

DECISION MAKING AND ORGANIZATION
LOS ANGELES COUNTY GOVERNMENT

REPORT OF THE TASK FORCE
CHIEF ADMINISTRATIVE OFFICE
JUNE, 1983

VOLUME I
SUMMARY

June, 1983

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PREFACE

In September, 1982, following consultation with each Supervisor, our commission initiated an analysis of the Chief Administrative Office (CAO) of Los Angeles County. Our objective was to determine what, if any, changes in the roles of the GAO and expectations for GAO performance could improve the County's ability to overcome the crises it is facing. In December, 1982, on motion of Supervisor Antonovich, the Board of Supervisors asked our commission to investigate the feasibility of consolidating County departments.

Our task force, chaired by Robert J. Lowe, has examined both questions in detail. This report contains its conclusions and recommendations. The report reflects the results of nine task force meetings, commissioners' interviews of elected officials regarding these issues, and a review of contemporary and past research on the executive structure of County governments.

For the third time in four years, we have been fortunate to have the assistance of a Field Study Team from the Graduate School of Management at UCLA. As part of the requirements for earning the MBA, the students reviewed administrative processes in seven County departments to determine the potential for achieving economies of size by merger or standardization. We have incorporated their results in our report.

Our report answers both questions in the affirmative. We propose changes in the roles and expectations of the Chief Administrative Office which will improve the Board's ability to plan for and respond to changing conditions affecting the County's governance and service functions. We have found that consolidation of County departments into a simplified structure is both feasible and desirable, and we propose a four year program to restructure the system. The Board should achieve major gains in both cost and efficiency in the first year.

We present our report in three volumes. Volume I contains a summary of our proposed program. Volume II contains an expanded summary of our conclusions and recommendations, followed by a detailed description of the current structure, its problems, major alternatives for reform, and our preferences. Volume III is the report of our field study team. Volumes II and III represent working papers the task force used in formulating the conclusions and recommendations presented in Volume I.

Reforming organizational structure and executive decision making Systems in local government is a complex and difficult problem. There are no panaceas.

Corporate rules of organization do not necessarily apply. They rely on the ability of a chief executive to adopt a system of explicit goals and objectives and to organize people who agree in the ways best designed to meet them.

In contrast, County government cannot always decide its own goals and objectives. Some are established by Federal and State law. Moreover, the executive of the County consists of two groups in continual tension with one another. The first is a board of five Supervisors elected to represent five extremely diverse communities, whose views of what government is about do not necessarily coincide. The second is a group of more than forty operating executives who have fixed legal responsibilities and who consider it part of their responsibility to temper the entrepreneurial enthusiasm of elected officials.

What is needed is a long range road map for structural reform and executive decision making, together with processes to support sustained effort to achieve it.

In this report, we propose such a plan. We do not supply final answers. County Counsel advises that restructuring County government is subject to a number of legal limitations, and that each detail must be carefully reviewed before it can be implemented. The long-range structures that might result from the program recommended in this report will require detailed legal review.

Nevertheless, we are convinced that professional County executives can and will cooperate to find ways to improve the structure. The County already has good people. Further gains are possible. But the executives must first recognize that the overall structure of the County system is at least as important as employing good people. Reform is both feasible and necessary. The plan we propose provides the framework in which the County's people can accomplish desirable structural reform.

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SUMMARY

The executive decision-making system of Los Angeles County government is responsible for impressive achievements. The County has survived a period which would have bankrupted many businesses. The County continues to perform its regulatory functions of governance and to deliver its services despite the declines of resources and the environment of increasing dependence on the State.

Major additional gains are possible if the Board of Supervisors acts now to implement a program to reform the County's organizational structure and decision-making systems. We considered the classic alternatives of Charter revision to create an elected County executive or a County manager appointed by the Board. We chose instead to focus at this time on alternatives that are achievable within the current framework. We recommend that the Board establish the following policy goals and adopt a four-year program to achieve them:

- ***Clarify the formal relationships among the Board, the GAO and departments by modifying the ordinance on the GAO.***

- ***Reduce the number of separate County departments by consolidating and reorganizing County programs into a system of fifteen to twenty departments.***

- ***Standardize County processes governing business and support in such areas as personnel, payroll, inventory management, procurement, and distribution.***

In this report, we present an implementation plan for achieving those goals. The program will enhance the County's ability to make further progress in attaining its current policy goals. It will not be easy and it will take time.

