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## **Economy & Efficiency Commission Presentation**

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*Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.*

**PRESENTATION BY  
Mr. David Lambertson  
Director, Internal Services Department  
Los Angeles County**

**Topic: An Update on the Operating Procedures of the Internal Services Department**

**June 2, 2005**

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Chairman Philibosian introduced Mr. David Lambertson, ISD Director and welcomed him to the Commission.

### **Commission Review of ISD**

For the first 8 years with Los Angeles County, Mr. Lambertson was with the Auditor/Controller's office prior to transferring to ISD. Based upon this experience, he feels it is better to consider the impacts on an organization and the ensuing changes in the culture as the result of reviews or audits after a 5-6 years period, rather than on a short-term basis. This is true in ISD which has been the subject of several Economy and Efficiency Commission (EEC) studies over the past 10 years. In these studies the Commission has taken courageous positions that were often contrary to the then Chief Administrative Officer (CAO). Mr. Lambertson felt that there was a level of integrity in the recommendations that were made since they were obviously based on the correct actions to be taken, and not being influenced by outside pressures.

The first EEC report, completed in August 1991, was undertaken at the Board's request because of the 1991-1992 budget submission in which the ISD had to lay off both union and non-union workers. In the late 80s ISD was a poor service provider because of departmental costs and non-responsiveness. This was due in part to the fact that prior to 1989 the department had a locked in client base. Subsequent to that time, an entrepreneurial mandate was created that enabled county departments to choose whether to use ISD services or those of another vendor.

As a result of departments being offered choices ISD lost some business which created the need for lay-offs. The EEC noted that departmental choice of service providers must make economic sense for the overall county in considering that a level of fixed costs has to be included in the County's rates, workers compensation and debt service. The Board adopted the EEC recommendation stating that there has to be incremental savings prior to another vendor taking over ISD's services.

The EEC report also recommended flexibility for ISD's billing practices which allowed fixed fee

maintenance contracts for all the department services allowing ISD to breakeven, billing of each department on a fixed cost basis, and competing on a price basis in response to the competition. That recommendation was adopted in 1996. ISD, the Auditor/Controller, and other departments, met to develop a county wide policy and framework that provided for departments selection of vendor services. This meeting also resulted in a policy stating that no service could be contracted without the CAO's approval and demonstrated real cost savings for the department. This led to improvement in the stability of ISD's operations.

### **The CAO Study**

In 1995, a CAO study was released dealing with a breakup of ISD. The Board requested that the Commission review the CAO report. The resulting EEC recommendations included downsizing the administrative and overhead functions of ISD by 20% and the movement of Capital Projects from ISD to Public Works. These recommendations were implemented and subsequently permitted a renewed focus on such things the data center, network development, phone systems, building maintenance, etc. Information systems stayed with ISD as well as purchasing and contracting as was recommended by the E & E Commission. In addition, the Chief Information Office (CIO) was established as an independent organization. The EEC also supported full cost recovery for services that were provided to other departments. Other EEC recommendations included outsourcing when it makes sense from an economic and county perspective.

Custodial is an area in which ISD cannot compete since county custodial salaries are higher than those in the current market. Eight years ago ISD had 100% of the custodial employees at a cost of \$20 million. Now, 30% are in-house and 70% are contracted which results in significant savings. This contracting was accomplished through attrition without a single layoff.

Telecommunications has also had a great deal of outsourcing. The current County Enterprise Network (EN) is run completely by SBC Communications. As a result of this contract SBC is now responsible for technology upgrades and the speed that was needed without the county having to budget for capital expenditures. Additionally, the business machine repair operation was eliminated with these services now being contracted at a cost of \$14 million per year.

Job Ordered Contracting (JOC) is a process to enable private firms to do refurbishments at pre-established prices according to a price book. In 1996, there was \$1 million in JOC orders, now this expenditure is \$30 million.

Although there are a number of IT master agreements that enable departments to contract for these services, ISD continually looks for private service offerings that improve efficiency.

Both the EEC and CAO disagreed with ISD's stance that cost information was proprietary. ISD wanted to move away from departments looking at the cost plus overhead to the total cost for service. As a result there is now a rate handbook available over the internet that includes comprehensive information on all of ISD's rates, including all overhead rates.

