

LOS ANGELES COUNTY
ECONOMY AND EFFICIENCY COMMISSION

ROOM 163, HALL OF ADMINISTRATION / 500 WEST TEMPLE / LOS ANGELES, CALIFORNIA 90012 / 974-1491

December 4, 1985

Joe Crail, Chairperson
Robert J. Lowe, Vice Chairpers

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Dr. Edward Zalta

Honorable Board of Supervisors
Los Angeles County
383 Hall of Administration
500 West Temple
Los Angeles, CA 90012

Dear Supervisors:

SUBJECT: IMPLEMENTATION OF COUNTY REORGANIZATION
AND SYSTEMS IMPROVEMENTS

On September 13, 1983, on motion of Supervisor Antonovich, you adopted our report and recommendations, Decision-Making and Organization in Los Angeles County Government, assigned lead responsibility for implementation to the Chief Administrative Officer (CAO), and requested our commission to monitor implementation progress.

We commend your Board, the CAO and county officials for your substantial achievements in improving the county's organizational structure, for initiating high priority efforts to improve county-wide systems, and for strengthening the role of the CAO in administration.

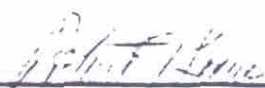
Our current status report, attached, contains a review of your accomplishments so far and repeats four recommendations from the 1983 report which we believe should be emphasized in the coming year. The recommendations are listed on the next page.

In all cases, implementation of our recommendations will require further work by the CAO and other county officials. In a few cases, our recommendations may require change or reinterpretation of statutes or of Federal and State financing regulations.

In many instances, the goals we recommend are consistent with those that have been declared by the CAO and converge with Mr. Hankla's reorganization of his office.

THEREFORE, WE RECOMMEND that the Board of Supervisors adopt the attached report, including the recommendations listed on the following page, and refer them to the CAO for detailed planning and implementation.

Very truly yours,


Robert J. Lowe
Task Force Chairman


Joe Crail
Chairman

LIST OF RECOMMENDATIONS

Recommendation 1: Systems

We recommend that the Board of Supervisors direct the CAO, the Auditor-Controller, and the Data Processing Department to implement cost-accounting in all county departments, and to put top priority on implementation throughout all internal services departments, according to standards established by the CAO and Auditor-Controller.

Recommendation 2: Organization

We recommend that the Board of Supervisors direct the CAO, in consultation with the Economy and Efficiency Commission, to accelerate work to reorganize internal services operating in the following three functional areas:

- Facilities Management Services
- Financial Services
- General Services

Recommendation 3: Cost Recovery Policy

We recommend that the Board of Supervisors adopt the following policies; direct the CAO to implement them in the earliest feasible fiscal year, and direct County Counsel to modify the applicable ordinances on contracting in time for initial application as early as possible during the 1986-87 fiscal year:

- require each internal service to budget for full cost recovery from the departments consuming its services, through "cost-applied" budgetary accounts, and through charge-back for occupancy in county buildings;

- provide that each county department has the responsibility to choose methods of service production, according to standards established by the CAO, between production by the Facilities Management Department or the General Services Department and production by private contractors or other governmental units.

Recommendation 4: Chief Administrative Office

We recommend that the Board of Supervisors direct the CAO and County Counsel to prepare an ordinance assigning the responsibility to the CAO for developing and enforcing standards for county-wide business and administrative systems, including cost-accounting, timekeeping and payroll, personnel, procurement, warehousing, and inventory management.

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We commend your Board, the CAO and county officials for your substantial achievements in improving the county's organizational structure, for initiating high priority efforts to improve county-wide systems, and for strengthening the role of the CAO in administration.

It is now past the mid-point of the four-year term we proposed for implementation. The purposes of this letter are to review the results of the plan, to suggest adjustments where appropriate, and to re-emphasize those points we believe are most essential to success of the overall program. We base our comments on the meetings our task force has held with the CAO and department heads and on a review of relevant documents.

