



## **Report to the Legislature**

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# **Use of the Small Agency Resource Team (SmART) Program by Executive Branch Agencies**

*Spencer Cronk, Commissioner*

*Department of Administration*

*January 31, 2013*

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## Cost of Report

Minnesota Statutes §3.197 states that a “report to the legislature must contain, at the beginning of the report, the cost of preparing the report, including any costs incurred by another agency or another level of government”.

The approximate cost of preparing this report was \$720. This represents the value of staff time, in terms of salary and benefits, dedicated by the Department of Administration.

## 1. Executive Summary

*This report is submitted to the Minnesota Legislature by the Minnesota Department of Administration as required by 2012 Legislative Session Law, Chapter 278, Article 2, Section 32(a). The complete session notes can be found at: <https://www.revisor.mn.gov/laws/?id=278&doctype=Chapter&year=2012&type=0>.*

The 2012 Legislature required the Minnesota Department of Administration (Admin) to report to the Legislature on the use of the Small Agency Resource Team (SmART) by executive branch agencies. This report is Admin's response to that requirement.

Current law authorizes the Commissioner of Admin to determine what constitutes a small agency, evaluate small agencies needs for support services and require an agency to receive support services either directly from Admin or from another agency. Admin may also assess agencies for the services it provides.

An annual appropriation of \$250,000 was first made in Fiscal Year 2008, to establish SmART within Admin. The purpose of the SmART program was to:

- Streamline the human resource and financial management activities of small state agencies, boards and councils;
- Achieve economies of scale and skill; and
- Establish common processes and a culture of continuous improvement.

The appropriation for SmART currently supports 3.0 FTEs within Admin. The SmART program provides day-to-day human resources (HR) and financial management (FM) services to a portion of the State's small agencies, boards and councils.

During the review, Admin found that:

1. Small agencies have varying capacities to staff administrative functions.
2. Multiple agencies currently provide support to small agencies.
  - a. The SmART program is serving about 19 percent of small agencies – typically the smallest agencies (1-10 FTEs).
  - b. MMB currently provides a range of services to a number of small agencies, but does not have the resources to meet current needs statewide.
  - c. Ten agencies receive at least some administrative support from a partner agency.
  - d. Two agencies operate without third party administrative support services.
3. Opportunity exists to achieve greater economies of scale by expanding the SmART program.

Admin recommends that:

1. The 2013 Legislature increase the appropriation for the SmART program to expand human resource and financial management services to additional small agencies, boards and councils to realize greater economies of scale.
2. Consistent with legislative authority, Admin should continue to work in consultation with MMB and small agencies to:
  - a. Evaluate small agencies' needs for administrative support services;
  - b. Target the General Fund appropriation to the smallest agencies with the greatest need; and
  - c. Identify support for small agencies that do not have a delegation from MMB and do not have support services from an agency with delegation.
3. Develop service level agreements for agencies participating in the SmART program, which identify:
  - a. Requirements for participation in the SmART program (such as participation in mandatory training, program audits and acknowledgement of agency obligations under the state's ethics laws and related policies); and
  - b. Define the levels of recourse if requirements are not met, up to and including reporting actions to the Office of the Legislative Auditor.

Taking these steps will achieve greater economies of scale by allowing HR and FM staff resources to be shared by a greater number of agencies. They can also improve internal controls through the application of best practices and by fostering a culture of continuous improvement in small agency administrative functions.

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## 2. Introduction and Background

The 2012 Legislature required Admin to report to the Legislature on the use of SmART by executive branch agencies. This report is Admin's response to that requirement.

The 2012 Session Laws also provide certain authorities to Admin, including that the Commissioner:

- May determine what constitutes a small agency;
- Shall evaluate small agencies needs for administrative support services (in consultation with MMB and small agencies);
- May require a small agency to receive administrative support services through Admin or through another agency; and
- May assess agencies for the services it provides.