The roles of the Board of Supervisors, the GAO, and department heads are crucial in implementing the program we recommend. The Board has the vital links to the community to interpret public policy and the ability to make sure that the program conforms to community needs. It has the legal and institutional power to effect change. The GAO has the countywide perspective and the analytical resources to make sure that the changes will be cost-effective and technically and legally correct. Department heads bear the responsibility to implement public policy as directed by the Board, within the framework of the laws, and it is the service delivery system which they operate that will be most affected.

When we initiated this project, the task force set out to answer the following questions:

- How can the Board of Supervisors change the executive structure and managerial system of Los Angeles County government to further improve performance and improve the County's ability to respond to current challenges?
- How can the Board change the roles of the Chief Administrative Office (GAO) and expectations for its performance to ensure effective implementation of structural and systems' improvements?
- How can the Board initiate and continue an effective program leading to the improved system?

We focus on the Board, the Chief Administrative Office, and the operating departments whose executives are appointed by the Board. When we use the word system we are not referring to the Constitution or the political system, but rather to the management structure designed to carry out public policy where County government is the vehicle. We have analyzed the way the components of the executive structure combine to make management decisions. Our analysis does not reflect on the abilities or competence of incumbents in County offices or on the performance of any department.

Current Structure

The executive structure of the Los Angeles County government consists of the following elements, as illustrated in the chart on the next page:

- an Assessor, District Attorney and Sheriff elected at large,
- a court system, with some 400 elected officials, a separate branch of government financed by the County,
- a Board of five Supervisors elected by district,
- a Chief Administrative Officer (GAO) appointed by the Board to assist it in managing County affairs,
- forty-seven department heads (including the GAO) appointed by the Board to manage County functions and deliver County services.

Major Features of the Structure

Diffused Accountability. The executive organization of the County government is a multiple executive system in which no single individual holds complete hierarchical control over decision-making.

Imbalance. The Board's departmental structure is not balanced. Departments range in size from one with more than 22,000 employees to eight with fewer than 100. Among the thirty-three departments providing direct public services, twenty-four (73%) of the department heads manage less than 10% of the County's workforce.

Misalignment. County organization evolved. It is not configured according to a plan, and its development has not been controlled according to any consistent functional or programmatic principle. Separate departments provide related or similar services. Some departments provide unrelated or dissimilar services. In some instances, departments provide services or perform functions with competing values, goals and objectives.

Unclear Goals. The Board of Supervisors is the Chief Executive. However, each Supervisor is accountable to a different district and must respond to the needs and expectations of radically different constituencies. Each has a different image of what the County should do and how it should perform. There is no consistent system of universally accepted, County-wide goals. Moreover, the Board conducts its work on a week-to-week basis, without a consistent and unified plan and without a system of priorities.

Roles of CAO. There are major gaps between the roles the CAO performs and the roles assigned to the CAO in the ordinance. The ordinance includes functions which the CAO does not and should not perform, and it excludes such functions as forecasting, developing legislation, establishing and enforcing administrative standards, and establishing long-term plans or implementing programs for capital investment, reorganization, productivity improvement, and management systems.

Weak Coordination. The GAO is expected to perform the central role in the executive system of integrating and coordinating its various parts, subject to the ultimate control of Board decisions. However, the GAO has no formal authority to compel any County department to conform to standards or to implement changes designed to improve a multi-department system or execute a long-range plan. Only the Board can efficaciously reward or discipline a department head.

Annual Planning Horizon. The County is dependent for financing on decisions of the State and Federal governments. In preparing forecasts and plans for County departments, the Board and CAO concentrate on a single-year revenue projection.

Single Department Control In formulating plans and in executing plans and policies, the board and CAO concentrate on the current departmental structure. Each department head is accountable for producing that department's work within its net budget, and for implementing that department's productivity improvement and contracting plans, with little regard for the relationships of its activities to those of other departments.

Centralized Controls. The GAO exercises strong, centralized financial controls on behalf of the Board. Each department must secure GAO approval before implementing hiring and purchasing plans, including those approved in budget appropriations. The control is so absolute that many department heads claim they are not permitted to manage their departments.

