



**NEW JERSEY
COMMISSION ON GOVERNMENT
EFFICIENCY AND REFORM**

PROGRESS REPORT

SUBMITTED TO GOVERNOR JON S. CORZINE

July 25, 2006

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NEW JERSEY COMMISSION ON GOVERNMENT EFFICIENCY AND REFORM

PROGRESS REPORT

Executive Summary

Commission Overview

- ▶ New Jersey Commission on Government Efficiency and Reform was created pursuant to Governor Jon S. Corzine's Executive Order No. 9 on April 7, 2006. The Commission is charged to "evaluate the budget, structure and organization of government in New Jersey" and "advise the Governor on governmental restructuring, effectiveness, best practices, efficiencies, cost-saving measures, and how best to achieve economies of scale in the delivery of services and programs, at the lowest possible cost, consistent with mission and quality."
- ▶ To date, the Commission convened five meetings and formed two task forces, The Higher Education Task Force, and The Budget Controls and Personnel Reform Task Force, to review specific content and propose recommendations. The first set of recommendations, related to information technology, is ready for submission to the Governor for his consideration. The Commission has retained (at no cost to the State) services of recognized experts in each of these policy areas.
- ▶ Future work of the Commission will include the development of recommendations on an overall management agenda for the State, proposals for improved budget controls, an examination of the State's procurement practices, a review of the State's spending related to healthcare (including Medicaid, charity care and the costs of employee and retiree benefits), and an analysis of the programs and operations of the Department of Corrections.

Office of Information Technology Recommendations

- ▶ The State has significant opportunities to improve services and reduce costs in the area of information technology. Accordingly, the State's Office of Information Technology (OIT) requires a new mandate, mission and structure.
- ▶ The management of OIT and the overall management of state-wide information technology need to be changed. The State should designate a Chief Information Officer (CIO) responsible for, among other items, the implementation of a strategic technology plan, providing oversight and direction to the OIT, and ensuring services are delivered and costs are controlled.
 - A new operating structure for OIT should be established. A revised organizational structure would have the following attributes: all infrastructure issues would be handled by the central entity (OIT) so as to reduce operating costs; agencies would retain some day to day functions such as end-user support and business application

development; several Deputy CIO positions would be established, reporting to the CIO, with each Deputy CIO overseeing strategic planning and budgeting for groups of related agencies.

- A new governance model would be established, including an IT Governing Board, a Project Review Board and a Project Management Office.
- ▶ Critical State operating and control systems (especially those related to personnel and payroll) are extremely antiquated and need to be upgraded or replaced as soon as possible.
- ▶ The CIO should issue an RFP for assistance in implementing the change management recommendations of this report.
- ▶ The Governor should enact these recommendations through Executive Order.

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Commission Overview

Establishment of the Commission

The New Jersey Commission on Government Efficiency and Reform ("the Commission") was created pursuant to Executive Order No. 9, signed by Governor Jon S. Corzine on April 7, 2006 (a full text copy of Executive Order No. 9 may be found in Appendix A of this Interim Report).

Governor Corzine's Executive Order charged the Commission to "evaluate the budget, structure and organization of government in New Jersey, including State agencies, instrumentalities and independent authorities, local and county government and school districts, and advise the Governor on governmental restructuring, effectiveness, best practices, efficiencies, cost-saving measures, and how best to achieve economies of scale in the delivery of services and programs, at the lowest possible cost, consistent with mission and quality."¹

Further, the Executive Order requires the Commission to "identify any measures that will bring enhanced economy, efficiency and accountability to government operations, including...the organization, operation and performance of State agencies, instrumentalities and authorities...the operations of the Office of Information Technology and the procurement, provision, maintenance, and supervision of information technology by State government...the accessibility, design and efficiency of higher education in New Jersey...[and] any other matter related to the organization, structure and administration of government that is likely to deliver better and higher levels of service at the lowest possible cost"²

Governor Corzine named Richard C. Leone, former New Jersey State Treasurer and current President of the Century Foundation, to serve as Chairman of the Commission. The Governor subsequently appointed twelve individuals, with wide-ranging abilities, experiences, and talents to serve as members of the Commission (a full list of Commission members can be found on the first page of this report).