Statute defines administrative support services to include, finance, accounting, payroll, purchasing, human resources and other services designated by the Commissioner.

### ***2. A. Appropriation for SmART***

An annual appropriation of \$250,000 was first made in Fiscal Year 2008 to establish SmART within Admin. The purpose of the SmART program was to:

- Streamline the human resource and financial management activities of small state agencies, boards and councils;
- Achieve economies of scale and skill; and
- Establish common processes and a culture of continuous improvement.

The current annual appropriation for SmART is \$248,000.

### ***2. B. Scope of SmART Services***

The appropriation for SmART currently supports a total of 3.0 FTEs within Admin across two functions; Human Resources and Financial Management.

#### **2. B. 1) Human Resources**

Human Resource (HR) support provided by SmART includes .9 FTEs, who deliver the following services:

- Vacancy filling
  - Determining qualifications
  - Posting and advertising
  - Advising on contract provisions
- Payroll
  - Overseeing payroll for accuracy
  - Training on contract provisions
  - Overseeing Family Medical Leave Act (FMLA) requests

- Classifications
  - Making final class determinations
  - Coordinating Hay evaluations when necessary
- Labor relations – Advising on labor relations, employee performance, behavior or attendance issues

## **2. B. 2) Financial Management**

Financial Management (FM) support provided by SmART includes 2.1 FTEs who deliver the following services:

- Purchasing
- Payment Processing
- Cash receipts
- Report distribution and review assistance
- Employee expense report processing
- Expenditure corrections/expense transfers
- Budgeting
  - Annual budget assistance
  - Biennial budget assistance
  - Report distribution and review assistance
  - Fiscal note assistance

## **2. C. Data Collection**

In preparing this report, Admin reviewed background documents such as the original analysis and proposals to create SmART (from the Pawlenty Administration’s Drive to Excellence initiative), the 2012 Sunset Commission report, as well as prior findings of the Office of the Legislative Auditor. Admin also held two focus groups and used a written questionnaire to gather input from small agencies.

For the purposes of this report, small agencies were defined as any non-cabinet agency, board or council with fewer than 150 FTEs. Fifty-five agencies currently meet that definition including agencies as diverse as the Council on Black Minnesotans, Explore Minnesota, the Amateur Sports Commission, the State Lottery and more. Based on consultation with MMB, Admin added three additional agencies, with FTEs of greater than 150. (See Appendix A for a complete list of agencies, boards and councils included in this report).

Information sources used to identify small agencies and their FTE and expenditure levels included reports compiled by MMB and expenditure information obtained from the Budget Planning and Analysis System (BPAS). MMB was also consulted to ensure the list of agencies was as comprehensive and complete as possible.

## 3. Findings and Conclusions

### ***3. A. Small agencies have varying capacities to staff administrative functions.***

Small agencies range in size from agencies with one or two FTEs to agencies with more than 100 FTEs. The smallest agencies (1-10 FTEs) tend to have the least capacity to fund their own human resources, financial management and internal controls. This was a primary reason for creating the SmART program and funding it through a General Fund appropriation.