Political Complexity. Few decisions are purely managerial. Political factors may dominate in making managerial decisions, since each department, other elected officials, and city or State and Federal agencies must be consulted.

Problems Attributed to Structure.

The County chronically experiences problems which we attribute first to its structure, and second to the formal relationships among the Board, GAO and departments when making County-wide decisions. We attribute these problems to formal characteristics of the system precisely because they are chronic. They are independent of the particular ideological composition of the Board of Supervisors. They are independent of the beliefs or competence of particular bureaucrats in charge at some point in time.

- The structure perpetuates avoidable duplicative costs. Each department has its own management structure and makes provisions for succession by creating chains of managers, deputies and assistant managers.
- The structure prevents standardization of business systems.
- The structure prevents the Board from enforcing systematic means of setting priorities.
- The Board has no warning of problems until they become crises.

- Management decisions can take years to make and implement.
- The system uses analytical resources inefficiently.

Recommended Strategy

We recommend a strategy, to be implemented over four years, which will correct the problems by simplifying the departmental structure, and by establishing clear, formal responsibility in the CAO's function for forecasting, for developing and implementing County-wide systems and administrative standards and for providing analytical information that the Board can use effectively when evaluating the political impact of alternative managerial decisions.

Simplifying the structure will require reducing the number of separate County departments. Ideally, according to contemporary management research, the number should be reduced to between five and seven. That much reduction is not feasible. Too many programs need independence. For example, the Public Defender and the District Attorney must remain separate, even though each is a lawyer. Museums and centers for the performing arts are likely to remain separate, since merging their administrations can have adverse effects on their ability to obtain private support.

Just as clearly, however, a reduction to thirty-five or forty separate departments would not accomplish much. We are convinced that reduction to fifteen or twenty units accountable directly to the Board is feasible and desirable. The key to effective reorganization, however, is to realign County functions among departments. The deficiency in most "Super-Agency" concepts is that they leave the departmental structure of the underlying functions intact. In contrast, we are proposing a program leading to complete reorganization.

As the first step, we propose the interim structure outlined in the chart on Page 7. In the chart, we have identified three strategies to design and implement a new structure: Agency, Committee, and Realignment. They differ in the degree to which we are confident that we know how to reorganize the functions and programs of departments into fewer departments, and in the roles of the GAO in completing the recommended structure.

During the first phase, no authority or reporting relationships would change. The Board would refrain from appointing a new official to a vacant department head position until the reorganization plan for that department was adopted.

As an ultimate goal, we propose a structure similar to that diagrammed on Page 9. The goal illustrated there is a model which is feasible to improve decision-making and reduce costs. Implementing it would surely require legislation. On the chart, we have noted those cases where we believe legislation will be required, but we are not certain that the notes cover all such cases.

The structure on Page 9 is not the only feasible model, and we do not claim it is the best. The reason for the interim stage is to establish the details of the final design. The reason for assigning department heads the responsibility for the interim stage is that they are best equipped to develop the final design.

Recommended Implementation Process

Reorganization is not magic. It will not accomplish improvement by itself. It cannot be designed or accomplished overnight. For County reorganization to be effective, the Board should adopt an overall mode of organization and decision-making and sustain a series of steps designed to achieve it. The Board should assign department heads the responsibility to design the recommended system for Board action and to propose a plan for implementation, and the Board should accompany the structural change with changes of the decision processes and incentives motivating them. It should assign the CAO the responsibility to coordinate and support their efforts.

Therefore, we propose a four-year implementation process. It is summarized in the table on Page 11. Its major features are:

Recommendation 1 (First Year)

- Ordinance Change. Revise the ordinance on the CAO and agree on methods of controlling or systematizing workload, The new ordinance should include project management authority to develop and implement County-wide systems, organizational planning, forecasting, multi-department systems evaluation, program planning and standards.

- Policy Development. Direct the CAO to work with each group of departments to design a new system of organization and develop standards governing business costs, Direct County Counsel to assign a lawyer to work with the CAO's team on developing implementation requirements for these strategies. Direct the CAO to recommend policies for using early retirement, bonuses, and other compensation alternatives to motivate support for reorganization. Require each plan to include a review of executive compensation for department and agency heads.