This letter repeats several recommendations which were included in the 1983 report as part of the implementation program. We have re-stated them at this time because we believe that further progress will be accelerated if you again affirm your commitment. We are convinced these goals are essential for improving the methods the county uses in the conduct of business and reducing costs.

In many instances, the goals we recommend are consistent with those that have been declared by the CAO and converge with Mr. Hankla's reorganization of his office.

In all cases, implementation of our recommendations will require further work

by the CAO and other county officials. We have provided information on the goals and on the expected benefits, but not the operational details needed for successful completion. In a few cases, our recommendations may require change or reinterpretation of statutes or of Federal and State financing regulations.

REVIEW

In 1983, we recommended that you commit to three objectives, to be pursued jointly and concurrently because of the strong interaction we found among them. We documented the technical, legal and political obstacles to change, and we estimated the savings that should result from implementation. The three objectives adopted by the Board were:

- reduce the number of separate county departments,
- standardize county processes governing administrative systems,
- clarify the formal relationships among the Board, the CAO, and departments.

Number of Departments. You have reduced the number of departments from 45 at the time of our report to 37, and you have re-aligned social services departments to improve the unification of mission within departments that we cited as essential to successful implementation. The changes are as follows:

<u>Former</u>	<u>Current</u>
Adoptions DPSS (Children's Services)	Children's Services
Building Services County Engineer / Facilities Communications Flood Control District Mechanical Road	Facilities Management Public Works
Agricultural Commissioner Weights and Measures	Agricultural Commissioner
Community Services Senior Citizens' Services	Community and Senior Citizens' Services
County Clerk Executive Office, Superior Court	Clerk and Superior Court
Collections Treasurer- Tax Collector	Treasurer - Tax Collector

Standardization. You have made significant progress in creating an impetus for standardizing the payroll and personnel systems and accounting systems as they

are used by county departments; you have made some progress in creating an impetus for standardizing automated support of materials management and inventory control systems; you have not yet initiated work on standardizing procurement, inventory management, and warehousing policy.

In the area of payroll and personnel systems, the CAO, the Department of Data Processing, and the Auditor-Controller, with technical assistance from Arthur Andersen & Co. and Price Waterhouse, are implementing:

- a Project Definition Study to establish the requirements for automation,

- preparation and distribution of an Interpretive Manual to promote standard interpretation of the Salary Ordinance in all departments,

- simplification and improvement of the compensation system, including conversion to a regular pay period, standardization of pay ranges, and simplification of the step advance and bonus systems.

In the area of accounting systems, the CAO, Department of Facilities Management, and Department of Data Processing have:

- completed implementation of the cost-accounting and charge-back system in the Mechanical unit of the Facilities Management Department (formerly the Mechanical Department) using the resources management component of the county's FIRM system,

- secured a post-implementation audit of the work on FIRM in the Facilities Management Department,

- initiated work to implement FIRM throughout the Facilities Management Department and to improve the use of the system by managers.

In the area of materials management and inventory control, the CAO, Department of Data Processing, and Purchasing Officer have:

- secured a study by Arthur Young with recommendations on how to standardize the automation of inventory management systems throughout county departments.

Chief Administrative Office. You have supported the CAO's efforts to strengthen the organization of his office and to integrate the Human Resources functions within it. In addition, the CAO has initiated a strong and systematic effort to reduce the level of detailed control that is exercised over the operations of departments and to increase the level of policy management, program management, and evaluation conducted by his office.

In our 1983 report, we recommended that the CAO and the Board of Supervisors reach an agreement on methods of controlling or systematizing workload in the CAO's office. Much of the CAO's workload is generated by the requests of

the Board for information and analysis at weekly Board meetings. The Board needs information, and the response to such requests is an appropriate role for the CAO. However, we found that the methods used by the CAO to respond may delay, perhaps unnecessarily, the ongoing work of the office in budget preparation and finance, management systems development, and employee relations, even though in many instances the Board's requirements are anticipated for inclusion at some point in the work plan for the year. We suggested several approaches to resolving this issue. Whether the approaches we suggested or some other approaches are adopted, we believe it is urgent for the CAO, with Board concurrence, to establish and stay with an improved method of managing the flow of work. We know of no progress on this element of our recommendations.

