INTERNAL SERVICES RESTRUCTURING STUDY

Prepared by

Los Angeles County
Chief Administrative Office

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EXECUTIVE SUMMARY

This study was commissioned by the Los Angeles County Chief Administrative Office on March 15, 1995. This study is an organizational analysis of the effectiveness of the County's Internal Services Department (ISD) to:

○ Improve and streamline delivery of County internal services;

○ Identify which internal services currently provided by ISD should be:

- Provided in the current organization without significant modification;
- Re-engineered within the current organization or another County department(s);
- Transferred to another County department(s);
- Contracted out; or
- Discontinued; and

○ Determine opportunities to achieve County internal services cost savings.

During the course of the study, extensive interviews were conducted with department managers and executives from ISD customer departments, other jurisdictions, as well as ISD managers and executives. Additionally, previous organizational studies performed by private consultants and County commissions, as well as ISD strategic and tactical plans were reviewed. All budget analyses performed, as part of the study, are based on information published in Final County Budgets and budget information provided by ISD. Most budget analyses were performed using information from fiscal year 1990-91 to 1994-95, except where information in not available or not provided by ISD.

At the time it was created, ISD was given a difficult mission that lacked sufficient clarification (i.e., entrepreneurialism and full-cost recovery within a local government environment) -- the first time such a mission was assigned to a County department. To ISD's credit, they accomplished this mission. Below are key findings of this study:

○ **Leadership, direction and customer service responsiveness and innovation.** Despite its mission accomplishments, many departments believe ISD should have exercised greater leadership and countywide vision with regard to the services they provide. Many of ISD's customers also perceive that ISD needs to be more innovative in developing new ways to deliver a higher level of quality services cost-effectively.

With further regard to customer service, the study found that ISD has pursued some policies that led to negative customer perceptions and has not taken proactive steps to address these negative perceptions. For example, when approached with customer service complaints regarding quality or cost, ISD's response has often been that the department is free to acquire the services elsewhere, rather than trying to understand and meet the customers need. Most customers also perceive that ISD has very high overhead costs; many have inquired with ISD to investigate these perceptions, only to be advised that ISD, by policy, does not release such information to customers. Further, for both policy and practical reasons, departments are not able to freely exercise choice in service providers to the extent that ISD suggests.

○ **Alignment of responsibility and accountability for ISD services.** ISD customers cited numerous examples where the customer department was responsible for cost overruns and unanticipated expenditures when ISD mismanages a project or when additional expenditures were incurred due to substandard performance of ISD subcontractors. Customers also noted that, due to the ISD's client-by-client focus, there is a lack of accountability for ISD services on a countywide basis.

○ **Organizational alignments.** Some ISD general managers and its customer departments note conflicts between meeting customer demands for the most cost-effective service and providing a level of service which is in the best interests of the County as a whole. These conflicts are particularly evident in the areas of building maintenance, lease and space management, and information technology services.

○ **Organizational efficiency.** Since its merger six years ago, ISD has made good progress towards consolidating common functions and re-engineering parts of its organization to better serve its business lines. However, next to the high cost of ISD services, ISD customers most often complain about the lack of coordination and communication between ISD service branches and amongst its management.

○ **Cost of ISD services.** The high cost of ISD services is the most frequent criticism received from ISD customers. The following findings were developed as a result of departmental interviews, as well as analysis of ISD budget and overhead information:

  • Much of ISD customers' perception of high cost and overhead for ISD services are perpetuated by ISD's refusal to disclose its cost structure and overhead calculations.

  • The widely-shared perception of the high cost of ISD services is exacerbated by examples cited by many interviewees, where ISD lowered prices when faced with loss of client business.

  • ISD's overhead rates increased from 39.54 percent in fiscal year 1994-95 to 43.17 percent in 1995-96. Further, the study estimates that the "pass-through" costs increased from $76.3 million in 1994-95 to over $89.9 million (includes $17.6 million for earthquake contingency) in 1995-96. "Pass-through costs" are costs for equipment and services that ISD purchases on behalf of its customers for which it does not bill for indirect charges. ISD has not provided further clarification of these "pass-through" costs.

The recommendations in this study are intended to align key ISD services with departments better suited to provide oversight and direction, and where clear mission alignment exists. The implementation of these recommendations will provide enhanced leadership over key countywide services and more effective management of County assets and resources.

The Board has focused on maximizing administrative savings in the 1995-96 Proposed

Budget. Consistent with this objective, and as a consequence of the administrative savings due to improved organizational alignments, enhanced coordination, and reduced overlap and duplication, we are recommending an approximately 20 percent administrative curtailment throughout ISD[1]. This will generate immediate savings of $4.96 million.

We estimate an additional $10 million to $15 million in savings can be achieved through reorganization and right-sizing in the specific services either transferred to other departments or remaining in the renamed *Department of Facility Services (DFS)*, including implementation of "Secondary Recommendations" and other operational restructuring and streamlining efforts of affected department heads. We believe that these additional savings should be generated primarily during the 1995-96 and 1996-97 fiscal years.

The Study recommends a phased approach, with most current ISD services reassigned to other departments and some services remaining in a scaled-down and newly created *Department of Facility Services (DFS)*; further analysis will be conducted to determine if the services retained in this new department could be better aligned with other departments or outsourced.

Primary Recommendations (for implementation in 1995-96 Budget)

Reassign ISD services as follows:

○ Administrative and Finance Service and Information Technology Service (with the exception of Urban Research Section) and Purchasing and Central Services (with the exception of Safety Police and Vehicle Services Division) to the Auditor-Controller.

○ Project Management Division, Construction Quality and Contracting Division, Valuation/ Acquisition Division to the Department of Public Works.

○ Leasing and Space Management Division, a small portion of the Project Management Division, and Construction and Real Property Administration, and the Urban Research Section to the Chief Administrative Office.

○ Facility Operations Service, Energy Management Division, and Vehicle Services Division would remain in a scaled-down and newly-created *DFS*. Safety Police would be retained in *DFS* pending completion of the Board-ordered study to centralize all security and law enforcement services with the Sheriff's Department.

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[1]   Fixed employee benefits and unavoidable costs have been taken into consideration in determining administrative cost savings.

Secondary Recommendations (intended for further review by affected departments)

This study also details several service-specific secondary recommendations; it is proposed that affected departments review these recommendations and report back to the Board on their feasibility and implementation, as appropriate, during fiscal year 1995-96. Key secondary recommendations include:

○ Evaluate the advisability and feasibility of reversing the full-cost recovery policy where: 1) departments have very little or no choice in using a particular service; and 2) greater control, oversight and countywide policy direction is needed.

○ As part of the implementation process, affected departments should review department head and potentially other staff salaries for increases or reductions to reflect increased or decreased responsibilities.

○ Develop a countywide asset management master plan to identify, prioritize, and improve future County capital project planning and financing.

○ Evaluate the feasibility of retaining a small central core staff with crafts expertise and develop service contracts in various craft disciplines to be utilized on an as-needed basis.

Section 1

Introduction

Purpose

The purpose of this study is to perform an independent and objective organizational/ operational examination of the Internal Services Department (ISD) to:

○ Determine opportunities to achieve County internal services cost savings;

○ Improve and streamline delivery of County internal services; and

○ Identify which internal services currently provided by ISD should be:

- Provided in the current organization without significant modification;
- Re-engineered within the current organization or another County department(s);
- Transferred to another County department(s);
- Contracted out; or
- Discontinued.

Approach

During the course of the study, the Chief Administrative Office (CAO):

○ Conducted interviews with executives and managers from Assessor, Auditor-Controller, Chief Administrative Office, Children and Family Services, District Attorney, Executive Office of the Board of Supervisors, Health Services, ISD, Municipal Courts, Parks and Recreation, Probation, Public Defender, Public Library, Public Social Services, Public Works, Regional Planning, Registrar-Recorder/County Clerk, Sheriff, Superior Courts, and the Quality and Productivity Commission. Please refer to Appendix II for a list of departmental and commission interviewees.

○ Documented the organizational structure and functional descriptions for ISD based on budget information from fiscal year 1993-94 and 1994-95, as well as ISD's 1993-94 Annual Report and various informational brochures about ISD services.

o Conducted interviews with executives and department heads from the following cities and counties (Please refer to Appendix III for list of interviewees):

- Santa Clara County
- Los Angeles City
- San Diego County
- San Bernardino County
- San Francisco City/County
- Dade County, Florida

o Reviewed the following previous ISD studies:

- ITS's 1994-96 Tactical Plan: Mid-range Services Project, March 6, 1995.

- Study on Asset Management, conducted by the Quality and Productivity Commission and Chief Administrative Office, October 18, 1994;

- Management Audit Report of the Internal Services Department, performed by Harvey M. Rose Accountancy Corporation, September 1992;

- Classification Studies of the Internal Services Department, conducted by KH Consulting Group, August 1992;

- Organizational Design Study: Technical Appendix, conducted by KH Consulting Group, May 4, 1992;

- ITS's Organization Rationalization Plan, dated June 10, 1991;

- Economy and Efficiency Commission Report on the Executive Structure of County Government, October 15, 1990;

- Role of the Chief Administrative Officer - Departmental Structure of the County, Economy and Efficiency Commission, December 7, 1988; and

- Implementation of County Reorganization and Systems Improvements, prepared by the Economy and Efficiency Commission, May 27, 1986.

o Collected and analyzed quantitative budget information from previous Final County Budgets, as well as budgetary and organizational information provided by ISD.

o Developed, evaluated and analyzed alternatives to restructuring and reengineering ISD functions.

o Assessed ISD and departmental management reactions to organizational and functional restructuring alternatives and refined alternatives based on ISD and departmental input and CAO analysis.

o Formulated recommendations and attendant implementation plans based on input and feedback from ISD and other departments.

Study Criteria

Prior to developing and evaluating alternative structures for ISD functions, the CAO study team developed the following criteria for analysis and formulating subsequent recommendations, based on the study purpose and goals:

o **Strategic and business alignment.** The degree to which the alternative reinforces strategic alignment between functions and business processes with County goals. The recommendation should support the County's overall direction to eliminate redundant processes and streamline its functions.

o **Cost-effectiveness.** The amount of overall cost savings that can be achieved by each alternative being evaluated. Cost-effectiveness can be achieved through minimizing staffing costs and management ranks, reducing hierarchical levels, and enhanced overall efficiency.

o **Level and quality of service.** The extent to which current levels of service can be maintained or improved. Unless the function is eliminated, current ISD service levels should be maintained, if not, improved, as a result of implementing the alternative being evaluated.

o **Feasibility.** The feasibility of implementing the alternative under the current/ projected County environment should be considered. Criteria such as budget and legal constraints, current County codes, labor-related issues, and management directives should be considered in determining the feasibility of each alternative evaluated.

Section 2

Findings

Overview

Consistent with the purpose of the study, the departmental and ISD interviews, information gathering, and organizational analyses were focused on the following areas:

♦ Organizational and functional alignment with its mission and goals;

♦ Opportunities for cost savings;

♦ Elimination of duplicate and/or overlapping functions;

♦ Consolidation of related functions to streamline and improve the quality of overall service delivery;

♦ Identification of clear lines of responsibility and accountability for service delivery;

♦ Strategies for effective utilization of staff and other resources; and

♦ Improvement of the visibility and control of the budget and expenditures at the County level.

At the time it was created, ISD was given a difficult mission that lacked sufficient clarification (i.e., entrepreneurialism and full-cost recovery within a local government environment) -- the first time such a mission was assigned to a County department. To ISD's credit, they accomplished this mission. Many of the organizational issues and comments expressed by ISD's customers are not uncommon for "general services" type organizations in the government sector. However, this study's survey of other county and large city governments (please refer to Appendix III for other jurisdictions interviewed) indicates that ISD's full-cost recovery model is uncommon and consequently poses unique challenges and opportunities to ISD.

Overall, ISD customers that were interviewed provided varied feedback (from good to very poor) regarding ISD's services. Many of them were very concerned about the high cost of ISD services, particularly the perception of unreasonably high overhead costs and the lack of disclosure about ISD's cost structure for its services. Another concern of many customers is the lack of leadership and direction in the services provided by ISD, especially in the area of information technology and capital projects. Specifically, ISD customer departments do not see ITS taking a proactive role in identifying or developing strategies towards more cost-effective ways to provide better levels of computing services and

leveraging contemporary technologies and more consistent quality construction project management in Construction and Real Property Service. ISD's customers also comment that its current organizational structure prevents effective use of its resources and workforce, and does not facilitate communication and coordination between its services and divisions.

Appendix IV contains a series of spreadsheets depicting ISD budgets for its services and divisions over a period of four years. Much of the quantitative information and analysis upon which the findings of this study are based, are contained in Appendix IV. Unless the information was unavailable, all budget and financial analyses were performed using information from fiscal year 1990-91 to 1994-95.