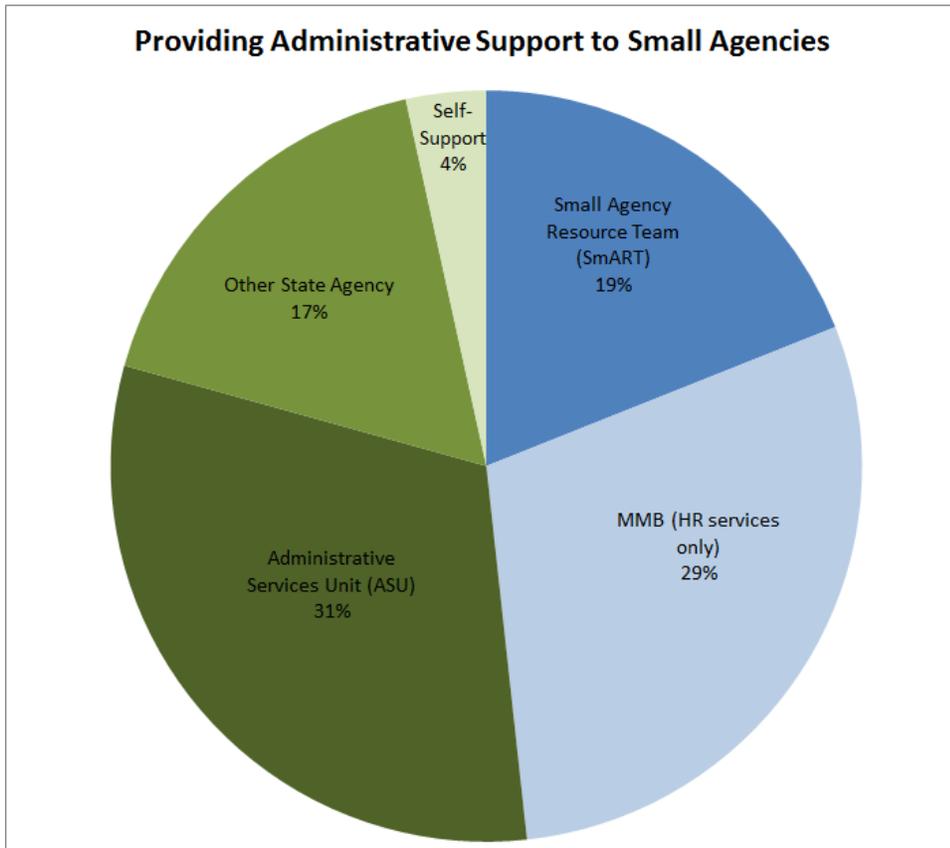
Medium sized agencies (10 - 30 FTEs) have varied abilities to directly perform finance and human resource functions, either through their existing staff or by purchasing the services from another agency through an interagency agreement. For example, the Arts Board has 15.3 FTEs and is served by the SmART program. However, when the Arts Board first began receiving financial services, they offered to pay for the labor costs associated with this support. Their human resource services are fully funded by the General Fund.

Larger agencies (30 or more FTEs) tend to either have existing relationships with other agencies such as Explore Minnesota's long-standing relationship with Department of Employment and Economic Development (DEED), or they are self-supporting, such as the case with the State Lottery. The SmART program also partners with some of these agencies, such as the Perpich Center for Arts Education and the Secretary of State through fee for service interagency agreements.

### 3. B. *Multiple agencies currently provide support to small agencies.*

A variety of arrangements for providing administrative support to small agencies currently exist. In general, small agencies obtain administrative support services through:

- Small Agency Resource Team (SmART);
- MMB (HR services only);
- Administrative Services Unit (ASU);
- Other State Agency; or
- Self-Support.



#### 3. B. 1) **The SmART program is serving about 19 percent of small agencies – typically the smallest agencies (1-10 FTEs).**

Although the term “small agencies” is not defined in statute, SmART services (HR and FM) have typically been provided to agencies, boards and councils with fewer than ten FTEs. Most of the following SmART customers are currently served by SmART through the General Fund appropriation. The last three on the list (i.e., Perpich Center for Arts Education, Public Utilities Commission and the Secretary of State) are not supported by the General Fund appropriation for SmART.