¹ Governor Jon S. Corzine, Executive Order No. 9, Section 2, April 7, 2006

² Governor Jon S. Corzine, Executive Order No. 9, Section 3, April 7, 2006

Progress of the Commission to Date

The Commission held its inaugural meeting on April 25, 2006. The Commission immediately discussed the key issues it would need to address to implement the Governor's charge. As one of its first acts, the Commission chose to work through Task Forces, each designed to research and debate programmatic reforms in varying policy and operational areas and make recommendations to the Commission for its consideration. Each of the Task Forces would include some members of the Commission as well as additional participants with content area expertise. Each of the Task Forces would be staffed by an expert in the field who would support the work of the Task Force as well as providing research and drafting assistance. The Fund for New Jersey has graciously provided funding to support the work of the Task Forces, administered through the Policy Research Institute for the Region at Princeton University, which has put its own resources and expertise at the Commission's disposal as well.

Over the course of the first five meetings held to date, two Task Forces were formed initially by the Commission. The *Higher Education Task Force*, headed by Jane Oates, Executive Director of the New Jersey Commission on Higher Education, is comprised of members from academia, State government, and the private sector (full membership list on Page Three of this report). The Task Force was charged with exploring the current status and the role of higher education in New Jersey. The Task Force's work is ongoing and a report of its findings and recommendations will be forthcoming in Fall 2006.

The *Budget Controls and Personnel Reform Task Force* was created to explore options to control spending and improve the delivery of services by State government. This Task Force is chaired by former New Jersey OMB Director Richard F. Keevey and comprised of members from the Commission as well as senior State officials. The Task Force has been meeting throughout the Spring and Summer, and the first elements of its recommendations are included here – a review of the State's Office of Information Technology (OIT). The Task Force reviewed departmental documents, met with the Interim CIO and senior staff, consulted with technology experts inside and outside the State government, and reviewed the work of other states and industry experts. Based on this thorough investigative process, the Task Force has developed a series of recommendations that will streamline both OIT functions themselves and the programmatic functions OIT supports, while at the same time producing substantial cost savings. A summary of the Task Force's work on information technology issues follows. In the coming months, the Task Force will also address management reform and procurement issues.

The New Jersey Government Efficiency and Reform Commission provides this Interim Report to the Governor as an update on its overall efforts, including its first set of recommendations to the Governor. It also provides an overview of future areas of likely activity. In summary, the Commission will continue to carry out the tasks as charged by the Governor, which to date have included:

- Five extensive Commission sessions;
- Retention (at no cost to the State) of recognized expertise in key areas;
- Establishment of key areas of research;

- Review of efforts and experiences of other states and public and private sector entities on related issues;
- Extensive interviews with key State officials in focal areas; and
- Presentation of the first set of findings by Commission Task Forces.

Next Steps for the Commission

The Commission plans to continue its review of the State's government as part of its charge to increase savings and efficiency while enhancing services. In that regard, the Commission looks ahead to addressing those issues that offer the greatest promise for reducing State expenditures.

The Commission will shortly put forth recommendations to the Governor for a proposed management agenda, potential budget controls, and an examination of the State's procurement practices.

As its next Task Force, the Commission will establish a group to examine health care costs for the State. The State continues to see an increase in the cost of providing health care coverage to its employees as well as rising costs for Medicaid and other programs for low income families. The Commission believes it is essential to have a candid and thorough review of an issue that directly affects the ability of the State to achieve structural balance. We anticipate this inquiry to require a substantial amount of time to reach a set of responsible, attainable recommendations for the Governor.

In addition, the Commission believes the State must understand the forces affecting the costs of delivering correctional services as well as their quality. This is one of the largest areas of State expenditures. Reviewing such a large program area is prudent as the State seeks to find efficiencies in government while also recognizing and continually enhancing the essential services of the Department of Corrections.

Over time, the Commission will be examining other areas with additional potential to reduce public expenditures while enhancing services.

The Commission's charge, as cited in this report, is to provide the Governor with a set of recommendations for his review. The Commission will continue to set forth general proposals; however, it is worth noting that the Commission's job is not to provide detailed implementation blueprints. Rather, we trust our recommendations, if accepted, will be translated into action by the appropriate authorities, under the Governor's supervision.

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OFFICE OF INFORMATION TECHNOLOGY

The first major area of State government examined by the Commission was the operation of its technological organization, The Office of Information Technology (OIT), and its relationship to agency information technology (IT) functions. The Commission finds there are significant opportunities to improve both the effectiveness and the cost efficiency of this operation and with that, the operation of the government itself.