This study's findings consist of summary information collected from departmental interviews and quantitative analysis of budget and personnel information. While some of the examples cited from departmental interviews may appear anecdotal, they summarize departments' overall perception of ISD and its services, and, as such, are used to illustrate this study's findings. ISD department-wide findings are presented first followed by ISD service specific findings.

ISD Department-wide Findings

1. ***Leadership, direction, customer responsiveness and service innovation.*** In order for ISD to achieve its mission "to meet customer needs by consistently providing high quality, timely and cost-effective support services", many of ISD's customers believe that ISD must exert leadership in the services it provides. Despite its success in accomplishing its entrepreneurial and full-cost recovery goals, many departments believe ISD should have exercised greater leadership and countywide vision with regard to the services they provide. Many of ISD's customers also perceive that ISD needs to be more innovative in developing new ways to cost effectively deliver a higher level of quality services.

    *   With regard to customer service, this study found that ISD pursued policies that led to negative customer perceptions and proactive steps were not taken to address these negative perceptions. For example, when approached with customer service complaints regarding quality or cost, ISD's response has often been that the department is free to acquire the services elsewhere, rather than trying to understand and meet the customers need. Further, most customers perceive that ISD has very high overhead costs; many have inquired with ISD to investigate these perceptions, only to be advised that ISD, by policy, does not release such information to customers.

        In fact, in many cases, departments cannot exercise choice in service providers, either due to policy or practicality (e.g., purchasing, mainframe computing services, and building services in multi-tenant buildings). Where choice exists, the policy and procedural challenges of utilizing outside vendors are, at times, formidable (please refer to Department-Wide finding No. 9).

- ISD needs to strive to develop innovative and more effective ways to provide its services. Aggressive leadership and strategies must be established in ISD's service areas to foster continuous process and service improvements. Both ISD's customers and some of its general managers question the effectiveness of the Total Quality Service program and feel that more effective leadership and directed innovation is needed for ISD to achieve its mission and continue to discover new ways to provide improved quality of service in a cost-effective manner.

- ISD customers also perceive that ISD's marketing function is misdirected with little or no return on investment (in terms of revenue generated vs. cost of investment).

- A department recounted an experience where alternative vendors were evaluated for microfiche production, a service provided by ISD. When a favorable vendor (improved quality of service with a 24-hour turnaround, instead of a 4-6 week turnaround, and cost savings of $150,000 per year) was found, the department invited ISD to contract with the vendor; ISD rejected this idea and informed the customer department to purchase the service directly from the vendor.

2. ***Commitment to its mission.***

- Many of the departments commented that, while some of ISD's managers may understand and identify with its mission, most of ISD's direct service personnel do not share nor demonstrate the same level of commitment to ISD's mission.

- Several of ISD's general managers, and many of ISD's customers, question the effectiveness of ISD's Total Quality Service (TQS) program. ISD's TQS program was originally established to improve customer focus and service, and to promote continuous process improvement within ISD. However, some of ISD's general managers commented that, while some success was achieved in the customer focus and service area in Purchasing and Central Supplies and Construction and Real Property, other ISD Services have accomplished minimal process improvements within their organizations.

- ISD's customers cite numerous occasions where ISD lowers its original cost estimates for jobs after the lowest cost estimate from a competitor is known. Consequently, ISD's customers do not feel that they are receiving an honest initial cost estimate from ISD and have to do additional work to determine a more reliable estimate for a particular service.

  In response, an ISD general manager stated that on many occasions, departments do not provide adequate specificity for ISD to develop accurate cost estimates and as such, the original cost estimates often require adjustments when the service request is better defined in the cost estimates provided by other vendors.

3.   ***Organizational and mission alignments.*** As an entrepreneurial organization with a full-cost recovery mandate, ISD frequently experiences conflict between meeting customer demands for the most cost-effective service and providing a level of service that is in the best interest of the County. This conflict is particularly evident in building maintenance, leasing and space management, information technology, and construction project management services.

- Departments perceive that ITS often faces internal conflicts between developing systems in non-mainframe environments and rightsizing existing mainframe systems to more cost-effective computing platforms, because considerable income is generated from mainframe operations and computing services. Table 1, on the next page, compares -- from an ISD customer perspective -- income, expense, profit and loss for each ISD Service and does not include inter-service fund transfers (expenditure distributions, E/D) between ISD services. The information in Table 1 (comparing the most recent three fiscal years) further illustrates the significant percentage (over 50 percent) of income generated by ITS and specifically mainframe computing services, relative to other ISD Services. For the purpose of this comparison, income is defined as the sum of Intrafund Transfers and Revenue from ISD customers, and expense is equivalent to gross appropriation.

Table 1: Comparison of Income vs. Expenditures

FY 1994-95

Organization	Gross Appropriation	Intrafund Transfers	Revenue	Profit/(Loss)
Internal Svcs Dept*	**$328,140,000**	**$307,499,000**	**$20,641,000**	**$0**
Executive & Finance Svc	$24,011,433	$5,911,063	$1,971,556	($16,128,814)
Const & Real Prop Svc	$23,611,302	$19,994,021	$6,573,554	$2,956,273
Facilities Operations Svc	$57,120,589	$56,396,874	$5,901,570	$5,177,855
Purchasing & Ctrl Svc	$58,775,459	$51,775,268	$6,805,799	($194,392)
Information Tech Svc	$164,621,217	$173,421,774	($611,479)	$8,189,078
Cust Apps Branch	$55,463,930	$65,184,437	($6,674,328)	$3,046,179
Computing Svcs Branch	$50,085,440	$70,855,886	($6,420,692)	$14,349,754

FY 1993-94

| Organization	Gross Appropriation	Intrafund Transfers	Revenue	Profit/(Loss)
Internal Svcs Dept	**$342,956,000**	**$317,204,000**	**$23,922,000**	**($1,830,000)**
Executive & Finance Svc	$32,937,538	$5,802,705	($4,156,989)	($31,291,822)
Const & Real Prop Svc	$19,103,181	$15,678,893	$6,605,526	$3,181,238
Facilities Operations Svc	$61,547,319	$66,210,587	$3,780,847	$8,444,115
Purchasing & Ctrl Svc	$60,203,176	$52,029,423	$8,987,812	$814,059
Information Tech Svc	$169,164,786	$177,482,392	$8,704,804	$17,022,410
Cust Apps Branch	$56,996,768	$59,932,473	$5,431,946	$8,367,651
Computing Svcs Branch	$77,122,819	$89,816,927	($4,293,609)	$8,400,499

FY 1992-93

Organization	Gross Appropriation	Intrafund Transfers	Revenue	Profit/(Loss)
Internal Svcs Dept	**$387,526,000**	**$329,147,000**	**$58,379,000**	**$0**
Executive & Finance Svc	$40,623,142	$5,489,692	$5,949,053	($29,184,397)
Const & Real Prop Svc	$20,660,181	$19,215,175	$4,613,113	$3,168,107
Facilities Operations Svc	$70,620,028	$75,085,988	$3,770,819	$8,236,779
Purchasing & Ctrl Svc	$65,520,730	$51,395,276	$14,798,717	$673,263
Information Tech Svc	$190,101,919	$177,960,869	$29,247,298	$17,106,248
Cust Apps Branch	$65,591,298	$66,259,361	$7,177,958	$7,846,021
Computing Svcs Branch	$88,440,471	$80,383,730	$15,783,477	$7,726,736

Source: Budget information provided by ISD.

Note: Income = Intrafund Transfers and Revenue
Expense = Gross Appropriation

Figure 1 further illustrates the significant percentage of overall IFT received by ITS, and specifically the Computing Services Branch (responsible for the maintenance and operation of the IBM and UNISYS mainframes) compared to the rest of ISD.

Figure 1: ISD: Comparison of Intrafund Transfers FY 1994-95
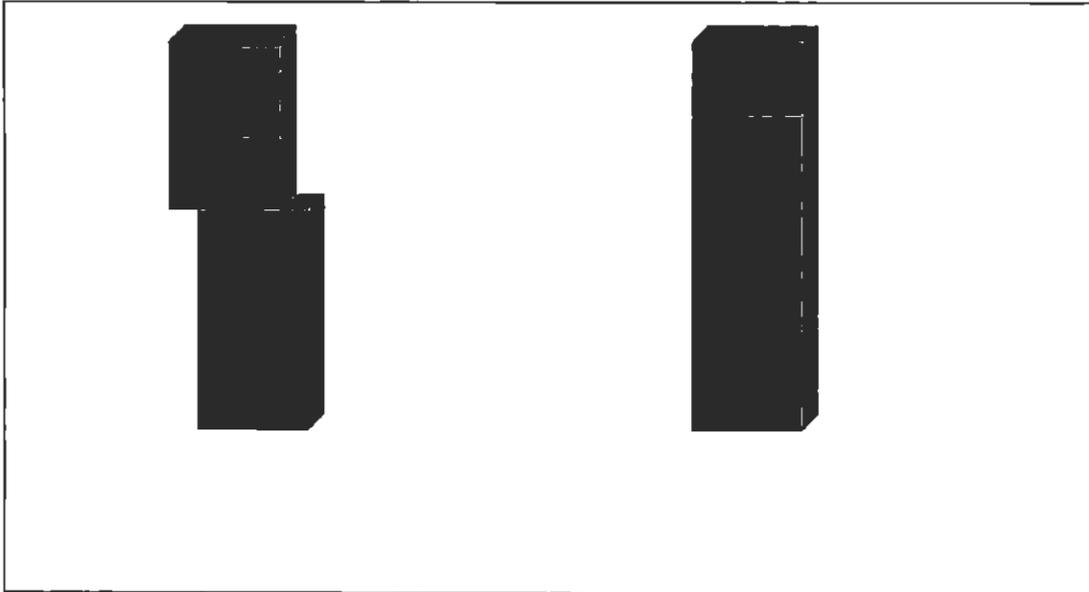
- Some departments suggested that functions within ISD that are used by only one or two departments may be better aligned with one of these departments in order to provide more cost-effective solutions at the County level. An example of this is the Valuation and Acquisitions Division of the Construction and Real Property Service. The Division's annual budget is about $3.5 million; the Department of Public Works is the biggest customer, spending over $2 million annually for its services.

- An ISD general manager recalled several occasions where building leases were secured due to pressures from customer departments that were not, in the long-run, in the best interest of the County. The same general manager also expressed a need for more effective, centralized capital project master planning and asset management.

- In times of budget curtailments and scarce funding, many departments defer building maintenance in lieu of other "priorities". An ISD general manager and many department interviewees commented that deferring building maintenance will cost the County several times more than if the costs were incurred at the time maintenance is due, and that this current trend is "a disaster waiting to happen". A study[2] conducted by the Quality and Productivity Commission and Chief Administrative Office stated that the decentralization of the County's asset management/development program has contributed to "significant deterioration of the County's real property assets, creating a liability risk and probability of increased future expenditures". The study also stated that "significant cost savings in the short-term and new revenues over the long-term" are only possible with a centralized asset management and development program.

4. ***Alignment of responsibility and accountability for services provided.*** ISD customers cite instances where ISD incurs cost overruns, and/or liabilities in projects for which they provide oversight, resulting in the departments having to assume responsibility. Some examples of comments received are:

- ISD customers cited numerous examples where the customer department was responsible for cost overruns and unanticipated expenditures when ISD mismanages a project. In response, an ISD general manager stated that in the last three years, there were only two occasions that Board approval was sought for change orders for capital projects.

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[2]   Quality and Productivity Commission and Chief Administrative Office Study on Asset Management, October 18, 1994

- Departments interviewed stated that they are often charged for additional costs when ISD resources were expended to correct their subcontractor's mistakes. One ISD general manager responded by stating that such charges are deleted if customers bring it to their attention.

- Departments provided examples of how the visibility, management, and control of telephone utility costs were more effective when the departments assumed the function of monitoring, verifying and managing their own telephone bills and usage. One reason for this is that departments have more accurate and current information to perform verification of telephone utility bills.

5. ***Organizational efficiency and effectiveness.*** Several departments interviewed commented that ISD services were hampered by overlapping and unnecessary steps and processes that could be better streamlined. Customer departments are sometimes confronted with a "we have always done things this way" mind set instead of a willingness to examine how to be more efficient and effective. Many of the department managers and executives that were interviewed complained about the lack of responsiveness, timeliness and adequate coordination of ISD's routine services. Departments stated that ISD can be responsive in emergencies, as in the 1994 Northridge Earthquake, and high priority projects, although it often necessitates an undue degree of departmental involvement and direction.

    - An example of organizational inefficiency is the management of long-term, low-cost leases. One department fiscal manager recalled an occasion when he inquired why the same process was used for reviewing, auditing and processing payments for leases regardless of whether they are short-term or long-term leases, only to be informed by Leasing and Space Management personnel that "we have always done it that way". In many cases, leases that are fifty years or more with small lease amounts (some as low as several dollars per year) do not require the same amount of processing, scrutiny and paperwork as the more complicated leases.