RECOMMENDATIONS

Recommendation 1: Systems

We recommend that the Board of Supervisors direct the CAO, the Auditor-Controller, and the Data Processing Department to implement cost-accounting in all county departments, and to put top priority on implementation throughout all internal services departments, according to standards established by the CAO and Auditor-Controller.

Discussion. The advantages of cost-accounting for county functions are numerous. Among the most important are:

improved precision in allocating costs to operations financed by and other demands of the Federal and State governments, and of contract cities,

improved precision in the evaluation of contracting decisions,

improved managerial control over the costs of service production and the sources of demand for services,

improved ability to quantify managerial performance according to goals set for improvement,

improved ability to isolate sources of excessive cost and set priorities for correction.

We believe the effort should concentrate first on implementation throughout the county departments that produce internal services, for several reasons:

the internal overhead functions are most directly controllable by the Board of Supervisors;

complete information about the sources of demand and the actual costs of the internal services is necessary to generate correct information on the costs of any other county services;

such alternative methods of production as contracting with private

firms are most widely available and most used by the county for the internal services.

The feasibility of implementing full cost accounting systems has been demonstrated in the implementation of the resources management components of the county's FIRM (Financial Information and Resources Management) system in the Mechanical Department.

Expansion of cost accounting to the other functions of the Facilities Management Department and to the other internal services has been recommended by several recent audits or operations studies. These included, for example, the management audit of the Communications Department by Theodore Barry and Associates (November, 1981), the study of the Data Processing Department by Arthur D. Little (March, 1984), and the post-implementation audit of FIRM by Deloitte Haskins+Sells (October, 1985). The requirement for improved cost accounting and work-recording systems was implied in such other studies as audits of Purchasing and Stores by Grand Juries (1979 and 1981).

Implementation of cost-accounting in all departments will not be easy. County administrative systems have been permitted to lag technology for the past decade. The technology of the Auditor-Controller's FIRM system must be upgraded to reflect modern software and data management advances before county-wide implementation is reasonable with current hardware.

Moreover, effective cost-accounting requires two components that the county does not now have:

a positive payroll system that permits distribution of labor costs by activity, and

an accounts payable system that permits the costs of services and supplies to be accounted for when they are incurred rather than when they are paid out.

The CAO is implementing a positive payroll system. We believe its schedule can and should be accelerated from the five-year mark that is presently assumed.

Implementation of cost-accounting has been adopted as a priority for all county departments by the CAO and the Auditor-Controller, as part of the program to implement a program budgeting system. In addition, the Departments of Public Works and the Registrar-Recorder have declared an intention to install cost-accounting systems for departmental objectives. We agree with these program goals. As we emphasized in the 1983 report, such systems should be designed or acquired so that they meet county-wide standards for performance established centrally, in this case by the Auditor-Controller. In addition, our current recommendation is to proceed with implementation in the internal services departments as a near-term priority, to be accomplished for use in the budget for 1987-88.

Recommendation 2: Organization

We recommend that the Board of Supervisors direct the CAO, in consultation with the Economy and Efficiency Commission, to accelerate work to reorganize internal services operating in the following three functional areas:

*Facilities Management Services
Financial Services
General Services*

Discussion. Several departments provide internal services in support of the public service departments or of County government as a whole. They incorporate elements which have the potential to be reorganized into three focused internal services departments, as listed above, or into some other structure, depending on the results of the CAO's analysis. They are Auditor-Controller, Data Processing, Facilities Management, Purchasing and Stores, and Treasurer-Tax Collector. In addition, the Human Resources group within the Chief Administrative Office produces some non-policy-setting personnel services which should also be included in this reorganization.

The Department of Facilities Management has already been created by consolidation of the Building Services, Communications, County Engineer (Facilities), and Mechanical Departments. However, the new department does not have a fully unified mission concentrating on the management of facilities and building equipment. The following functions are not necessarily related to the mission of facilities management, and should be evaluated for transfer to a General Services Department:

fleet maintenance and repair,
business machines maintenance and repair,
mail services, and
radio and telephone systems design and operation.