Background

Staffing for the Office of Information Technology (OIT) involves more than 900 people who develop and maintain data management, telecommunications, internet and geographic information systems. They complement some 2,400 information technology staff throughout the rest of the Executive Branch. Technology-related expenditures by OIT and the Executive branch agencies totaled \$550 million in Fiscal Year 2006, accounting for 9% of the operating budget in the fiscal year.

Despite these and comparable expenditures in prior years, hardware utilized to support major state information systems is outdated as 25% of the 80,002 desktop/laptop computers are beyond their expected useful lives, as are 20% of the 3,092 servers. Software is also outdated, with 625 or 33% of the 1,943 applications also potentially obsolete. In addition to this growing obsolescence which affects operations and system integrity, the Commission also believes that significant cost savings can be found by, among other efforts, identifying duplicity of costly software licenses.

Issues

Governance and Strategic Planning. The Commission finds there is a need for a stronger centralized management of the nearly half a billion dollars of annual IT investments and the work of over 3,300 State workers directly involved in the operations of State systems. The State has no Chief Information Officer (CIO) despite the fact that almost every government and private sector company of comparable size has one. While there may be an information technology strategic plan on paper, experts inside and outside the government report there is no evidence of long-range initiatives and creative thinking to improve the use of technology in the State. In too many instances, individual departments are making IT decisions without central coordination and direction and without reference to an overall strategic plan. In addition, the Commission finds there is a need for a more stable funding program and a clear resource allocation process for use of these dollars.

Obsolescence. The Commission finds that many major central operating systems in State government are badly outdated. For example, the State does not have an integrated personnel and payroll system. The payroll system is over 50 years old and the personnel system, while not as old, is limited by today's standards and not integrated with the payroll system. The State's Budget preparation and development system is over 20 years old and suffers from dated technology that limits the potential for financial analyses and data manipulation. Further, the State's core accounting and procurement systems -- while still capable of effective controls -- are also in need of significant upgrades because they use outdated technologies that limit the State's ability to analyze data and that may soon not be serviced by vendors. Finally, other key State-wide systems (including case management, state police and criminal justice, and several of the human service delivery and monitoring systems) are also in need of review and upgrade.

Missed Opportunities. The Commission finds that other initiatives to expand the use of IT and e-commerce technology should also be a high agenda items. Projects that maximize e-commerce, such as enhancements to the motor vehicle system, enhancements to the tax collection and cash management systems, and in general, better use of the internet to facilitate access to State services by the citizens, are all important initiatives to be pursued.

Labor and Accountability. The Commission finds the State should better coordinate work and require performance accountability from its staff and vendors. Staff morale is low and entrepreneurial thinking is too often missing. Innovative thinking about IT offers opportunities to break down bureaucratic units of operation so that coordination among State agencies and between the State and its citizens can be significantly improved. Agencies typically develop their IT systems according to how well they serve the agency's need rather than the citizenry's need. The State has no visible or viable plan to do this, nor has shown evidence that it can create one. The delivery of IT services that is citizen-centric has to be an agency goal.

Procurement. The Commission finds that in spending on IT the State is not maximizing its purchasing leverage and is reactive rather than proactive in its acquisition of software and hardware, thus forgoing major opportunities for efficiencies.

Recommendations

Chief Information Officer (CIO). The Commission strongly recommends the appointment of a strong CIO for the State to be given overall responsibility and authority for all IT operations in the State. The CIO would manage the new organizational structure (below), develop the State-wide strategic plan, and act as the champion for the use of technology across the State in furtherance of its policy goals.

Governance. The Commission recommends the appointment of two entities involved with IT decisions -- one for policy and one for project oversight. A State IT Governing Board should be established by Executive Order. Its role would be to approve an overall State-wide IT Plan, the State IT annual capital budget, and set overall standards and policies. Composition would include senior State officials such as the CIO, State Treasurer, and several cabinet Officers, as well as two public members (additional outside expertise could be also added). A second entity, the Project Review Board, should also be created and report directly to the CIO.

Its role would be to approve the annual IT budget, including the inclusion of any new systems development, and to set overall IT priorities for the upcoming year. The Review Board would be chaired by the CIO and would include the State Treasurer, the OMB Director, and several cabinet Officers.