Current HR Service Provision	Current FM Service Provision	Agency	FY 2012-13 Expenditures (thousands)	FY 2012-13 FTE
SmART	SmART	Arts Board	62,355	15.3
SmART	SmART	Asian-Pacific Council	545	3.2
SmART	SmART	Campaign Finance and Public Disclosure Board	3,830	7.8
SmART	SmART	Chicano-Latino Affairs Council	592	4.3
SmART	SmART	Council on Black Minnesotans	851	3.7
SmART	SmART	Indian Affairs Council	2,839	4.6
SmART	SmART	MN State Council on Disability	1,191	7.4
SmART	SmART	Ombudsperson for Families	742	4.4
SmART	SmART/Self	Perpich Center for Arts Education	16,870	69.3
SmART	Self	Public Utilities Commission	16,260	49.1
SmART	Self	Secretary of State	17,313	63.5
<b>Total</b>			<b>123,388</b>	<b>232.6</b>

Admin routinely supplements staffing for the SmART program as small agency needs frequently exceed the resources of the SmART program. Based on the benchmarking work completed in 2012, Admin estimates that, in addition to the three FTEs funded through the SmART budget, two additional FTEs (.5 FTE for HR and 1.5 FTE for FM services) are dedicated to supporting SmART agencies. Admin’s reallocation of agency resources to SmART reduces the overall staff availability for Admin’s core operations.

For example, Admin recently assisted the Council on Black Minnesotans with full recovery of grant funds and a number of HR and FM challenges. When the Council hired a new executive director, Admin also provided extensive onboarding support and orientation, to ensure the new leadership was familiar with administrative procedures and internal controls.

**3. B. 2) MMB currently provides a range of HR services to a number of small agencies, but does not have the resources to meet current needs statewide.**

MMB currently provides a range of HR services to a number of small agencies. These agencies do not have delegation of authority from MMB (which allows them to approve compensation, classification levels or qualifications for vacancies without approval from MMB), nor are they receiving services from an agency that does. MMB has typically provided these HR services through its own operating funds, but MMB does not have the resources to meet current needs statewide.

Current HR Service Provision	Current FM Service Provision	Agency	FY 2012-13 Expenditures (thousands)	FY 2012-13 FTE
MMB	Self	Amateur Sports Commission	585	2.8
MMB	Self	Capitol Area Architectural and Planning Board	650	3.0
MMB	Self	Gambling Control Board	6,351	33.9
MMB	Self	Higher Education Facilities Authority	492	1.8

MMB	Self	Investment Board	8,510	21.0
MMB	Self	Ombudsman for Mental Health and Developmental Disabilities	3,359	17.0
MMB	Self	Racing Commission	6,003	12.7
MMB	Self	Tax Court	1,650	5.5
MMB	Self	Workers' Compensation Court of Appeals	3,406	12.0
<b>Sub Total</b>			<b>31,006</b>	<b>109.7</b>
MMB/Self	Self	Attorney General	68,074	309.5
MMB/Self	Self	Board of Water and Soil Resources	157,243	70.0
MMB/Self	Self	Legislative Auditor	11,516	143.5
MMB/Self	Self	MN State Retirement System	1,418,580	111.4
MMB/Self	Self	Public Employees Retirement Association	3,421,272	89.3
MMB/Self	Self	State Academies	29,900	178.6
MMB/Self	Self	State Auditor	18,465	102.5
MMB/Self	Self	Teachers Retirement Association	3,087,826	80.5
<b>Sub Total</b>			<b>8,212,876</b>	<b>1085.3</b>
<b>Grand Total</b>			<b>8,243,882</b>	<b>1195.0</b>

MMB also collaborates with the Administrative Services Unit (ASU) which provides HR and FM services for the 18 health-related licensing boards.

**Note:** The 2012 Legislature also required that the ASU of the health-related licensing boards evaluate the use of their services and report to the legislature in January of 2013 as defined in 2012 Legislative Session Law, Chapter 278, Article 2, Section 32(b).