In 1979, the CAO recommended creation of a General Services Department. The recommendations were dropped because of severe internal opposition.

We believe that removing the listed functions from the current Facilities Management Department, and centralizing them in a General Services Department, will improve the structure and operations of the county's internal services. In 1982, during our review of the Mechanical Department, we found that these highly visible functions frequently act as a drag on the effectiveness of management. They are so critical to the daily operations of the tenant departments, that operational delays and malfunctions were a frequent source of complaints. As a result, these functions required the attention of departmental executives out of proportion to the level of resources they represented in the department. The demand for attention detracted from the executives' concentration on managing of the condition of buildings and building equipment, which are less visible and less vulnerable to complaint or criticism by tenant departments.

Divesting services from the Facilities Management Department will be difficult. The technical crafts and services performed by the functions we have listed have been managed by the Communications and Mechanical Departments for years. Although they are not usually considered part of a facilities management mission, they are compatible with the functions of the mechanical crafts, so there are advantages to managing them along with other crafts. The people and equipment are physically located at the same plant as the Facilities Management Department; moving them to another location may be more of an expense than would be justified by the benefits of mission unification.

The CAO should analyze these questions as soon as possible so that the form of the Facilities Management and General Services Departments in the county-wide system can be decided conclusively before the final organization is set by management of the Facilities Management Department.

The Departments of the Auditor-Controller, Data Processing, and Purchasing and Stores, and the Human Resources Division of the CAO perform two roles in the county system. First, they create policy, influence the decisions of the Board on management policy, and enforce policy adopted by the Board. Second, they produce services supporting the operations of other county departments.

In the approach we recommend, all policy-oriented and planning functions would be transferred to the CAO. This would strengthen the CAO's mission to plan, finance and standardize the county's methods of doing business. Service production operations could be reorganized within the missions of the new General Services, Financial Services and Facilities Management Services functions. This would enhance the county's ability to choose such alternative forms of production as contracting with private firms or other governmental agencies and to optimize the geographic distribution of service centers, warehouses, and other delivery mechanisms between centralized and decentralized operations.

Recommendation 3: Cost Recovery Policy

We recommend that the Board of Supervisors adopt the following policies, direct the CAO to implement them in the earliest feasible fiscal year, and direct County Counsel to modify the applicable ordinances on contracting in time for initial application as early as possible during the 1986-87 fiscal year:

require each internal service to budget for full cost recovery from the departments consuming its services, through "cost-applied" budgetary accounts, and through charge-back for occupancy in county buildings;

provide that each county department has the responsibility to choose methods of service production, according to standards established by the CAO, between production by the Facilities Management Department or the General Services Department and production by private contractors or other governmental units.

Discussion. According to the ordinance on contracting, the authority to

decide whether or not to contract for a service is made by the internal county department that produces that service, not by the department that uses it or consumes it. Moreover, the county departments producing internal services do not always recover the full cost of the service from the county departments who are their clients or other tenants in county facilities.

In 1982, on recommendation by our commission, the Board of Supervisors adopted this policy change for the Mechanical Department (which was subsequently consolidated into the Facilities Management Department), and modified the ordinance on contracting to implement them.

The option to choose has not been widely used by county departments who are clients of the Mechanical unit of Facilities Management. In those cases where it has been used, it has been an effective means to achieve savings.

For example, the Fire, Probation, and Public Works Departments have reported \$700,000 in savings or cost avoidance from contracting for services that otherwise would have been supplied by Facilities Management.

In addition, it is clear that the recommended policy does not result in a gutting of the internal services department as line operating departments declare "open season" on them because of the pressure to use contracting in the county. Frequently, the operating departments prefer to choose Facilities Management. The internal county department may be the most cost-effective provider of services for three reasons:

it may be the lowest cost provider at standards acceptable to the county;

the client department may lack the expertise to develop contract specifications and monitor contractors (the internal service department can nevertheless contract for the work, using its own expertise to manage the contract);

the internal services department may be the only source of information that is required for successful completion of the work, such as "as built" blueprints.