Establishment of Deputy CIOs and Grouping of Departments. Departments and agencies should be grouped by function or programs into clusters, and each group should be led by a Deputy CIO responsible to the CIO with dotted line responsibility to the Cabinet Officer. So, for example, one cluster might be “Public Safety and Criminal Justice,” and include Law and Public Safety, Motor Vehicles Commission, and Corrections. The number of clusters is not important at this time, and it will require some thought as to the logical groupings of program areas, span of control issues and resource issues. Once an IT project is approved by the PMO (see below) the Deputy CIO for that group of agencies would be responsible for project implementation.

OIT Organization. A central organization should be established based around the current OIT to provide and maintain a central shared infrastructure and support services for all departments. The organization would be managed by a Chief Technology Officer (CTO) reporting to the CIO. “Service Level Agreements” would need to be established between the Chief Technology Officer and each Deputy CIO so that levels of service would be established, agreed upon and monitored. Performance and rewards will be keys to success. This centralization of infrastructure is critical and will produce economies of scale and related cost savings. Other benefits include consistent service, information security, better disaster recovery, easier and more efficient technology replacement and better training.

Project Management. A centralized Project Management Office (PMO) needs to be established reporting directly to the CIO, and would provide review, approval and oversight for all projects that either meet a certain dollar threshold or trigger certain criteria (such as multiple agency involvement.) As noted above, once the project is approved, implementation would move to the Deputy CIO for that group of agencies. Oversight and monitoring would be maintained by the PMO.

Agency IT Functions. Some IT work would remain with the agencies such as website content management, publishing, end-user support, web-site support and some help desk functions. Some business solution support most likely would remain with the departments as well, subject to review with the CIO and the Deputy CIOs.

Planning and Budgeting. The Deputy CIOs for groups of agencies would oversee priority setting, strategic planning and budgeting for the departments and agencies under their purview and would develop a strategic plan for their area of responsibility. This also permits better application development.

Application Development. Systems development and programming related to agency IT systems would be the responsibility of the various cluster groups, not the central organization. So, for example, the development of a new criminal justice system would be the day to day responsibility of the Deputy CIO in charge of the “Public Safety and Criminal Justice” group of

agencies. Enterprise-wide applications, such as personnel and pay systems, procurement and accounting systems, would either be maintained in the central organization or be assigned to a special central agency group Deputy CIO.

Procurement. The Procurement Division should remain responsible for all procurement, including IT, but the CIO and the Deputy CIOs need to participate with procurement on behalf of the agencies in the negotiation of bulk purchases and enterprise license agreements.

Other Issues and Next Steps

To assist in the transition to the new organizational structure, the CIO should initiate an RFP to hire a well-qualified business partner. It is critical to supplement existing staff in this area, and qualified change management skills will be critical.

Outsourcing holds great promise for the State once its core IT operations have been put on a sounder footing. Desktop management and user support in time may or may not evolve to better performance levels, but given industry success in this type of outsourcing, it would be a natural progression to consider alternative delivery mechanisms. This outsourcing option would not be a good decision today principally because the IT organization and delivery of IT services are too dispersed and confused and therefore not ready for a new environment.

A decision needs to be made about the appointment of the CIO. The Commission suggests the person be in the Senior Executive Service or a direct appointment by the Governor. Decisions need to be made regarding agency IT personnel and other reporting relationships. Initially, agency IT staff would remain with their agencies albeit many will move into the newly created "Cluster Group" structure. Cluster Group Leaders (the four or five Deputy CIOs) will need to be selected from the existing group of agency employees, trained in their new roles, and most likely placed in the SES series for their new management responsibilities. Matrix management agreements will need to be worked out between the CIO, the Agency Head and the employee. Final staffing arrangements and reporting responsibilities can be further considered as the plan is further refined.

Executive Order. The Commission recommends that Governor Corzine sign an Executive Order to implement the above organizational changes indicated and that the plan be implemented in the next 120 days. In the long run, a statutory change should be made so as to sustain these changes as the way IT business is to be conducted in the State.