- Agency Strategy. Form interim agencies for internal services, community services, and agricultural services as shown on the chart on Page 7. In each group, appoint one department head to lead responsibility for recommending a reorganization of the system into fewer departments with standardized business and administrative systems. The centralized internal services agency includes the departments best equipped to recommend methods of standardizing County-wide systems. Instruct the department heads to include divestiture of functions, realignment with other groups, legal requirements, and joint contracting in their plans. Assign support responsibility to the CAO.
- Committee Strategy. Form committees of department heads as shown in the chart on Page 7. Direct the department heads to work with the GAO on developing the structure and standards where programs and functions are related.
- Realignment Strategy. Adopt a long-range organizational goal for the County as a whole. Assign the GAO the responsibility to work with each department head in this group to develop the structural model and a plan for implementation.

Recommendation 2 (Four Years)

- Reorganization. Implement the long-range goal of reorganizing County programs into 15-20 departments.
- CAO Roles. Implement County-wide program and systems management structures and responsibility where feasible.
- Cost Control. Implement policies to maximize the funding of internal service functions by program departments where such policies are consistent with County-wide cost reduction and contracting objectives. Implement cost accounting to support these policies.

Implementation Feasibility.

The history of attempts to change the County's structure is not encouraging. Departments have most frequently been merged only when significant performance problems were identified with one of them. Although the County has a record of departmental consolidation and transfer of functions, it has not been accomplished according to an overall plan or concept of organization. Department executives tend to view consolidation proposals as reflections on their professional abilities. They, and the constituencies they serve tend to resist consolidation because it appears to subordinate their programs in priority before the Board. Others express fear that reorganization will disrupt morale or slow momentum in the areas of affirmative action and civil service.

During our review, several departmental executives explained that past reorganization proposals had failed partly because they were insensitive to the needs of the community or would affect one group more than another. Those opposed could defeat the effort by simply filling the Board's hearing room with constituents when the proposal was presented for action. Thus, the fundamentals of the County structure have not changed, and all efforts to develop a comprehensive plan for County reorganization have been abandoned.

The history of efforts to centralize management is also discouraging. All Chief Administrative Officers have rejected accountability for departmental performance in the absence of clear authority to compel department heads to comply. The County's dependence on State and Federal decisions inhibits long-range planning. The formal attributes of the CAO's role have not changed materially in the forty-five years since creation of the office.

Although change is politically difficult, it is legally and technically feasible.

Legal. The legal issues are complex. The charter assigns to the Board the power to "organize County government, including the power to by ordinance, consolidate or separate offices provided for in this charter or by law" (Section 11(4)). Although County Counsel has not reviewed the details, he has advised us that this power is limited. When an office is assigned duties by Charter or statute, the Board cannot divide the duties among two or more offices. Nor can the Board assign new duties to an office whose duties are specified by law. However, the Board can appoint the same official to more than one office, provided the individual has the qualifications or credentials that are required by law for each. County Counsel advises us that there are few cases establishing the precise interpretation of the various laws that may apply.

For example, legal issues may influence the feasibility of merging Purchasing and Stores or Personnel into a single Internal Services Department. Both are mentioned in the Charter, and each has duties specified in the Charter or statutes. Nevertheless, formation of an agency including them in the first year will not interfere with the performance of their duties, since the instructions to the agency head are to establish standards and to develop a departmental structure rather than to reassign authority over personnel or procurement policy. We envision a two to three department structure for internal services. The Purchasing Agent may retain procurement policy, for example, but divest printing or warehousing into a new department. Similarly, the CAO would retain control of personnel policy while divesting some administrative services, just as the Treasurer now operates

retirement system services.

In our judgment, the limitations do not materially impede the Board's organizational alternatives. Past Boards have accomplished several structural changes within the framework of current law, and several other California counties have revised the basic structure without legal complication. In any case, if necessary the Board can appeal to the Legislature for changes of law where there is a real impediment to organizational change.

Similarly, change of the formal roles of the CAO is feasible. The CAO is a creation of the Board. Delegating to the CAO the authority to appoint officials to County offices would require a Charter change, since the Charter now specifies the Board as the appointing authority. In addition, the Board cannot appoint the CAO to any office requiring credentials, unless the CAO has the credentials. Otherwise, however, the Board can assign to the CAO any duties to devise management Systems and enforce standards. Moreover, the Board can establish formal expectations and enforce reasonable procedural rules governing its own and departmental relationships to the CAO.