    - A majority of the departments interviewed gave examples of how customer departments, out of necessity, had to coordinate FEMA recoveries from the Northridge earthquake between ISD services and branches. One department manager mentioned of having to expend significant resources to ensure that ISD's contractors, who were unfamiliar with County organization and operations, performed the requisite work required by FEMA and to provide the necessary coordination between all parties involved.

    - A department manager cited an instance where ITS provided an estimate of one week to install a single network line. After eight weeks and several memorandums, the department manager had to place a telephone call to the ITS Division Chief to get a technician out to begin the work.

- Another department described an experience where different ISD crafts personnel, from electricians to carpenters, showed up over a course of five weeks before a door was correctly installed in an office. The department was charged $1,200 for that installation.

- Another common criticism of ISD services is the time it takes between when a service request is initiated and when the work is actually completed. One department provided an example where they processed a great deal of paperwork to secure funding for replacing a badly leaking roof after ISD provided an estimate, only to be informed by ISD that it would be five months before they could begin working on the roof.

- One reason that is frequently offered by ISD managers for ISD's lack of responsiveness is the inadequate staffing level of direct service personnel to meet service demands.

Since its merger six years ago, ISD has made good progress towards consolidating common functions and re-engineering its organization to better serve its business lines. However, there are still areas within ISD that can be further organized to facilitate better coordination and communication between its services. ISD customers have continuously asked to have a single point of contact for ISD services but have had to resort to dealing directly with division managers and department executives because a more effective way of communicating with ISD has not been provided. Many of ISD customer departments have full-time personnel to coordinate, monitor and manage services and billings provided by ISD.

6. ***Equity and fiscal effectiveness of ISD's full-cost recovery mandate.*** ISD's full-cost recovery model also "buffers" ISD from budget curtailments imposed on other departments because ISD's funding comes from intrafund transfers (IFTs) from its client departments for services provided. Often during budget curtailments, departments have to reduce their expenditures in other areas but maintain their ISD budget because much of ISD services such as building repairs and maintenance, software maintenance, support, and enhancements are unavoidable and/or mission critical. When curtailments are required due to revenue shortfalls, IFT reductions are accommodated by ISD via elimination of unfilled budgeted positions, over recovery in other areas, and/or reassignment of personnel and resources to achieve zero net County cost. To ISD's credit, the KOMMAND billing system is very flexible and is able to accommodate annual adjustments to overhead rates and direct charges to about 300 cost pools and ensure that ISD fully or over recovers all its "costs". ISD's "costs" often includes contingencies for unanticipated expenditures such as capital investments, hardware and software upgrades and purchases, and service contracts. As an example, ITS was able to absorb a $3.5 million unanticipated expenditure for software upgrades to the UNISYS mainframe using their S&S budget without requiring any budget adjustments. In summary, ISD's full-cost recovery mandate does not provide adequate visibility and requisite controls of the ISD budget at the County level.

- Several department managers in separate interviews suggested that there is very little incentive for ISD to cut its costs or reduce its expenses.

- Another department manager commented that the full-cost recovery mandate is a misnomer and that while ISD "fully" recovers its costs, other County departments are required to curtail their expenses and reduce costs.

- An ISD manager indicated that a challenge that ISD faces with the full-cost recovery mandate is the inability to maintain some kind of "retained earnings" as an alternative to using LAC-CAL for financing capital investments.

- ISD maintains that the full-cost recovery mandate, coupled with customers having the option to pursue other providers for some ISD services, encourages ISD to be more cost-effective and competitive in order to retain its customer's business. ISD also commented that its overall budget has significantly been reduced over the past several years.

Table 2 below illustrates that ISD's overall budget remained relatively unchanged (± 5 percent) since fiscal year 1990-91 except for fiscal year 1994-95. ISD reduced its fiscal year 1994-95 budget by 10.8 percent from the previous year (not shown in the table) as a result of countywide budget curtailments. ISD took most of its 10.8 percent budget reduction by eliminating approximately 139 vacant budgeted positions and anticipated reductions in service demand.

Table 2: Internal Services Department Budget Trends

| | Budgeted[1] | | | Actual | | |
	FY 90-91	FY 94-95	% diff	FY 90-91	FY 94-95[2]	% diff
Gross Total	$359,584,000	$317,747,000	-11.6%	$333,480,752	$319,617,568	-4.2%
S & EB	$203,792,000	$181,188,000	-11.1%	$191,496,995	$172,220,864	- 10.1%
S & S	$125,005,000	$121,038,000	-3.17%	$116,406,736	$131,961,911	13.4%
IFT	$312,071,000	$283,572,000	-9.1%	$290,123,641	$276,225,221	-4.8%
Revenues	$43,278,000	$44,568,000	3.0%	$55,355,944	$55,015,345	-0.6%
Budgeted Pos.	4070.1	3,094.6	-24.0%	3,701[3]	2,944.8[4]	- 20.4%

Sources: [1] Based on published final County Budgets.
          [2] Based on Estimated Actuals (3-21-95) from ISD.
   [3] Based on 8/91 CWTAPPS report.
          [4] Based on 2/95 Item Control report provided by ISD.

The following observations can be made from analyzing ISD's budget trends over the past five fiscal years (see Table 2 above):

- Actual ISD expenses changed very little (-4.2 percent) between fiscal year 1990-91 and 1994-95;

- Actual Salaries & Employee Benefits (S&EB) decreased by 10.1 percent while actual filled positions decreased by 20.4 percent;

- Budgeted S&S expenses decreased by 3.17 percent but actual S&S expenses increased by 13.4 percent;

- Actual IFT decreased by about 4.8 percent; and

- Actual Revenues decreased by 0.6 percent.

Figure 2 below, further illustrates that while ISD's budget increased in fiscal years 1991-92 and 1992-93 and came back down in fiscal years 1993-94 and 1994-95, the ISD budgets, overall, remained relatively unchanged -- contrary to ISD's frequent assertions that it has significantly reduced its budget since its consolidation.

Figure 2: ISD Budget Trends: FY 1990-91 to 1994-95
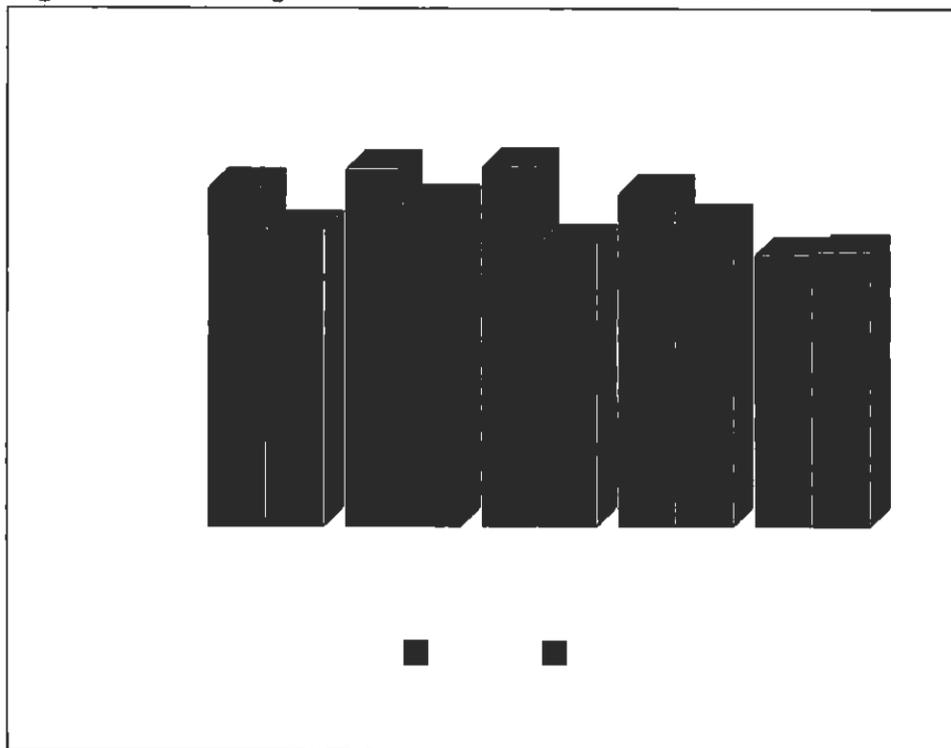
It should be noted that approximately $22.2 million of the increase in ISD's budget beginning in 1993-94, is due to the shift of such costs as Rent, Utilities, and RIMA to ISD and costs related to the Northridge Earthquake. When adjusting for these factors, ISD's budget reflects a decrease of $36.1 million, or 10.81 percent from 1990-91 to 1994-95.

7. **Cost of providing service.** ISD's charges for services are generally perceived by customer departments to be too high, particularly its overhead charges. Review of previous organizational studies[3] and informal surveys has revealed that ISD's charges and overhead may not be as high in comparison with competitive service providers. However, comparisons of ISD's overhead with that of private corporations are not reasonable because ISD has a full-cost recovery mandate while private corporations are profit driven. Similar comparisons with other government jurisdictions cited in previous organizational studies are also inappropriate because of ISD's full-cost recovery mandate. ISD also has to include in its overhead, contingencies and funds for capital investments, such as mainframe upgrades/ replacement, because it does not have many alternatives for financing. Appendix IV contains detailed spreadsheets of ISD's overhead rates and direct charges.

    *   Department managers and executives suggest one possible cause for ISD's high overhead: too many layers of management and supervision, as well as support/ administrative units that do not appear to add value to the process or the quality of the work product.

    *   Department managers also perceive that functions that are not aligned with -- and do not add value to -- the delivery of service demanded by customers also contribute to ISD's high overhead. One department manager cited that "ISD can cut some of its overhead if it stops printing those glossy advertisements and brochures about itself." Many of ISD's customers concur that ISD should focus more on realizing its mission, i.e., improving delivery and quality of services, instead of costly but ineffective marketing efforts. ISD's customer departments also question the relative value in ITS programs such as the Advanced Systems Lab, Technical Library and Training Center, as well as the Department's Total Quality Service efforts, in time of County financial crisis.

    ISD's response to this issue is that customer departments do not understand the costs of maintaining the infrastructure required to support ISD's services and to achieve its mission. ISD claims that its competitors in the private sector charge much higher levels of overhead. However, such comparisons are not meaningful because private corporations are profit-driven while ISD has a full-cost recovery mandate.

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[3] Management Audit Report of the Internal Services Department, performed by Harvey M. Rose Accountancy Corporation, September 1992

- Many of ISD's customers believe that a significant amount of ISD staff and computing resources are devoted to support functions and operations that result from its full-cost recovery mandate. These staff and computing costs are in turn included in ISD's departmental overhead. Consequently, many departments feel that, even with the billing required for subvened departments (about 40 percent of ISD's customers), ISD's overhead can be reduced if it did not have a full-cost recovery mandate. ISD maintains that very little cost savings can be realized from eliminating it's full-cost recovery mandate because much of the billing to subvened departments and cost accounting functions would remain.

- Much of ISD customers' perceptions of high cost for services and overhead are perpetuated by ISD's refusal to disclose its cost structure and overhead calculations, as well as annual adjustments and changes to their approximately 300 cost pools. ISD includes in its direct charges, salaries, employee benefits, and a proportionate percentage of S&S expenses. ISD overhead rates are adjusted annually and since fiscal year 1993-94, departmental, service and division level overhead rates have been combined into a single overhead rate applied against direct charges. **The overhead analyses performed are based on: 1) overhead rate information provided by ISD for fiscal years 1993-94, 1994-95 and 1995-96, and 2) information related to direct base and indirect costs for only fiscal year 1994-95 and 1995-96.**

Analysis of information related to ISD's direct and indirect charges revealed a significant discrepancy ($86.9 million in fiscal year 1994-95 and $102.9 million in 1995-96) between the figures that ISD provided and the sum of IFT and Revenue reported in their budget. When asked about the discrepancy, ISD stated that the bulk of it is due to "pass-through" expenditures and conceded that the overhead calculations in the information they provided erroneously omitted expenses related to the Executive/Administration and Finance Service and support divisions such as Management Information Systems and Planning and Management Divisions (which would be 100% indirect costs).