**NEW JERSEY COMMISSION ON
GOVERNMENT EFFICIENCY AND REFORM**

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Appendices

APPENDIX A

- Executive Order No. 9 -

EXECUTIVE ORDER NO. 9

WHEREAS, the State of New Jersey is confronting a multi-billion dollar structural budget deficit; and

WHEREAS, all levels of government play a vital role in the economic life of New Jersey; and

WHEREAS, it is imperative that services and programs throughout government be reevaluated and re-engineered in order to marshal and conserve all available resources, achieve the greatest measure of effectiveness, efficiency and cost-savings, and deliver the highest quality of governmental services; and

WHEREAS, cost-effective and functionally efficient government will benefit and enhance the State's economy, restore public confidence and allow for the continued delivery of vital programs; and

WHEREAS, as Governor, I have the responsibility and the authority to ensure that State government and its various agencies and instrumentalities operate as efficiently and as effectively as possible; and

WHEREAS, numerous State executive branch agencies and independent authorities administer aid and grant programs that provide billions of dollars in funding to county and local governments and school districts; and

WHEREAS, as Governor I have the obligation to ensure that the county and local governments and school districts that

receive these State funds operate as efficiently and as effectively as possible; and

WHEREAS, it is essential that all government operations in New Jersey, including executive branch agencies, state and local independent authorities, local and county governments, and school districts, be subjected to a comprehensive, unsparing and searching examination; and

WHEREAS, such a review can ably be conducted by individuals drawn from a wide variety of walks of life, who possess the expertise, experience and skills to evaluate how government can most effectively meet the numerous demands placed on it;

NOW, THEREFORE, I, JON S. CORZINE, Governor of the State of New Jersey, by virtue of the authority vested in me by the Constitution and by the Statutes of this State, do hereby ORDER and DIRECT:

1. There is hereby established the New Jersey Commission on Government Efficiency and Reform pursuant to Art. V, Sec. IV, par. 1 of the New Jersey Constitution.

2. The Commission shall evaluate the budget, structure and organization of government in New Jersey, including State agencies, instrumentalities and independent authorities, local and county government and school districts, and advise the Governor on governmental restructuring, effectiveness, best practices, efficiencies, cost-saving measures, and how best to

achieve economies of scale in the delivery of services and programs, at the lowest possible cost, consistent with mission and quality.

3. In its evaluation and examination of any aspect of government in New Jersey or its current structure, the Commission shall identify any measures that will bring enhanced economy, efficiency and accountability to government operations, including, but not limited to:

a. the organization, operation and performance of State agencies, instrumentalities and authorities;

b. the organization and delivery of effective and efficient services across all levels of governments;

c. the need for and benefits of regionalization or consolidation of local and county governments, publicly funded school programs and school districts and the services they provide;

d. the organization and administration of New Jersey's public workforce;

e. the operations of the Office of Information Technology and the procurement, provision, maintenance, and supervision of information technology by State government;

f. the accessibility, design and efficiency of higher education in New Jersey;

g. the organization of the Department of Human Services, in light of its complex roles, functions and emerging responsibilities; and

h. any other matter related to the organization, structure and administration of government that is likely to deliver better and higher levels of service at the lowest possible cost.

4. The Commission shall be composed of 13 individuals with expertise in government, business, labor and education who will be appointed by and serve at the pleasure of the Governor. The Chair of the Commission shall be designated by the Governor and shall serve as Chair at his pleasure. The Governor shall also appoint, in the same manner, additional members with expertise and experience in government, higher education, labor and the private sector, as needed, to sub-groups, which will focus in depth on any of the above-listed items or related matters, as requested by the Commission, and will report back to the Commission as required.

5. The Commission is authorized to call upon any department, office, division or agency of this State to supply it with data and any other information, personnel or other assistance available to such agency as the Commission deems necessary to discharge its duties under this Order. Each department, office, division or agency of this State is hereby

required, to the extent not inconsistent with law, to cooperate fully with the Commission within the limits of its statutory authority and to furnish it with such assistance on as timely a basis as is necessary to accomplish the purpose of this Order. The Commission may consult with experts or other knowledgeable individuals in the public or private sector on any aspect of its mission.

6. The Commission shall deliver an initial report to the Governor within three months of its first meeting. Additional reports shall be delivered on an ongoing basis in the course of the Commission's work.

7. This Order shall take effect immediately.

GIVEN, under my hand and seal this day
of April Seventh, Two Thousand and Six, and of
the Independence of the United States, the Two
Hundred and Thirtieth.

Jon S. Corzine
Governor

Attest:

Stuart Rabner
Chief Counsel to the Governor