Technical. The technical issues are also complex. Since the executive of private organizations has a cohesive system of goals, the organization can be designed as the best one to meet those goals. In the County government, there is no agreement on goals. No Board of Supervisors has agreed to an image of the kind of organization the County should have, or on the basic principles of organization that should apply. The system is a mixture of functional, programmatic, and constituency organization. Untangling it will be a complex and difficult undertaking requiring the participation and support of all County executives. There have been few incentives for such participation.

Recently, the situation has improved. The Board has implemented programs requiring County executives to identify the missions, goals and programs of their departments and to evaluate the use of resources supporting each. These programs are producing information for analyzing similarities and relationships among departmental programs and operations. Joint analysis will create means for executives to use organizational change to strengthen the linkages among their programs. Simplification of the structure will improve executives' ability to manage by reducing the CAO's need to enforce post-appropriation financial controls at detailed operating levels. It will permit modification of the CAO's role to emphasize planning and policy-making rather than operations.

In addition, the Board has several new opportunities to modify the incentives

of County officials to support reorganization. It can implement the early retirement options recently authorized by State law to selectively create vacancies in executive and managerial positions. It can include support for reorganization and standardization as a criterion for bonus awards. It can encourage budgetary policies supporting retention of savings for discretionary use by those producing them. In early stages of the program we recommend, the CAO would develop the details of such policies for recommendation to the Board.

Finally, in our view, the choice of reorganization and consolidation on a County-wide scale is preferable to slow, piecemeal attempts to transfer functions among departments. Creation of a reorganized system of internal service departments should precede transfer of crafts or other services from departments which now produce them internally for three reasons. First, reorganization will improve the Board's span of control, while transfer of functions would not. Second, the internal services departments have the knowledge and expertise needed to establish standardization of business Systems for County-wide application. Transfer of functions would not unify the departments producing those services, and thus would not support the standardization objectives. Third, the reorganized system of internal services will substantially improve the cost and performance of the services, thus creating incentives for line departments to purchase them rather than produce them internally.

In the debate over past reorganization proposals in Los Angeles County, it has been characteristic for County officials to argue that the gains are possible without reorganization. They claim that such objectives as standardization, reduction in the overheads of supervision and management, and the like can be met within the current structure.

The claim may be correct, but it is not realistic. No one has the necessary authority to implement the changes necessary to meet them, and no one has the incentives to support such objectives. The County has claimed such objectives for at least a decade. They were a centerpiece of the plan for Data Processing that the County acquired from Arthur Anderson and Company in 1972. It has not achieved them. The reason it has not is that those objectives are unattainable in the current structure.

Potential Savings.

Implementation of the recommendations in this report will substantially improve control over County programs and provide both short-term and long-term savings. Savings will result from the reduction of management and from improved

standardization of business costs. For example, we estimate that the proliferation of non-standard payroll Systems is costing the County \$11 million each year, based on our comparison with what large private corporations expect to spend on processing payroll information. Once resources are released by reducing the cost of non-standardized processes, they can be assigned to analyzing the relationships and similarities among programs. They will improve coordination among programs and develop more efficient combinations of program and service delivery mechanisms.

Below is our estimate of identifiable savings. By short-term we mean within the first year of the program. By long-term we mean after full implementation of the policy and organizational changes we have described. Savings in subsequent years should be substantially higher. Realization of these savings will depend on the details of the designs that result from the work on standardization of business costs and reorganization of programs. Achieving them will require investment in new systems, and possibly in relocation of some functions. The Board will face difficult decisions on how to generate the necessary capital. Therefore, our estimates represent the magnitude of what should be possible based on our analysis, rather than a prediction of what will be accomplished.

Potential Short-term Annual Saving

Improved Standardization of Business Systems	\$ 5.0 million
Reduced Need for Executive and Management Positions	1.0 million
Reduced Need for Space and Supply	0.5 million

Potential Long-term Annual Savings

Improved Standardization of Business Systems	\$15.0 million
Reduced Need for Executive and Management Positions	7.0 million
Reduced Duplication of Space and Supply	2.0 million

The above are conservative estimates of direct savings. The total, \$30.5 million, represents approximately 10% of the County’s labor expense on top management and administrative processes. The program we recommend should also assist the Board in achieving substantially greater savings in improved productivity and efficiency.