Current HR Service Provision	Current FM Service Provision	Agency	FY 2012-13 Expenditures (thousands)	FY 2012-13 FTE
MMB/ASU	ASU	Board of Barber Examiners	514	3.0
MMB/ASU	ASU	Board of Behavioral Health and Therapy	842	4.0
MMB/ASU	ASU	Board of Chiropractor Examiners	962	4.9
MMB/ASU	ASU	Board of Cosmetologist Examiners	2,092	13.9
MMB/ASU	ASU	Board of Dentistry	3,696	17.6
MMB/ASU	ASU	Board of Dietetics and Nutrition Practice	231	0.9
MMB/ASU	ASU	Board of Emergency Medical Regulatory Services	10,262	13.3
MMB/ASU	ASU	Board of Marriage and Family Therapy	373	1.6
MMB/ASU	ASU	Board of Medical Practice	7,826	22.8
MMB/ASU	ASU	Board of Examiners for Nursing Home Administrators	4,756	8.9
MMB/ASU	ASU	Board of Nursing	7,242	35.5
MMB/ASU	ASU	Board of Optometry	226	0.9
MMB/ASU	ASU	Board of Pharmacy	5,107	14.0
MMB/ASU	ASU	Board of Physical Therapy	748	3.0

MMB/ASU	ASU	Board of Podiatric Medicine	164	0.5
MMB/ASU	ASU	Board of Psychology	1,732	10.2
MMB/ASU	ASU	Board of Social Work	2,147	10.6
MMB/ASU	ASU	Board of Veterinary Medicine	469	2.0
<b>Total</b>			<b>49,389</b>	<b>167.6</b>

Despite the combination of efforts, there still remains a need for comprehensive daily HR services to small agencies that cannot be met with existing resources. Moving forward, MMB and Admin will collaborate to determine how best to meet the outstanding HR needs of small agencies statewide.

### 3. B. 3) Ten agencies receive at least some administrative support from a partner agency.

As indicated in the following tables, some large agencies also assist small agencies by partnering with them to provide HR and FM services. Partner agencies include agencies such as the Department of Commerce, Department of Employment and Economic Development, Department of Public Safety and Department of Revenue. Many of these arrangements have developed naturally based on like missions, historical relationships, frequent interactions or professional associations. For example, Commerce provides support services for the Board of Accountancy.

Seven agencies provide both HR and FM services to small agencies, and three additional small agencies receive at least partial support from larger agencies.

Current HR Service Provision	Current FM Service Provision	Agency	FY 2012-13 Expenditures (thousands)	FY 2012-13 FTE
Commerce	Commerce	Board of Accountancy	960	6.3
Commerce	Commerce	Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience & Interior Design	1,548	5.8
DEED	DEED	MN Science & Technology Authority	779	1.0
DEED	DEED	Public Facilities Authority	755,904	9.0
DPS	DPS	Peace Officer Standards and Training (POST)	8,241	11.0
DPS	DPS	Board of Private Detective and Protective Agent Services	240	1.3
Corrections	Corrections	Sentencing Guidelines Commission	1,172	6.0
<b>Sub Total</b>			<b>768,844</b>	<b>40.4</b>
AG	Self	Animal Health Board	11,663	43.3
DEED	Self	Explore MN Tourism	21,963	45.5
MMB/Self	Revenue	Office of Administrative Hearings	19,124	67.9
<b>Sub Total</b>			<b>52,750</b>	<b>156.7</b>
<b>Grand Total</b>			<b>821,594</b>	<b>197.1</b>

### 3. B. 4) Two agencies operate without third-party administrative support services.

These agencies are among the largest of the agencies reviewed and have sufficient capacity to fund their own administrative support and internal control operations.

Current HR Service Provision	Current FM Service Provision	Agency	FY 2012-13 Expenditures (thousands)	FY 2012-13 FTE
Self	Self	Lottery	23,138	137.7
Self	Self	Minnesota Zoo	52,631	233.0
<b>Total</b>			<b>75,769</b>	<b>370.7</b>

### 3. C. Opportunity exists to achieve greater economies of scale by expanding the SmART program.

Some agencies who have requested SmART services are being denied due to a lack of capacity to accept additional agencies. For example, the Tax Court, an agency with fewer than six FTEs, has been requesting services since 2011. Despite recommendations for increased SmART appropriations by Governors Pawlenty and Dayton each biennium, SmART program funding has remained stagnant since Fiscal Year 2008.