Table 3: Internal Services Department - Adjusted Direct & Indirect Charges

FY 1994-95

	E/AFS	C&RP	FOS	ITS	PCS
1) Direct Base[1]	N/A	$17,419,787	$41,401,813	$78,768,156	$42,854,821
2) Indirect charges[1]	N/A	$7,821,283	$13,686,053	$30,856,449	$8,449,109
3) Adjustments to Indirect	$7,882,619	N/A	N/A	$2,653,796	N/A
4) Total Indirect (2+3)	$7,882,619	$7,821,283	$13,686,053	$33,510,245	$8,449,109
5) Overhead rate (4÷1)	100%	44.90%	33.06%	42.54%	19.72%
6) IFT + Revenue[2]	$7,882,619	$26,567,575	$62,298,444	$172,810,295	$58,581,067
7) "Pass-through" costs (6 - 1 - 4)	$0	$1,326,505	$7,210,578	$60,530,309	$7,210,578

For FY 1994-95, total "pass-through" costs are **$76,344,529.** Average overhead for ISD is **39.54%.**

FY 1995-96[3]

	E/AFS	C&RP	FOS	ITS	PCS
1) Direct Base[1]	N/A	$19,988,366	$39,739,087	$76,007,778	$33,616,534
2) Indirect charges[1]	N/A	$7,794,682	$13,625,776	$30,904,023	$7,824,237
3) Adjustments to Indirect	$10,980,683	N/A	N/A	$1,973,915	N/A
4) Total Indirect (2+3)	$10,980,683	$7,794,682	$13,625,776	$32,877,938	$7,824,237
5) Overhead rate (4÷1)	100%	39.00%	34.29%	43.26%	23.27%
6) IFT + Revenue[2]	$10,980,683	$46,301,461	$63,553,446	$167,434,938	$44,127,188
7) "Pass-through" costs (6 - 1 - 4)	$0	$18,518,413[4]	$10,188,603	$58,549,222	$2,686,417

For FY 1995-96, total "pass-through" costs are **$89,942,655.** Average overhead for ISD is **43.17%.**

Sources:
[1] Based on information provided in ISD's Response, May 22, 1995.
[2] Based on divisional 1994-95 budget information provided by ISD.
[3] Based on budget request submitted by ISD.
[4] Includes $17.6 million earthquake contingency.

"Pass-through" expenses, as explained by ISD, are costs of equipment and services that ISD procures on behalf of its customers and for which it does not bill for any indirect charges. Table 3 shows a schedule of ISD's direct and indirect charges, as well as the study's estimation of the "pass-through" costs; ISD has not provided further clarification. Absent any further clarification regarding "pass-through costs"

from ISD and assuming that ISD correctly reported its direct base charges for fiscal years 1994-95 ($180,444,577) and 1995-96 ($169,351,765), the average ISD overhead for fiscal year 1994-95 is **39.54 percent** and increased to **43.17 percent** for fiscal year 1995-96.

In comparing ISD's overhead rates to that of other departments, it is important to note that, while many departments include employee benefits and S&S in their overhead, ISD includes these costs in direct charges. For example, using ISD's methodology, the Chief Administrative Office's overhead would be approximately 31 percent for fiscal year 1994-95.

Figure 3 below shows that indirect and "pass-through" costs make up 45 percent and 49 percent of ISD's budget for fiscal years 1994-95 and 1995-96, respectively.

Figure 3: Comparison of Overhead Charges by ISD Service
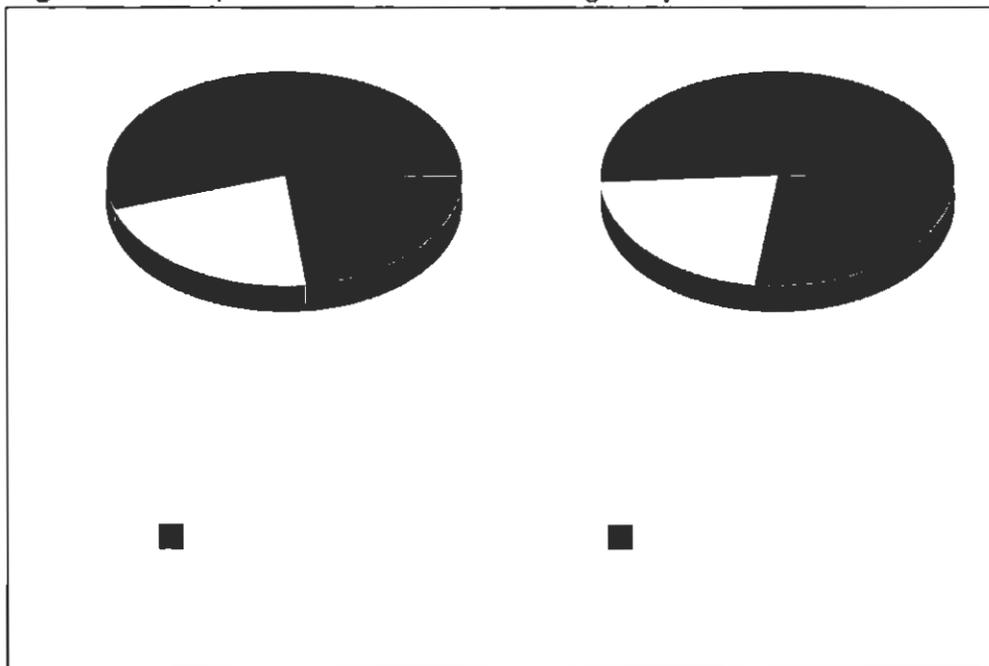
8. *Service Level Agreements (SLAs).*

    ● SLAs, where they exist, are too generic and are not used effectively to establish and control the delivery of services from ISD to its customers. Additionally, not all ISD services are governed by SLAs and for the ones that are, ISD claims that only 50 percent of the SLAs are signed by their customers and returned to ISD.

    ● Many departments complain that they are billed for the level of service described in an SLA even though ISD is unable to provide that level of service due to a variety of reasons. An example is in the area of Safety Police where an SLA would specify the number and type of security services to be provided for a certain fee. However, when absences occur (due to illness, training, and other reasons) and ISD is not able to meet the SLA requirement, customer charges and billings are not adjusted to reflect this change in the level of service.

- Very often, the SLAs do not include mechanisms to adjust billings to reflect changes in service levels over the course of the year. SLAs need to include provisions that clearly delineate, by quantifying as much as possible, the level of ISD service in return for the charges agreed upon between ISD and its customer. Contractual mechanisms should also be included so that the customer's billings are adjusted when ISD is unable to provide the agreed upon level of service.

9. ***Contracting with third party providers for ISD services.*** In theory, departments have the option to pursue other more cost-effective providers of ISD services. However, in reality, the time-consuming procurement process for such services makes it difficult and impractical for ISD customers to go elsewhere. Furthermore, reliance on ISD services (particularly ITS) due to significant past investments in resources and infrastructure (e.g., mainframes, software, and communications), also make it difficult for ISD customers to pursue other service providers. ITS, in particular, recognizes this situation as their strength by stating that ITS has a "captive customer base ... due to legacy systems[4]." Furthermore, budget and staff curtailments have reduced departments' resources and ability to actively pursue such alternative service providers. Additionally, departments do not have a choice of service provider for many of ISD services, e.g. purchasing and central services, fleet management, and capital project administration.

10. ***Relationship of ISD structure to its customer-focused mission.*** While departmental functions evolved and grew as more services were merged in creating ISD, e.g. County Engineer, Communications, Mechanical, Building Services, Data Processing, and Purchasing and Stores, much of the organization and the delivery of such services have remained unchanged, and are not aligned to achieve ISD's mission and corporate goals. Most of the consolidation efforts as a result of the merger of six independent departments to create ISD was centered around administrative and financial functions. In the administrative and financial areas, ISD has done a commendable job of transitioning from six different departments and into a full-cost recovery budgetary model. However, ISD line services remained organized and structured in a "stovepipe" manner with minimal cross-functional interaction between the divisions that comprise the service. Specifically, ISD's services are still organized vertically by specialty instead of customer-focused service functions making it difficult to facilitate coordination and communication between services. Consequently, utilization of corporate resources and staff are not optimized and other organizational inefficiencies continue to hamper ISD.

  - One department manager recalled an occasion where staff with a certain technical expertise was needed for a software development project but because none of the staff assigned to his department had the necessary skill set, he proceeded to procure outside consultant services, only to find out later that ISD staff assigned to

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[4] Mid-Range Services, 1994-1996 Tactical Plan, March 6, 1995.

a different department had the requisite skills and was available.

● As previously stated, many of ISD's customers noted that undue customer involvement and management is often required to ensure: correct charges are billed for services rendered; adequate communication and coordination between different ISD services; and sufficient quality control.

Executive and Administration/Finance Service Findings

1. **Resolution of erroneous billing charges.** The Administration and Finance Service has performed a commendable job of consolidating its functions from six different departments in the merger that created ISD, and building a billing system that allows it to operate as a full-cost recovery organization. ISD's customers are generally satisfied with the level of service and response they receive when billing errors are identified and brought to ISD's attention. However, departments also complained that ISD continues to have numerous billing errors and many departments have full-time personnel assigned to reviewing ISD charges for accuracy.

2. **Billing reports and rate structure.** While ISD solicited departmental input in developing its billing reports, it has been several years since the usefulness of such reports have been revisited. Consequently, with the changes in personnel in customer departments coupled with a growing sophistication and scrutiny of ISD billings, customers are asking for more billing information in various formats. ISD's customers are also making more inquiries into its rate structure and its methods of overhead calculations in attempts to better understand and manage their ISD budget. ISD maintains that portions of its rate structure, cost pool make-up, and calculation methods are proprietary.

3. **Quality improvement programs.** While quality and continuous process improvement programs are heavily promoted and advertised, they are ineffective as many employees are not informed, aware, or empowered to successfully implement such programs. The success of such programs rely heavily on the degree to which the organization's mission, goals and objectives for quality and continuous process improvement are internalized by the employees. The TQS program has met with varied and uneven success in ISD. Some of ISD's general managers are totally committed to TQS while others are less enthusiastic about its effectiveness. Overall, it appears that TQS has made very little impact to the overall quality of ISD's services. Furthermore, as the costs for these programs are folded into the overhead charges for ISD services, customers question the value of such efforts.

Construction and Real Property Service (C&RP) Findings

1. **Quality of service and staff.** Overall, departments interviewed recounted that the quality of service is highly dependant on the specific staff person(s) that is delivering the service and when problems occur, they are often resolved by replacing the staff

currently assigned. To be effective, a service organization needs to ensure that the level and quality of service delivered remains relatively consistent and independent of specific staff assigned to perform the job.

2. ***Alignment of asset management with lease and space management.*** The County's current decentralized asset management/development program, while allowing departments flexibility in managing their own properties, is creating a situation which calls for immediate remedy[5]. The lease management and space management function of the C&RP Service should be aligned with the asset management and development function to work effectively in the County's best interest. As previously mentioned, the lease and space management function, as it resides in ISD, is often in conflict between delivering a low-cost service requested by a department versus the level of service that would be in the County's long-term best interest.

3. ***Management support for improving service quality and costs.*** Over the past three years, C&RP management have improved quality assurance and client involvement in its construction projects. Peer review groups with good representation from clients, contractors, and subcontractors are established for construction projects to ensure adequate participation and oversight in the selection and monitoring of contractors, as well as to provide adequate project management and oversight. However, many customers of C&RP still perceive that the quality of work remains varied and highly dependent on individual project managers.

Facility Operations Service (FOS) Findings

1. ***Cost-effective alternatives for custodial service.*** While employee salaries for custodial service are fairly competitive, ISD's departmental and divisional overhead coupled with County employee benefits, significantly increase the costs for ISD to provide for custodial service. ISD's management recognizes that there are more cost-effective alternatives for providing this service and is pursuing contracting for custodial services as personnel attrition occurs. Departments who have contracted with outside vendors for custodial services are generally very satisfied with the quality of service received and are recouping the resulting cost savings.

    - One department manager provided an example where they contracted directly with the same vendor instead of ISD for custodial services and managed to reduce their cost from $30,000 to $18,000 annually.

    - In response to mounting fiscal pressures and budget curtailments, several departments are beginning to actively pursue alternative providers for custodial services.

[5] Quality and Productivity Commission/CAO Asset Management Study, October 18, 1994

2. ***Quality and cost of craft and maintenance services.*** ISD's customers agree that
    the quality of craft services is generally high but costly.

    - Several department managers also commented that the crafts personnel assigned
      to their department are very industrious and go out of their way to make sure that
      County building systems are adequately maintained, under stringent fiscal
      constraints. With the budget curtailments and prioritization of expenditures, building
      maintenance has often been neglected in lieu of more mission critical functions. As
      such, building maintenance and crafts personnel spend much of their time keeping
      outmoded building maintenance systems, such as air conditioning and plumbing
      systems, operational when such systems should be replaced.

    - Many of ISD's customers have contracted for third party vendors for building
      maintenance, e.g., roofing and building repair, because of ISD's high costs for
      providing the same service. One department recalled a situation where they were
      hired a contractor to replace a roof for $18,000 when ISD provided an estimate of
      $60,000 for the same work.

    - Several of ISD's customers complained that the quality of building maintenance and
      facility operations service and customer response is very inconsistent and varies
      from district to district.

    - Several departments have established their own crafts and building maintenance
      personnel in order to meet building and safety regulations imposed on their
      operations. By establishing their own crafts and building maintenance personnel,
      the departments were able to be more effective and responsive by restructuring and
      hiring more direct service personnel with cost savings from ISD's overhead and by
      incurring minimal additional costs.

    - Departments expressed their frustration regarding situations where ISD contracts
      for services, e.g., roofing and building maintenance, but does not provide adequate
      quality control to ensure that the job was completed properly. Departments claim
      that even though ISD billed its overhead for overseeing their contractors, very little
      oversight, project management and quality control is provided in return. ISD's
      customers recall many occasions where ISD does not come to the work site to
      check its subcontractor's work and to ensure that the job is completed according to
      original work specifications prior to approving payment for such services.
      Furthermore, customers get billed for corrective work performed by ISD when
      service complaints are filed.