The primary effect of the policies we recommend will be to eliminate the monopolistic character that internal services functions have in the county. This will create pressure on them to compete with the private suppliers who would otherwise be chosen, and it imposes an internal marketing discipline that will cause them to introduce economies in order to compete effectively. That is, regardless of the savings that may be achieved, and regardless of the advantages that may lead the operating department to prefer internal production to a contractor, the availability of the choice is important. When the choice is available, accountability for performance is fixed where it belongs - with the operating department. The availability of the choice also increases flexibility: the delays that may be necessary to incorporate projects in the priorities of Facilities Management or Data Processing can be avoided by a department that exercises the choice to contract.

In order for the recommended policy to work properly, the following requirements must be met:

the internal services must have cost-accounting and must be required to recover full costs from their clients;

the CAO must have the means to ensure that the savings achieved by use of the option by client departments result in savings to the county as a whole;

the CAO must have a means to ensure that the use of the option by client departments does not cause a departure from acceptable standards, including standards for county-wide business systems;

the client department must be obliged to seek bids and quotes from the internal services department on the same basis as from private firms.

To derive the full benefit of the system we recommend, it may be necessary for the county to seek changes in the statutes affecting some departments and in the Federal or State regulations applied to financing the operations of other departments. For example, in a 1972 opinion, County Counsel stated that the Purchasing Officer may not charge the County Superintendent of Schools for the costs of purchasing in amounts exceeding the price of the goods purchased. Similarly, because of regulations of the financing agencies, the county can recover the full cost of services associated with social services facilities used in Federal programs. The cost recovered include the overhead costs of managing the service, but only when the service is produced by county employees. If the service is acquired from an alternative source, the county may not charge the overhead for managing the alternative source to the funding agency. Therefore, although the overall cost of the function may be lower, resulting in a savings to the taxpayer, the county's revenue is reduced and the net cost to the county is higher unless the county's capacity for managing the service is also reduced. The need to establish the system so that such issues are accommodated is the reason we have said that the CAO should have the authority and the means to control use of the option.

Recommendation 4: Chief Administrative Office

We recommend that the Board of Supervisors direct the CAO and County Counsel to prepare an ordinance assigning the responsibility to the CAO for developing and enforcing standards for county-wide business and administrative systems, including cost-accounting, timekeeping and payroll, personnel, procurement, warehousing, and inventory management.

Discussion. As we pointed out in the 1983 report, an ordinance is the strongest means available to the Board to assign responsibility and hold an official accountable for performance of business related functions. The appropriate official, in our view, is the CAO.

Much of what has been accomplished in the CAO's office, and in the improved management of county-wide systems, can and should be codified in an ordinance and made part of the County's Administrative Code.

CONCLUSION

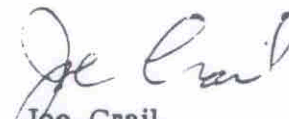
Based on our task force's meetings with county officials and review of the current status, we have recommended that the Board of Supervisors adjust the priority of implementation of our 1983 recommendations on decision making and organization. We propose that the attached list of recommendations receive current emphasis in the implementation program.

We are also convinced that effective implementation of our recommendations will require the CAO and the Board to agree on methods of managing the CAO's workload. The CAO should have a systematic plan and approach to county-wide management issues and systems each year, including a method of responding to ad hoc requests for information. The plan should be reviewed and adopted, with priorities, by the Board. When responses to Board initiatives or requests for data would delay completion of the agreed-upon work plan, then the resulting adjustment to priorities and the costs should be made explicit, or a less time-consuming response or revised deadline should be accepted. Only with such a system, and with Board support of it, can the county make reliable progress toward a more effectively managed approach to its business and toward a less crisis-oriented management style.

Very truly yours,



Robert J. Lowe
Task Force Chairman



Joe Crail
Chairman

LIST OF RECOMMENDATIONS

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