In consultation with MMB, Admin has identified the small agencies, boards or councils in the table below as the best candidates for new or expanded SmART services. An increase in the SmART appropriation would allow expansion of services to as many of the small agencies as possible and would likely target the smallest first. This expansion would achieve greater economies of scale by allowing HR and FM staff resources to be shared by a greater number of agencies.

Agency, Board or Council Name (alphabetical)
Amateur Sports Commission
Capitol Area Architectural and Planning Board
Gambling Control Board
Higher Education Facilities Authority
Investment Board
Ombudsman for Mental Health and Developmental Disabilities
Racing Commission
Tax Court
Workers' Compensation Court of Appeals

Depending on the funding available, the SmART program could provide central information and planning resources for all small agencies, boards and councils. For example, the SmART program could maintain a central repository on information about all small agencies and their administrative services and provide regular information bulletins and training offerings to small agencies, regardless of their direct participation in the SmART program.

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## 4. Recommendations

Admin recommends that:

1. The 2013 Legislature increase the appropriation for the SmART program to expand human resource and financial management services to additional small agencies, boards and councils to realize greater economies of scale.
2. Consistent with legislative authority, Admin should continue to work in consultation with MMB and small agencies to:
  - a. Evaluate small agencies' needs for administrative support services;
  - b. Target the General Fund appropriation to the smallest agencies with the greatest need; and
  - c. Identify support for small agencies that do not have a delegation from MMB and do not have support services from an agency with delegation.
3. Develop service level agreements for agencies participating in the SmART program, which identify:
  - a. Requirements for participation in the SmART program (such as participation in mandatory training, program audits and acknowledgement of agency obligations under the state's ethics laws and related policies); and
  - b. Define the levels of recourse if requirements are not met, up to and including reporting actions to the Office of the Legislative Auditor.

Taking these steps will achieve greater economies of scale by allowing HR and FM staff resources to be shared by a greater number of agencies. They can also improve internal controls through the application of best practices and by fostering a culture of continuous improvement in small agency administrative functions.

## 5. Appendices

### 5. A. Appendix A: List of Agencies Assessed for this Report

Agency, Board or Council Name (Alphabetical)
Amateur Sports Commission
Animal Health Board
Arts Board
Asian-Pacific Council
Attorney General
Board of Accountancy
Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience & Interior Design
Board of Barber Examiners
Board of Behavioral Health and Therapy
Board of Chiropractic Examiners
Board of Cosmetologist Examiners
Board of Dentistry
Board of Dietetics and Nutrition Practice
Board of Emergency Medical Regulatory Services
Board of Examiners for Nursing Home Administrators
Board of Marriage and Family Therapy
Board of Medical Practice
Board of Nursing
Board of Optometry
Board of Pharmacy
Board of Physical Therapy
Board of Podiatric Medicine
Board of Private Detective and Protective Agent Services
Board of Psychology
Board of Social Work
Board of Veterinary Medicine
Board of Water and Soil Resources
Campaign Finance and Public Disclosure Board
Capitol Area Architectural and Planning Board
Chicano-Latino Affairs Council
Council on Black Minnesotans
Explore MN Tourism
Gambling Control Board
Higher Education Facilities Authority
Indian Affairs Council
Investment Board
Legislative Auditor
Lottery
Minnesota Zoo

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MN Science & Technology Authority
MN State Council on Disability
MN State Retirement System
Office of Administrative Hearings
Ombudsperson for Families
Ombudsman for Mental Health and Developmental Disabilities
Peace Officer Standards and Training (POST)
Perpich Center for Arts Education
Public Employees Retirement Association
Public Facilities Authority
Public Utilities Commission
Racing Commission
Secretary of State
Sentencing Guidelines Commission
State Academies
State Auditor
Tax Court
Teachers Retirement Association
Workers' Compensation Court of Appeals