3. ***Restructuring Crafts Operations.*** Some of the high cost of crafts operations may be attributable to ISD's difficulty in planning appropriate staffing levels, based on projected workload; this may result in excess staffing and consequently, higher costs. Given the unpredictable peaks and valleys in craft projects, an alternative may be to retain a core group of in-house expertise in crafts operations, while developing a group of private vendor contracts in various craft disciplines to be utilized on an as-needed basis, based on customer service requests.

Information Technology Service (ITS) Findings

1. ***Leadership and management of the IT function.***

    * Several departments commented that while ITS managers and executives actively strategize and develop tactical plans for ITS functions, technical staff are often unaware and uninformed about such strategies and plans. For strategies and plans to be effective, they need to be clearly communicated to all involved personnel to achieve organizational focus and accomplish set corporate goals.

    * Department IT managers interviewed commented that, except for mainframe operations and maintenance, very little documentation and standards exist to ensure consistency and guidance for ITS projects. For example, efforts to institute information engineering and promote discipline and rigor in systems development efforts by using information engineering techniques and computer-aided system design tools have not been enforced, even though significant hardware and software investments have been made.

    * A report prepared as a result of a technical review of property tax systems conducted by a big six consulting firm[6] states:

      "At one point in the past, ITS did have a methodology and manual for the systems lifecycle, however this Systems Development Methodology (SDM) Handbook is not distributed to new staff, and does not appear to be used ..."

      ISD customers feel that the levels of standards and rigorous quality assurance is sporadic, if not, absent, in many of ISD's IT functions and business lines. Where policies and standards exist, they are seldom practiced or enforced.

    * One department executive stated that, in some respect, the control and direction imposed by the Data Processing Department in the early 1980's was better than the lack of direction and leadership demonstrated by ITS. Most of the departments interviewed recognized the need for centralized direction, review and coordination

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[6] Technical Review of Property Tax Systems prepared by Deloitte and Touche, August 1993.

of the County's IT function.

● Many departments cite organizational inefficiencies within ITS stemming from poorly coordinated functions, some of which overlap while others appear to be misaligned. For example, there are several customer support organizations located in different divisions within ITS that can be consolidated to provide a single point of contact for ITS customer service inquiries and to better coordinate and manage service request responses. Another example is the poor coordination between Data Network Services, Premises Systems, Planning and Program Management and Network Services Divisions in delivering quality data communications service to ITS clients.

● Many of its clients perceive that ITS is not following through and leveraging its investments in contemporary technologies and assuming a leadership role in key IT areas. For example, ITS made significant investments in researching and purchasing a computer-aided system engineering environment but has not utilized its capabilities in its system engineering projects. Some departments also recall ITS actively pursuing an RFP to secure off-site computing resources to enhance its back-up and recovery function. To date, no action has been taken to develop a remote computing back-up environment should the Data Center becomes non-operational in the event of a natural disaster or fire.

● Many customers of ITS complained about the lack of technical documentation of software applications maintained by application programming staff. Where documentation exists, it is usually outdated and inadequate.

2. *Cost for ITS services.* Many of ISD's customers maintain in-house IT personnel and/or contract for consultant services on a project by project basis. Most of ITS's computing resources are dedicated towards maintaining and operating large departmental and multi-departmental software applications.

The following observations can be made from a cost analysis of mainframe services (IBM Computing Services, UNISYS Computing Services, and Operations Support Division) for fiscal years 1991-92 through 1994-95 (see Table 4):

Table 4: Cost Analysis of Mainframe Services

	FY 91-92	FY 92-93	FY 93-94	FY 94-95
<u>Mainframe Workload</u>				
Computer jobs processed	2,485,000	2,387,000	2,212,000	2,200,000
Computer terminal inquiries	585,757,000	645,934,000	614,860,000	615,000,000
<u>Cost of Service</u>[1]				
Gross Appropriation	$57,632,047	$60,530,866	$52,612,790	$39,948,594
IFT + Revenue	$71,103,131	$74,486,330	$65,780,571	$60,357,351
E/D Expenses	$1,258,944	$1,266,221	$7,693,403	$16,728,606
E/D Income	$424,781	$1,238,011	$1,124,623	$5,512,375
Cost Over-Recovery[2]	**$12,636,921**	**$13,927,254**	**$6,329,001**	**$9,192,526**

Source: Based on 1994-95 Proposed County Budget and budget information provided by ISD. Please refer to Appendix IV - Cost Analysis of Mainframe Services for more information.

[1] Mainframe services assumed to be provided by IBM Computing Service, UNISYS Computing Service, and Operations Support Divisions.

[2] Cost over-recovery = IFT + Revenue - Gross Appropriation + E/D Income - E/D Expense

- E/D expenditures for mainframe services grew from $1.26 million in fiscal year 1991-92 to $16.73 million in fiscal year 1994-95, over 1,200 percent while E/D income grew from $424,781 to $5.51 million (1,197 percent). E/Ds represent accounting adjustments to reflect the cost of services purchased from (E/D expense) or sold to (E/D Income) other ISD services. ISD states that E/D expenses and incomes should be included in calculations to determine the true cost of ISD services.

- Between fiscal years 1991-92 and 1994-95, mainframe services cost over-recovery ranged from approximately $6.3 million to as high as $13.9 million. These cost over-recoveries in mainframe computing services are used to offset "non-profitable" ISD services because of the full-cost recovery mandate. Consequently, the cost over-recoveries for mainframe services inflate the true cost of providing mainframe services despite ISD's claims of reduced rates for such services.

3. ***Competitiveness of telecommunications services.***

- ISD's LANet and COMPASS programs have become non-competitive due to recent industry deregulation and tremendous investments by private sector telecommunications companies. Furthermore, some departments are beginning to reach the communications bandwidth limitations of LANet and are beginning to

demand service level upgrades, more options, and a greater degree of customization. While ITS is able to remain fairly competitively priced, until recently, for the same level of service provided by third party communication vendors, it does not have the capital resource to effectively compete with such vendors in upgrading and improving its level of service and products to its customers. It is this factor that has led several departments to pursue alternatives to LANet for their communication needs. The County's long-range communications requirements should be further analyzed to determine if LANet would be able to meet the requirements in a cost-effective manner. This weakness of LANet is demonstrated by recent service outages (May 5 and 8, 1995) due to network congestion.

Two of ISD's biggest customers, the Sheriff's Department and the Department of Health Services (DHS) selected other vendors over LANet because:

- LANet did not have the technology to meet the communication requirements that DHS demanded for its communication infrastructure.

- Alternative telecommunications providers had a much better service record and were less expensive than LANet. Specifically, LAnet currently charges $900 per pair of connections while Pacific Bell charges only $630 for the same pair of connections.

- Many of the departments interviewed believed that business machine maintenance and repair is one area where it would be more cost-effective to contract with an outside vendor. ISD does not have the ability, with its full-cost recovery mandate, to keep a stock of replacement parts and does not have the requisite staffing level to provide reasonable response for equipment repair compared with an outside vendor.

4. *Core competencies and strengths.* Many of the departments interviewed agree that ITS has qualified staff to develop, maintain, manage and operate applications specifically in the mainframe environment. Another conclusion that can be drawn from departmental interviews is that ITS's customers rely more and more on in-house resources and/or consultant services contracts for new systems development efforts as they believe ITS is unable to meet departmental IT needs. Reasons often cited for this trend are:

    - ITS personnel do not have the expertise nor skill set in contemporary technologies required by new system development efforts. ITS recognizes this problem and is attempting to implement several programs such as the Advanced Systems Lab, as well as staff development and training programs. However, ITS's customers perceive the success from these efforts to be limited to staff in the Advanced Systems Lab and isolated groups of technical staff in Customer Applications Services. Additionally, ITS's customers also perceive that they are paying for ITS staff development via overhead charges when the they could be using those funds

for developing their own in-house technical staff.

- ITS is not competitive (cost and staff quality) with private vendor consultants who provide extensive background, experience, and organizational support in contemporary IT technologies.

This study recommends that ITS leverage its knowledge of its mainframe systems, while assuming a leadership role by working with its customers to develop innovative strategies to re-engineer and migrate its mainframe applications to more cost-effective computing environments. The following gains can be achieved by this approach:

- Regain leadership role by developing and implementing strategies for re-engineering and migrating outmoded applications to more cost-effective and efficient computing environments. This approach expands the scope of the Mid-Range Services 1994-1996 Tactical Plan to include the re-engineering of candidate mainframe applications.

- Leverage staff knowledge and expertise to re-engineer outmoded applications while at the same time gain exposure to -- and experience with -- contemporary technologies.

- Realize potential long-term cost savings and computing efficiencies by integrating and consolidating disparate information systems and incorporating new requirements, where applicable.

5. **Lack of communication and coordination between branches.** Many of the departments interviewed provided numerous examples of organizational inefficiencies and lack of coordination between ITS's branches and division management.

- Several department managers stated that they often have to call the General Manager to obtain adequate service response or for problem resolution.

- ITS customers also relate incidents where they receive conflicting advice and recommendations from different division managers with respect to solving IT-related problems. One department manager recalled an experience where he worked with one group of ITS technical staff to develop network specifications and designs only to have them completely revised by another group within ITS.

- In a separate interview, another departmental manager recounted a situation when he received conflicting recommendations for system development from two different managers from the same ITS division.

- Department IT managers also commented that they often have to assume a coordinator role out of necessity to ensure proper coordination and communication between ITS branches.

6. ***Feedback regarding on-site technical staff.*** Many of the departments which have on-site dedicated ITS staff are very pleased with the level and quality of service they are receiving. Many stated that the dedication and quality of work performed by such staff is attributed to the personalities and capabilities of the staff. Some of these departments attribute the more positive perceptions to the fact that the ITS staff are directed by local departmental personnel, as well as being provided technical training on -- and exposure to -- contemporary technologies and tools by the line departments. However, a common criticism is that departments often pay for technical training for ITS staff assigned to them and have ITS transfer the staff to other projects as a result of the newly-acquired skills.

Purchasing and Central Services (PCS) Findings

1. ***Alignment of Safety Police function with PCS core competencies.*** A Board-ordered study is currently being conducted to determine the feasibility of transferring safety police services to the Sheriff's Department, consistent with consolidation of all security and law enforcement activities in that Department.

2. ***Management of master agreements.***

   • Many of the department managers interviewed indicated that computer hardware and software prices included in master agreements are not updated sufficiently to reflect current price discounts.

   • Additionally, master agreements for professional services also should be updated to reflect more accurate information. A value-added service would be to maintain some history and track record for contractors in the professional services database to assist PCS customers in making more informed selections of professional service contractors.

   • Some departments interviewed also suggested that regular canvassing be performed by PCS to ensure that the County's agreement vendors continue to provide the best prices for their products.

3. ***Leadership and responsive management.*** Many of the departments interviewed find PCS much easier to work with than with other ISD services, as well as being more responsive to their service requests.

   • Several department managers commented that PCS management is receptive and open to suggestions to improve their services. For example, at the suggestion of one of their customers, PCS is working with the affected department to look into potential cost savings by eliminating the middle man and reducing warehousing costs by pursuing contracts that offer "single drop off point" services, e.g., a single vendor for transporting, warehousing and delivering food.

- The delegation of some level of purchasing authority to departments has resulted in better turnaround for routine, low-dollar threshold purchases.

- Many departments recognize PCS efforts to actively pursue and evaluate potential cost-saving opportunities for the County by capitalizing on economies of scale.

4. ***Opportunities for streamlining functions and improving business process efficiencies.***
   - There is a potential for reducing the turnaround time for purchases if the process for encumbering funds by the Auditor-Controller and issuing purchase orders is more streamlined. Currently, most of this process is manual and dependent on the County mail service. Consolidation of purchasing and supply functions with the controller function provide opportunities for improved coordination and efficiencies in the purchasing and payment services and supplies, as well as better control and oversight of countywide expenditures.

   - There is also potential for further delegation of routine purchase of computer hardware and software not covered by master agreements by establishing guidelines and requisite checks and balances to preserve the integrity of the bidding process and to minimize the effort and turnaround currently required for such purchases.

Section 3

Recommendations

Overview

This study's recommendations are based on interviews with ISD and ISD customers; a review of other jurisdictions; an analysis of ISD staffing, organizational and budget information; as well as reviews of other organizational studies of ISD operations.

Study recommendations are grouped into two categories; primary and secondary. The primary recommendations are targeted for implementation in 1995-96 upon final Board approval of the restructuring recommendations. The secondary recommendations have a longer-term implementation schedule and most require further analysis.

This study demonstrates that the County needs central leadership, oversight and standards in such key areas as information technology, capital projects and asset management, facility management, and purchasing. As a consequence of the "customer service" and "full-cost recovery" charges assigned to ISD, ISD customers are often perceived as individual departments rather than the County as-a-whole, and this has led to decisions not always based on the County's larger interests.

