.us/Departments/RegionalPlanning/documents/CEC/High%20Education%20Recommendation.pdf>.

Appendix A: Sangamon County AP Process with Current System- Visual

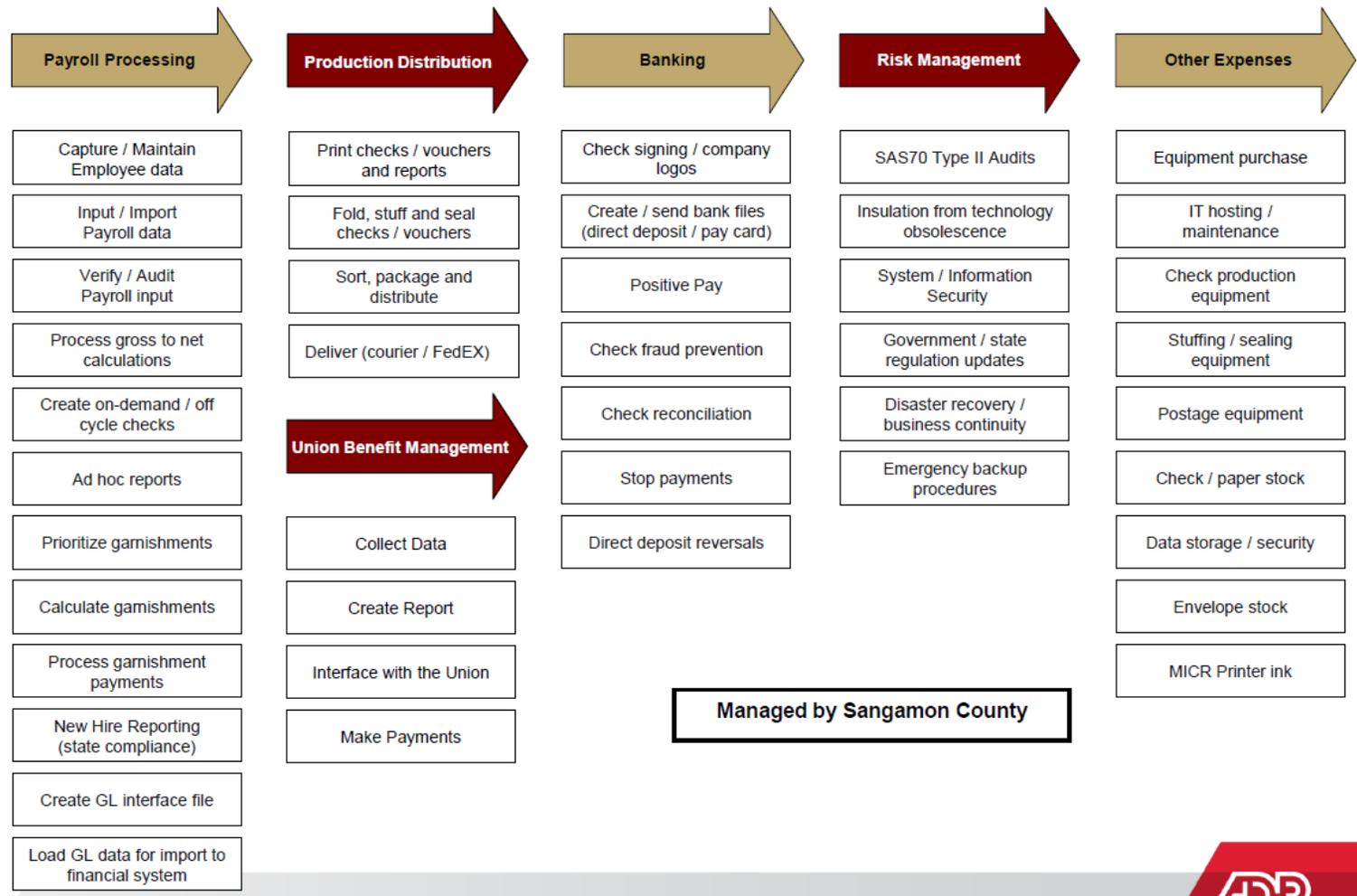


Appendix B: Sangamon County Potential AP Process with Outsourced Procure-to-Pay System- Visual



Appendix C: Sangamon County Payroll Process with Current System- Visual

# Payroll Processing Tasks – In House



Appendix D: Sangamon County Potential Payroll Process with Outsourced System- Visual

# Payroll Processing Tasks with ADP - Traditional Model