In general, the following recommendations are intended to align key ISD services with departments better suited to provide oversight and direction, and where clear mission alignment exists. While implementation of these recommendations will require attention to interdepartmental coordination with regard to provision of those services which are currently combined in ISD, we believe that, overall, greater coordination and reduced inefficiencies will result from the realignments of key ISD services, particularly in the areas of information technology and asset management. More importantly, these recommendations will provide enhanced leadership over key countywide services and more effective management of County assets and resources.

The Board has focused on maximizing administrative savings in the 1995-96 Proposed Budget. Consistent with this objective, and as a consequence of the administrative savings due to improved organizational alignments, enhanced coordination, and reduced overlap and duplication, we are recommending an approximate 20 percent administrative curtailment throughout ISD[7]. This will generate immediate savings of $4.96 million.

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[7]   Fixed employee benefits and unavoidable costs have been taken into consideration in determining administrative cost savings.

We estimate an additional $10 million to $15 million in savings can be achieved through reorganization and right-sizing in the specific services either transferred to other departments or remaining in the renamed *Department of Facilitiy Services (DFS)*, including implementation of "Secondary Recommendations" and other operational restructuring and streamlining efforts of affected department heads. We believe that these additional savings should be generated primarily during the 1995-96 and 1996-97 fiscal years.

This study recommends a phased approach, with most of the current ISD services reassigned to other departments and some services remaining in a scaled-down and renamed *Department of Facility Services*; further analysis will be conducted to determine if the services retained in ISD could be better aligned with other departments or outsourced.

PRIMARY RECOMMENDATIONS

For implementation in 1995-96 upon final Board approval of the restructuring proposal.

EXECUTIVE/ADMINISTRATION AND FINANCE SERVICE (E/AFS)

♦ Downsize current ISD Executive Service commensurate with the services retained in a scaled-down and renamed **Department of Facility Services** *(DFS)*, including the elimination of the Business Development and Customer Service Division.

♦ Reduce AFS budget by 20 percent.

♦ Transfer Administrative and Finance Service (AFS) to the Auditor-Controller. The main function of these organizations have been to support the current ISD internal operations and the transfer of AFS to the Auditor-Controller will maintain administrative cohesion, minimize disruption to the billing process, and allow the Auditor-Controller to more readily identify potential administrative efficiencies and savings. The departments absorbing and retaining current ISD services would be able to purchase requisite administrative support from the Auditor-Controller.

CONSTRUCTION AND REAL PROPERTY SERVICE (C&RP)

♦ Reduce C&RP administration by 20 percent.

♦ Transfer C&RP Administrative Division, a small portion of the Project Management Division, as well as Leasing and Space Management Division to the Chief Administrative Office (CAO). Consolidating these operations with the CAO's 1) Asset Management and Development Section, and 2) Capital Projects and Debt Management Section, will enable the County to more effectively manage its real property assets. This recommendation is consistent with the recommendations from

the Quality and Productivity Commission and CAO Study on Asset Management, October 1994. Further analysis is recommended to improve the current Building Proprietor Program to ensure effective proprietorship and reasonable maintenance of County facilities.

♦ Transfer Project Management Division, Construction Quality and Contracting Division, and Valuation/Acquisition Division to the Department of Public Works (DPW). With an annual budget of about $3.5 million, Valuation/Acquisition Division's biggest customer is DPW, which spends over $2 million annually for its services. ISD Project Management and Construction Quality operations manifest a strong mission and operational alignment with DPW's Construction Division. Reassigning these divisions to DPW will eliminate overlapping administrative overhead and provide improved alignment between these functions with those of DPW.

   While day-to-day project management and related engineering functions will be absorbed by DPW (e.g., estimating, hiring construction managers, and inspections), the following oversight functions will be aligned with the CAO consistent with the CAO's countywide asset planning and management responsibilities:

   - Policy direction;
   - Arbitration (between user departments and project managers);
   - Development of standards; and
   - Overall fiscal and operational monitoring.

♦ Retain Energy Management Division in a scaled-down *DFS*.

FACILITIES OPERATIONS SERVICE (FOS)

♦ Reduce FOS administration by 20 percent.

♦ Retain in a scaled-down and renamed *DFS*.

INFORMATION TECHNOLOGY SERVICE (ITS)

♦ Reduce ITS administration (including Branch administration) by 20 percent.

♦ Transfer all operations to the Auditor-Controller, with the exception of Urban Research Section. County Code Sections 2.10.010 and 2.10.020 state that the Auditor has oversight responsibility for all business systems in the County. This recommendation expands the Auditor's lead role in the management, review and oversight of "all departmental and technology group financial, personnel, payroll, accounting, and purchasing systems"[8] to include oversight responsibility for all County information

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[8]   Chief Administrative Officer Memorandum, February 2, 1995, re: Auditor-Controller Review of Certain Business Systems

technology (IT), promoting the same objectives of maximum compatibility and cost-effectiveness.

This recommendation supports the County's efforts and various recent Board instructions directed at promoting greater coordination, oversight and leadership critical to the ever-expanding, complex, and often costly, field of information technology. Most recently, the Board ordered the creation of an Office of the Chief Information Officer (CIO) to provide much of this central leadership function. Under separate cover, we are recommending that the CIO function be allied with the restructured Auditor-Controller, to unite the County's central information technology resources/operations with the leadership/vision role for this critically important arena.

♦ Transfer Urban Research Section to the CAO to support and enhance countywide strategic planning efforts.

PURCHASING AND CENTRAL SERVICES (PCS)

♦ Reduce PCS administration by 20 percent.

♦ Transfer Contracts and Purchasing Management Division, Materials Management Division, and Printing/Reprographics Division operations to Auditor-Controller. This recommendation will help streamline the activities and interaction between Purchasing and Central Services and the Auditor-Controller, and consequently provide opportunities to significantly reduce the turnaround time between purchase requests, approvals, encumbrances, and vendor payments. Additionally, aligning the purchasing and controller functions under one department will provide better visibility and fiscal controls over County S&S expenditures.

♦ Retain Vehicle Services Division in a scaled-down and renamed *DFS*.

♦ Retain Safety Police Division in *DFS* pending outcome of the Board-ordered study to centralize all security and law enforcement services with the Sheriff's Department.

SECONDARY RECOMMENDATIONS

**For further review by affected departments, as noted, with recommendations
back to the Board, and implementation as appropriate, during fiscal year 1995-96**

FULL-COST RECOVERY POLICY (CAO, DPW, Auditor-Controller, and *DFS*)

A consistent observation expressed during interviews with various ISD customers was that
ISD's entrepreneurial and full-cost recovery mandates do not consistently promote the
County's interest in some service areas, particularly the services where ISD's customers
do not or should not have a choice of service provider.

Consequently, affected departments should evaluate the feasibility of reversing the full-cost
recovery policy where:

- Departments have very little or no choice in using a particular service, such as
  purchasing and central services, data center operations, and leasing and space
  management; and

- Greater control, oversight and countywide policy direction is needed.

CONSTRUCTION AND REAL PROPERTY SERVICE

- ♦ Determine the feasibility of outsourcing components of the construction project
  management function. (DPW)

- ♦ Develop a countywide asset management master plan to identify and prioritize and
  improve the planning for future County capital projects. (CAO)

FACILITIES OPERATIONS SERVICE (*DFS*)

- ♦ Evaluate the feasibility of retaining a small central core of staff with crafts expertise
  and developing a group of contracts in various craft disciplines to be utilized on an as-
  needed basis.

- ♦ Maintain a hiring freeze and continue to outsource custodial services as attrition
  occurs and as new facilities are opened.

INFORMATION TECHNOLOGY SERVICE (Auditor-Controller)

- ♦ Cease further development and upgrade of the LANet and COMPASS and investigate
  more cost-effective and competitive alternatives with private sector providers.

- ♦ Reduce the ratio of administrative to direct service employees from the current 1:6

(reflects filled items only) at least to the Countywide guideline of 1:11 established by this office (Refer to Appendix IV - Information Technology Service Administrative Item to Service Item Ratios). Within ITS, the classifications of administrative employees used to determine the above ratio are Administrative Manager (all levels), Data Processing Manager I, Data Processing Specialist I, Telecommunications Consultant, and Supervising Telecommunications Engineer.

♦ Re-evaluate, with consideration for elimination or consolidation, the operations of the Advanced Systems Division, focusing upon improved efficiencies and cost-effectiveness.

♦ Initiate efforts to update technical documentation where its exists, and develop documentation where none exists.

♦ Institute a quality assurance program to develop, implement, and enforce established IT practices and standards and to provide technical review of all ITS projects to ensure consistency in quality and completeness.

♦ Work with proprietors of mainframe applications to re-engineer and downsize the applications to more cost-effective computing platforms.

♦ Resume effort to evaluate, and pursue as appropriate, outsourcing opportunities in the Downey Data Center.

♦ Outsource operations where County is not competitive, e.g., Audio/Video-Business Machines Division.

♦ Decentralize telephone utility bills to departments to improve auditing and verification.

PURCHASING AND CENTRAL SERVICES (Auditor-Controller)

♦ Continue to pursue contracts for "single point drop offs" and downsize warehousing operations.

♦ Continue to streamline overlapping processes between purchasing, accounting, and vendor payment functions.

SALARY REVIEW (CAO, Dept. of Human Resources, DPW, Auditor-Controller, DFS)

♦ The organizational realignments, primarily as set forth under "Primary Recommendations," will necessitate review of department head, and potentially other staff, salaries -- for increases or reductions to reflect increased or decreased responsibilities. As part of the implementation process, affected departments should review such issues and make appropriate recommendations to the Board. The CAO, working with the Department of Human Resources, will closely review such proposed salary adjustments to ensure that appropriate reorganization savings are realized, and reorganization does not result in unwarranted salary increases.

Appendix I

Organizational Structure and Functional Descriptions

Background

ISD was created in 1989 as a consolidation of the Facilities Management Department (FMD) with Data Processing Department and Purchasing and Stores. FMD was previously established in 1984, consolidating the former departments of Building Services, Mechanical, Communications, and the Facilities component of County Engineer-Facilities. ISD has an annual operating budget of about $320 million with a workforce of approximately 3,090. ISD's mission is to meet customer needs by consistently providing high quality, timely, cost-effective support services. ISD also has a mandate to recover all its cost through the sale of its services, i.e., ISD operates on a zero net County cost. The following is ISD's fiscal year 1994-95 budgeted revenue from County departments:

Public Social Services	$ 47.9 m
Sheriff	$ 43.1 m
Courts	$ 38.2 m
Health Services	$ 38.0 m
District Attorney	$ 19.9 m
Capital Projects	$ 17.5 m
Registrar Recorder	$ 13.5 m
Probation	$ 13.4 m
Other departments	$ 121.1 m
Total Budgeted Revenue	$ 352.6 m

Organizational Structure & Functional Descriptions

Organizationally, ISD is comprised of the following services[9]:

    I.   Executive and Administration/Finance Services
    II.   Construction & Real Property Services
    III.   Information Technology Services
    IV.   Facilities Operations Services
    V.   Purchasing and Central Services

The following is a description of ISD services[10]:

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[9]   Based on 1994-95 Adopted Budget. See Appendix I

[10] Los Angeles County 1994-95 Proposed Budget Vol. 1, May 1994

I.   **Executive and Administration/Finance Services:**
     Executive and Administration/Finance Services provides management, leadership, and administrative support in the areas of Human Resources, Financial Planning, Financial Operations to line operations, Customer Relations for ISD services, and is comprised of:

♦   Executive Service

♦   Business Development and Customer Services Division
     ○   Management/Staff Development
     ○   Customer Service
     ○   Special Initiatives
     ○   Media Services

♦   Administration/Finance Services
     ○   Finance Division
     ○   Human Resources Division
     ○   ISD-Wide Support Division

Administration and Finance Services is functionally organized into[11]:

♦   Finance services which is made up of general accounting; cashier/vendor payments; special appropriations; rent/utilities/telephone/capital tracking; job cost accounting; billing; IFT and revenue tracking; internal control certification; financial reporting, planning and analysis; and budget planning systems.

♦   Human resource management comprised of examinations, recruitment and selection; job evaluation and classification; labor negotiations; employee compensation and benefits; personnel policies; payroll; employee relations, discipline, and advocacy; workers compensation and return to work program; reduction planning and outplacement; succession planning; affirmative action; and career development, management and staff development.

♦   ISD-wide support services which includes policy and procedure development; traffic mitigation and coordination; audit coordination and tracking; fraud hot line; litigation tracking; mail services; document reproduction and distribution; and special projects.

II. **Construction and Real Property Services:**
     In support of ISD, Construction and Real Property Services provide a full range of construction, real estate, and energy management related services to County departments and other paying customers and is comprised of:

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[11] Organizational Design Study, KH Consulting Group, May 4, 19922

- ◆ Project Management Division
  - ○ Life cycle project management services
  - ○ Planning and programming
  - ○ Engineering management support
  - ○ Design management
  - ○ Construction management
  - ○ Building inspection

- ◆ Construction Quality and Contracting Division
  - ○ Basic architectural services, programming and specialties
  - ○ Engineering consultancy
  - ○ Design review
  - ○ Contract administration

- ◆ Leasing and Space Management Division
  - ○ Lease acquisition
  - ○ Surplus property sales
  - ○ Cable TV Franchise regulation
  - ○ Concessions and property management
  - ○ Space inventory, planning, analysis, and design

- ◆ Valuation/Acquisition Division
  - ○ Title services
  - ○ Right-of-way engineering and legal descriptions
  - ○ Valuations/appraisals
  - ○ Capital projects acquisitions and relocation services

- ◆ Energy Management Division
  - ○ Business practices and energy enhancements
  - ○ Power plant operations

Functionally, Construction and Real Property Service is organized into two lines of business[12]:

- ◆ Design and construction comprising of project management, inspection, basic architectural services, engineering services, design review, engineering management, energy management, contract administration, building warranty compliance, and architecture design and programming.

- ◆ Real property comprising of facilities space design, inventory and support, lease acquisition and contract administration, rent/budget administration, real property acquisition, right-of-ways, valuation, titles, space use permits, concessions, utility franchises, property contract administration, and surplus real property sales.

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[12] Organizational Design Study, KH Consulting Group, May 4, 1992

III. **Information Technology Services:**
      Information Technology Services plans, builds, and runs computer and communications systems for Los Angeles County departments and is made up of the following branches and divisions:

      ♦ Information Technology Branch
         o Advanced Systems Division
            ● Consulting Services
            ● Advanced Systems Lab
            ● IS Planning
            ● Technical Training

         o Customer Assistance Division
            ● Telephone Operator
            ● Network Control Center
            ● Network Management Systems
            ● Maintenance Contracts
            ● Customer Assistance

      ♦ Telecommunications Branch
         o Radio Systems Division
            ● Fire Radio Engineering
            ● Command and Control Maintenance
            ● Sheriff Radio Engineering
            ● Radio Pagers
            ● Radio Shop Maintenance
            ● Radio Field Maintenance
            ● Antelope Valley Section
            ● General Government Radio Engineering

         o Network Services Division
            ● Voice Network Services
            ● Network Maintenance
            ● Communication Facilities Management
            ● Network Operations
            ● Network Engineering
            ● Outside Plant Maintenance

- ○ Planning and Program Management Division
  - • Telecommunication Support Services Section
  - • Planning and Development
  - • Financial and Administrative Support
  - • Telecommunications Regulation
  - • ATSS Administration
  - • 911 Section

- ○ Premises Systems Division
  - • Service Request Management
  - • Premises Systems Maintenance
  - • Premises Systems Engineering

- ○ Audio/Video Business Machines Division
  - • Sheriff Telephone Operator
  - • Business Machines Maintenance
  - • Business Machines Contracts/Sales
  - • Audio/Video Maintenance
  - • Audio/Video Engineering
  - • Audio/Video Operations
  - • CCTV and Security Systems Maintenance

- ♦ Computing Services Branch
  - ○ IBM Computer Services Division
    - • Operating Systems
    - • Database Systems
    - • Communications and Virtual Machine Systems
    - • Storage Management
    - • Production Control
    - • Computer Operations

  - ○ UNISYS Computer Services Division
    - • Operating System/DMS Support Section
    - • Teleprocessing Support
    - • Systems Operations

  - ○ Operations Support Division
    - • Resource Administration
    - • Database Administration
    - • Personal Computing Support Staff
    - • Data Security
    - • Performance and Capacity Management
    - • Office Services

- ○ Distributed Operations Division
  - Remote Operations
  - Eastern Avenue Operations
  - Imperial Highway Operations
  - Output Distribution
  - Computer Output Services

- ◆ Customer Applications Branch
  - ○ Management Information Services Division
    - ISD Corporate Systems
    - Construction and Real Property Systems Support
    - Purchasing and Central Supplies Support
    - ATSS Support

  - ○ Elections Records Systems Division
    - Registrar Applications Support
    - ENCORE Support
    - RECORDER Applications Support
    - Emergency Operations

  - ○ Social Services Systems Division

  - ○ General Government/LACAPS/CWTAPPS Division
    - LACAPS/CWTAPPS Administration
    - CWTAPPS Development
    - CWTAPPS Maintenance
    - LACAPS Support
    - Countywide Payroll Systems
    - Assessor Systems Support
    - Property Tax Systems Support
    - HCCC Support

  - ○ Health Care Systems Division

  - ○ Justice Systems Division
    - CIVAS
    - MCFS
    - MCI
    - ETRS
    - JMP

     ○   Law Enforcement Systems Division
- ISAB Support Systems Administration
- Distributed Services
- Justice Data Systems
- Automated Timekeeping and Payroll System

Information Technology Services is functionally organized into three lines of business and a marketing group[13]:

♦ Customer applications support comprised of system integration; information system planning; systems analysis and design; application systems programming; project management; advanced systems research; application systems support; and integration of hardware, software, and data.

♦ Computing services that provide mainframe data center operations, customer site data centers, data network management, distributed operations support, technical consulting, data security, disaster recovery planning, office systems, and laser printing services.

♦ Telecommunication services comprised of telecommunications strategic planning, regulatory analysis, and project management; transport network; communications facilities management; building wiring; COMPASS telephone network; telephone systems; voice mail management; 9-1-1 management; telecommunications help desk; telephone operators; building telecommunications; audio-video systems; CCTV systems; special events support; radio systems; and pager rental and maintenance services.

♦ Business Systems Group that performs special ITS projects, account management, line of business consulting, service coordination, proposal preparation, new service development, high level problem-solving, special event coordination, business planning, technical library, and ITS staff development.

IV. Facilities Operations Services:
Facilities Operations Services provide customer satisfaction in the delivery of high quality, cost competitive building crafts and custodial services to County departments and other paying customers, and is comprised of the following divisions:

♦ Maintenance Operations
     ○   Operations District 1
     ○   Operations District 2
     ○   Operations District 3
     ○   Operations District 4

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[13] Organizational Design Study, KH Consulting Group, May 4, 1992

- o   Operations District 5
- o   Maintenance and Operations Support - Part 1
- o   Maintenance and Operations Support - Part 2

- ◆   Alterations and Improvements
  - o   Estimating and Scheduling
  - o   Project Management Section 1
  - o   Project Management Section 2
  - o   Project Management Section 3 - Part 1
  - o   Project Management Section 3 - Part 2
  - o   Alterations and Improvements Support Section - Part 1
  - o   Alterations and Improvements Support Section - Part 2
  - o   Special Crafts

- ◆   Custodial Services
  - o   Monitoring and Training
  - o   Custodial Services District 1
  - o   Custodial Services District 2 and 6
  - o   Custodial Services District 3
  - o   Custodial Services District 4 and 5

Facilities Operations Service is functionally organized along two lines of business[14]:

- ◆   Craft operations comprising building maintenance, including preventive and scheduled maintenance; building repairs, including unscheduled repairs, emergency responses, urgent special requests, and graffiti removal; alternations and improvements; special services for the Board of Supervisors and County ceremonies; power plant operations; and ground maintenance.

- ◆   Custodial services comprising general facilities cleaning, pest control, floor care, window washing, and parking lot sweeping.

V.   Purchasing and Central Services:

Purchasing and Central Services provide cost-effective services, supplies and equipment, acting as both an integrator and facilitator, and is made up of:

- ◆   Contracts and Purchasing Management Division
  - o   Customer Service Coordination
  - o   Health Equipment and Supplies
  - o   Delivery and Traffic Management
  - o   Special Projects
  - o   General Acquisitions

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[14] Study 1 - Organization Design Study, KH Consulting Group, May 4, 1992

- o   Purchasing-Office Services
- o   Master Agreement and Affirm Procurements
- o   Data Processing/Telecommunications Contracts

♦   Printing /Reprographics Division
- o   Reprographics
- o   Document Management

♦   Materials Management Division
- o   Warehousing and Stores
- o   Asset Management
- o   Inventory Management
- o   Procurement
- o   Countywide mail

♦   Safety Police Division

♦   Vehicle Services Division
- o   Vehicle Services
- o   Parking Services

Functionally, Purchasing and Central Services can be organized into four lines of business:

♦   Material management comprised of procurement, material, asset and inventory management; warehousing and storage facilities; distribution of supplies; and countywide mail and messenger services.

♦   General services comprised of safety police, security services, parking lot operations and maintenance, fleet management and maintenance, and reprographic services.

♦   Contracts and purchasing comprised of purchasing, competitive bids, master agreements, and purchase authorization.

♦   Data processing contracts related to data processing purchasing, competitive bids; master agreements; contract negotiations; and software, copyright, and patent matters involving information technology services and products.

Appendix II

Departmental Interview List

Assessor
- Gary Townsend, Chief Deputy
- Ken Randman, Chief, Management Services
- Shirley Rock, Director, Technical Services

Auditor-Controller
- Al Sasaki, Auditor-Controller
- Mike Galindo, Assistant Auditor-Controller
- Tyler McCauley, Assistant Auditor-Controller

Board of Supervisors, Executive Office
- Ron Mellan, Deputy Executive Officer, Administrative Services
- Robert De La Cruz, Supervisor, Procurement/General Services
- Jesse Rodriguez, Building Manager

Chief Administrative Office
- Sharon Yonashiro, Assistant Administrative Officer
- Don Simpson, Asset Management and Development
- Julie Wheeler, Capital Projects and Debt Management

Children and Family Services
- Jim Storey, Chief, Management Information Division

District Attorney
- Sherron Trawick, Chief, Systems Division
- James Arenas, Chief, Management Services Division

Health Services
- Dan Soref, Chief, Facilities Support Services Division
- Dave Gallegos, Deputy Director, Information Services
- Cecilia Ball, Information Services
- Larry Epner, Information Services

Internal Services Department
- William Stewart, Director, Internal Services Department
- Joan Ouderkirk, Chief Deputy, Internal Services Department
- Sue Isbell, Director, Administration and Finance Service
- Mark Gascoigne, General Manager, Information Technology Service
- Hildo Hernandez, General Manager, Facilities Operations Service
- Chrys Varnes, General Manager, Purchasing and Central Services
- Jim Abbott, General Manager, Construction and Real Property Service

Los Angeles Municipal Court
- Tom Zecchini, Chief, Facilities and Office Services Division

Parks and Recreation
- Tony Yakimowich, Head, Budget and Management Services Division
- Jim Park, Chief, Planning Division

Probation Department
- Shirley Bolinger, Chief, Administrative Services Bureau
- Fernando Buitrago, Departmental Facilities Planner
- Gale Valeriano, Probation Director
- Sid Ware, Manager, Facilities Operations

Public Defender
- Penny Van Bogaert, Administrative Deputy
- Shannon Gordon, Administrative Services

Public Library
- Sandra Reuben, County Librarian
- David Flint, Assistant Director, Finance and Planning
- Wendy Romano, Assistant Director, Technical Services
- Roy Hansen, Head, Fiscal Services
- Rose Garcia, Facility Operations

Public Social Services
- Lisa Nunez, Chief, Computer Services Division
- Russ Hibbs, Computer Services Division
- Sandra Semtner, Chief, Finance Division
- Michelle Callahan, Space Services Section

Public Works
- Harry Stone, Director
- Roz Robson, Deputy Director
- Arlon Inman, Chief, Information Systems Division

Quality and Productivity Commission
- Art Gutenberg, Ph.D.

Regional Planning
- Ted Elias, Administrator, Management and Fiscal Services Branch
- Julie Moore, Management and Fiscal Services Branch

Registrar-Recorder/County Clerk
- Michael Petrucello, Assistant R-R/CC, Technical Services Office

Sheriff's Department
- Fred Ramirez, Director, Office of Administrative Services
- Sharon Bunn, Director, Facilities Planning Service
- Rachel Burgess, Commander, Technical Services
- Victor Rampulla, Director, Fiscal Services

Superior Court
- Judith Call, Director, Administration, Finance and Planning
- Ed Bunning, Administration, Finance and Planning
- Bob Steiner, Administration, Finance and Planning

Appendix III

Interview List - Other Jurisdictions

CITY/COUNTY: Los Angeles City
Interviewee: Bart Benjamins, Analyst, City Administrative Office
Date: 3/30/95

Q1. How is the provision of the following services organized and managed in your organization?

- Asset and facilities management;
- Information technology services;
- Procurement, warehousing and materials management;
- Facility operations and maintenance, e.g. custodial, general maintenance, and ancillary services.

ANS: All the above services with the exception of IT services, are centralized under the Department of General Services. However, there are some functions such as warehousing and materials management that are partially decentralized at departmental level. The Department of General Services is 73% funded using General Funds and 27% using Special Funds. The above services are managed and performed by divisions within the Department of General Services.

L.A. City has a separate Department of Information Services (100% General Fund) that provides central IT services such as data center functions and support, telecommunications services to other departments.

Q2. Please comment on the organizational and operational effectiveness of your county's internal services. What changes would you recommend?

ANS: While the provision of the services are fairly effective, a management study conducted under Mayor Bradley two years ago recommended the consolidation of the Department of Information Services with the Department of General Services to streamline the provision of all internal services. However due to resistance by City Council and other political issues, the Department of Information Services remained a separate department. Currently, there are no plans to merge the Department of Information Services with the Department of General Services.

Q3.   Has your organization outsourced or contracted out any of the above services? If so, what criteria did you use and what has been your experience with outsourcing, especially with labor relations, cost savings, and risk mitigation?

ANS: L.A. City encountered significant union resistance when it tried to outsource some of its custodial and building maintenance services. However, the City was able to contract out its building maintenance functions (building maintenance, custodial services and building security) at five new City facilities without much union resistance. This outsourcing experience at the new facilities has been a positive one because of improved quality of service and some cost savings.

Outsourcing of their data centers at the Department of Information Services was considered and dismissed by the City because of a perception that data center integrity and information security would be compromised if they contracted out that service to an outside vendor. Hence outsourcing of the Department of Information Services has not been seriously considered.

Q4.   What level of centralization/decentralization has your organization adopted for each of the services described above? Did your organization recently centralize or decentralize any of the above services? If so, what were the driving reasons for the action?

ANS: While most of the services provided by the Department of General Services are centralized, there is some level of decentralization for warehousing and materials management functions at the larger departments such as the Police Department.

Similarly for IT services, while the City has a Department of Information Services that maintains and operates its data centers, some of the larger departments such as the Police Department have IT staff for system development and local area network management.

Q5.   Are there any plans to move towards more centralized or decentralized operations and management for any of the above services? If so, what are the driving reasons for the change?

Currently, there are no plans for further centralization of the services mentioned. However, some decentralization of services has occurred on a case by case basis, for the purposes of streamlining overlapping functions. For example, the City recently decentralized ten positions of its sanitation review and testing function from the Department of General Services to its Sanitation Department. Overall, the City does not have any plans for any large scale centralization or decentralization of the services mentioned.

CITY/COUNTY: Santa Clara County
Interviewee: Susan Phillips, Budget Analyst
Date: 3/31/95

Q1.   How is the provision of the following services organized and managed in your organization?

   • Asset and facilities management;
   • Information technology services;
   • Procurement, warehousing and materials management;
   • Facility operations and maintenance, e.g. custodial, general maintenance, and ancillary services.

ANS: All the above services with the exception of Procurement services, are centralized under the General Services Agency (GSA). The Purchasing Department was recently moved to the Financial Agency to streamline its operations and to achieve some cost savings by eliminating some of the overlapping functions. The other services are performed and managed by corresponding departments under the GSA. With the exception of the Data Processing Department, all other departments under the GSA are 100% funded by the county's General Fund.

The Data Processing Department is funded by general funds allocated from other departments by size and usage of data processing services, i.e. full-cost recovery. It is a one-time fixed allocation of funds without any monthly billing or interfund transfers, therefore no rebates. At the beginning of every fiscal year, each department determines its budget for data processing services in consultation with the Data Processing Department. While there are some disagreements as to how the Data Processing Department determines its costs and how it sets its rates, there is very little being done to change the status quo. The provision and support of data processing services is very centralized in Santa Clara to the extent that they are considering charging $50 per machine for local area network installation and support for all its departments. In this respect, the Director of the Data Processing Department functions as the Chief Information Officer for the county.

Q2.   Please comment on the organizational and operational effectiveness of your county's internal services. What changes would you recommend?

ANS: Organizationally and operationally, the GSA is providing an adequate level of general services to county departments. With respect to IT related services, it appears that Santa Clara is just beginning to get into local area networks and client server technology and have not experienced some of the kinds of issues that L.A. County is experiencing. Furthermore, their Data Processing Department has the lead on implementing technology in the County. At this time Santa Clara County does not foresee making any significant changes to the way the GSA is organized.

Q3.   Has your organization outsourced or contracted out any of the above services? If so, what criteria did you use and what has been your experience with outsourcing, especially with labor relations, cost savings, and risk mitigation?

ANS: Santa Clara has contracted out some of its custodial and grounds-keeping services, but only on a relatively small scale. When they tried to contract out such services at the county-wide level, they were met with significant union resistance. However, the hospitals were able to negotiate with the union to contract out its custodial and grounds-keeping services. Contracting out or outsourcing will be considered if cost savings or better control/quality in the delivery of services need to be achieved, but Santa Clara County has not really investigated the kinds of services it can outsource on a large scale.

Q4.   What level of centralization/decentralization has your organization adopted for each of the services described above? Did your organization recently centralize or decentralize any of the above services? If so, what were the driving reasons for the action?

ANS: All the services described are highly centralized under the GSA umbrella. Specifically, departments within GSA support the asset/facilities management, data processing, communications, fleet management, facilities operations, as well as the building maintenance functions. As previously mentioned, the purchasing and warehousing function was recently reassigned to the Financial Services Agency to streamline the procurement process.

Q5.   Are there any plans to move towards more centralized or decentralized operations and management for any of the above services? If so, what are the driving reasons for the change?

       Currently, there are no plans for further centralization or decentralization of the services mentioned.

CITY/COUNTY: San Francisco City/County
Interviewee: Steve Nelson, Budget Analyst
Date: 4/26/95

Q1.   How is the provision of the following services organized and managed in your organization?

   - Asset and facilities management;
   - Information technology services;
   - Procurement, warehousing and materials management;
   - Facility operations and maintenance, e.g. custodial, general maintenance, and ancillary services.

ANS: Asset and Facilities Mgmt: Improvements in the city's asset and facilities management functions have been hampered by budgetary constraints which have made these functions less of a City/County priority.

The City/County has a Real Estate Department which is responsible for the negotiation of leases and sales and acquisition of property. The department has a general fund allocation (like NCC) and other departments have no choice but to use the department for these types of services. There is a group within the CAO that tries to inventory county property but this has not really been a priority.

There is a Bureau of Building Repair that offers building maintenance and alterations services to departments; however, departments are not required to use this service. Each department has a budgeted allocation for these services that they can either use towards the Bureau's services or contract outside of the County.

Information Technology: The City/County has a Central Data Processing Department (CPD) that is responsible for mainframe operations; however, departments are only obligated to use this department for accounting/payroll functions, otherwise they may contract out.   There are very few countywide standards for IT purchases. A committee was recently formed to attempt to develop some type of City/Countywide strategic plan for IT.

Purchasing: There is a Purchasing Department that departments are required to use (as all funding in contained within the department).   The department is responsible for all related services.

Facility Operations: Departments housed in large multi-tenant buildings are required to use the Bureau of Building Repair for maintenance and custodial services. Those housed in smaller, single-tenant facilities may contract out for these services.

Fleet Maintenance: The City/County has a Central Shop which provides vehicle maintenance services for all general fund departments. For the most part, these

services are provided by City/County employees; the County contracts out for the maintenance of larger utility type vehicles.

Other Departments: The City/County has a Department of Electricity and Telecommunications responsible for pretty much the same things that our energy management division and telecomm (ITS) are responsible for and departments are forced to use only these departments for these types of services.

Q2.   Please comment on the organizational and operational effectiveness of your county's internal services. What changes would you recommend?

ANS: No one likes to be forced to go to one place for their services; most departments feel they could do better by contracting out. On the whole, however, Steve feels that the "general services" departments provide credible services. The City/County may try to have the "general services" compete more with outside bidders; however, the Board of Supervisors is pretty adverse to contracting out.

Q3.   Has your organization outsourced or contracted out any of the above services? If so, what criteria did you use and what has been your experience with outsourcing, especially with labor relations, cost savings, and risk mitigation?

ANS: The City/County has avoided contracting out for these types of services. Attempts have been made; however, they have been thwarted by the unions and a Board of Supervisors that is very adverse to contracting out. Therefore, the idea of contracting out is rarely considered.

Q4.   What level of centralization/decentralization has your organization adopted for each of the services described above? Did your organization recently centralize or decentralize any of the above services? If so, what were the driving reasons for the action?

ANS: These services have always been organized in the manner described.

Q5.   Are there any plans to move towards more centralized or decentralized operations and management for any of the above services? If so, what are the driving reasons for the change?

ANS: The only move in this respect is the possibility of combining telecommunications with central data processing in order to realize some savings. The driving forces behind this are the potential synergy resulting from the combination of these services and, to a greater extent, the potential cost savings.

CITY/COUNTY: Dade County, Florida
Interviewee: Alicia Tejada-Hudek, County Manager's Office
Date: 4/12/95

Q1.   How is the provision of the following services organized and managed in your organization?

- Asset and property management;
- Information technology services;
- Procurement, warehousing and materials management;
- Facility operations and maintenance, e.g. custodial, general maintenance, and ancillary services.

ANS: The General Services Administration has centralized responsibility for all of these services with the exception of information technology (IT). IT services are provided by two separate departments. The Communications Department is responsible for installation and maintenance of wiring and networks for computerized and telephonic operations. The Computer Services Department runs the County's Data Center (mainframe and mini computers) and provides application development support.

With the exception of asset and property management, which is completely centralized, the remaining services have experienced a limited amount of decentralization. For example, the Metro-Dade Police Department has an in-house Data Systems unit which designs and builds applications for use on the Department's Local Area Networks.

All of these services are financed directly by the County's General Fund.

Q2.   Please comment on the organizational and operational effectiveness of your county's internal services. What changes would you recommend?

ANS: The customer departments have a history of complaining about a lack of service due to the primarily centralized environment. They would like more control over some of the decision-making processes. However, the current Mayor and City Manager have been resistent to make any organizational changes in response to these concerns. The feeling is that the current operation is the most cost-effective in difficult economic times.

Q3.   Has your organization outsourced or contracted out any of the above services? If so, what criteria did you use and what has been your experience with outsourcing, especially with labor relations, cost savings, and risk mitigation?

ANS: Contracting out has been resisted due to pressures from local employee unions. A few major contracts for professional services, such as the design and programming of computer applications, have been entered into to procure expertise and experience that is not available in the County at this time. In these situations, contracting out has been very successful.

Q4.   What level of centralization/decentralization has your organization adopted for each of the services described above? Did your organization recently centralize or decentralize any of the above services? If so, what were the driving reasons for the action?

ANS: No changes have been recently implemented. As previously indicated, departments have been allowed to develop their own Data Systems units in-house, but these operations must adhere to standards for design methodology, software and hardware as established by the Computer Services Department.

Q5.   Are there any plans to move towards more centralized or decentralized operations and management for any of the above services? If so, what are the driving reasons for the change?

ANS: No moves are expected under the existing administration. However, over the years the County organization has learned to remain flexible should a different administration come into power with an agenda for change.

Appendix IV
Quantitative Data and Analysis

Appendix V
Interview Questions

REVIEW OF INTERNAL SERVICES DEPARTMENT

INTERVIEWS

Purpose of Study

- *Improve and streamline delivery of County internal services;*
- *Identify which internal services currently provided by ISD should be:*
    - *Provided in the current organization without significant modification;*
    - *Re-engineered within the current organization or another County department(s);*
    - *Transferred to another County department(s);*
    - *Contracted out; or*
    - *Discontinued; and*
- *Determine opportunities to achieve County internal services cost savings;*

ISD Services

- **Administration and Finance**
- **Construction and Real Property**
- **Facilities Operations**
- **Information Technology**
- **Purchasing and Central Services**

Interview Questions

1. What service(s) do you receive from ISD? Describe the quality of service and your level of satisfaction as a customer.

2. Please comment on the appropriateness and effectiveness of the ISD organization, mission, mix of services, and full-cost recovery policy.

3. Do the ISD employees providing your service(s) possess the necessary skills and tools to perform these services adequately?

4. To the extent problems occur with service delivery from ISD, how are these problems addressed/resolved?

5. Do you believe ISD's overhead is too high? Why?

6. Do you understand how services you receive from ISD relate to the charges you incur for these services? What, if any, additional information do you need?

7. Have you exercised your option to explore alternative sources of service delivery for those services provided by ISD? Have you performed cost comparisons between ISD and other sources for similar services? If not, why? If so, what were the results? What action(s) did you take as a consequence?

8. Do you believe management/organization of information technology in the County needs to be changed? How? Do you agree with creation of a County Chief Information Officer?

9. To the extent you believe there are problems with ISD's organization, mission, and/or service delivery performance, what changes would you recommend in terms of policies and procedures? In terms of reorganization (ISD and/or Countywide)?

Notes:
- **ISD interviews will focus on Questions 2, 3, 4, and 8; Commission interviews will focus on Questions 2 and 8.**
- **While departments surveyed in conjunction with this study will be identified, all individual input will remain anonymous.**
- **Interviewees should be requested to provide <u>specific examples</u> to support perspectives.**