Mr. Lambertson noted that ISD's customer service ratings have risen every year. On a scale of 1 to 5, ISD hit a 4 which is a record for the department. No major lapses in operations have occurred and business has improved. The county is embarking on a shared-services initiative (re-centralization) for many of its functions, such as the administrative and information technology functions, in partnership with the customer. ISD is examining shared services for such things as desktop support, virus protection, and LAN maintenance, particularly in smaller departments. ISD also has the lead in purchasing and contracting and is in charge of the Office of Small Business. ISD also has a very robust website for county departments and vendors that give details on rules, standards, and contracting procedures.

### **Questions and Comments**

Commissioner Padilla asked about the living wage ordinance, how it applied to the County and if the living wage was indexed. Mr. Lambertson said that the Board passed a living wage ordinance about 5 years ago.

This ordinance applied to Proposition A contracts and required the organization being contracted with to pay a living wage to their employees, unless it is a union shop or meets the small business criteria. The living wage was defined as \$9.56/hour including benefits. Although this ordinance has increased the contract costs of custodial services by about 20%, it has proven to be significantly less than paying the salary and benefits of a custodial county employee.

Commissioner Petak asked about the current motivation to reduce costs of operations while increasing the quality of service if everything is benchmarked to the private sector that has as its objective increasing profits. Mr. Lambertson replied that the goal of ISD is not to just be competitive with the private sector, but to be cost efficient. ISD is continually finding ways to do things more efficiently and effectively. Secondly, ISD measures service through customer surveys, within which cost is one component.

Commissioner Petak wondered if ISD operates with a budget rather than functioning as an Enterprise Fund, billing for services. Mr. Lambertson said that although ISD is not technically an Enterprise Fund, ISD has a gross spending limit offset by a gross income limit. That income authority is given to each department and they choose whether to purchase services from ISD. If they don't use these services, ISD must lower its costs commensurately.

Commissioner Petak asked how ISD's training responsibilities relate to succession management within the County. Mr. Lambertson emphasized that the current ISD training focuses on contracting and purchasing. He sees training as a small portion of the solution to succession planning, with the best succession planning being a seamless transfer of authority. ISD is using an organization chart that presents the succession process with a color code that identifies when people will be leaving. For those who are in the red box (within the next year) successors are identified early to fill these positions. The typical approach in civil service is to wait until someone leaves prior to running an exam. Where possible, ISD is running early exams in order to identify individuals and allow them time to shadow the current manager prior to departure. The objective of this approach is to create a seamless position change.

Commissioner Baltierrez asked if someone is appointed as a result of this action and begins working with the director but doesn't work out, could this be considered within a probationary period. Mr. Lambertson replied that in terms of department head succession planning, every department is required to have a chief deputy, to ensure that someone is able to act in the directors' absence. The Board has an opportunity to interview potential chief deputies before they are hired. At this point they can take an active role in the selection of chief deputies to ensure that they are comfortable with that person taking over these responsibilities when a director leaves. Based upon Mr. Lambertson's own experience, he was a stranger to the Board when he assumed the position of director. During the period he was an Interim Director he was able to learn a great deal. Secondly, he emphasized that department heads often inform the Board well ahead of time as to when they plan on leaving. This presents a significant opportunity for chief deputies to gain more exposure and involvement with the Board.

Commissioner Padilla asked about the department's budget and about the use of an Internal Services Fund (ISF). Mr. Lambertson said that the ISD operates like an ISF but is not accounted for as one. For example, an ISF allows for such things as depreciation, etc. Like an ISF, ISD bills every department for the services provided. ISD's main budget totals \$300 million. The second budget is the County Utilities budget at approximately \$95 million and the third is the Telephone budget which is approximately \$120 million. This budget unit also includes the Enterprise Network along with all the telephone utility expenditures.

Commissioner Padilla inquired as to the fixed amount of money that comes to the department versus the amount that could be taken away if a department decided to go elsewhere. Mr. Lambertson responded by pointing out that, with the execution of some items like purchasing, \$300 million could be excluded. For example, departments could decide on a service provider other than ISD.

Commissioner Petak asked who runs the motor pool for the County and if a department could go into the marketplace to find a better deal. Mr. Lambertson said that he runs 40% of the County's fleet; the Sheriff's and Public Works departments run their own fleets. The ISD fleet is 100% contracted. There is no mandate that departments use ISD's contractors to meet their vehicle requirements.

Commissioner Padilla asked whether ISD works with other municipalities or cities, like the City of Los Angeles. Mr. Lambertson replied that in the area of purchasing, ISD, as the leader of consortium in the county, coordinates with other county agencies. For example, the Home Depot contract can be used by any county in the nation. The Los Angeles County receives a fee when other counties use the contract to purchase products. ISD does perform some incidental contract work for cities, but this only adds up to about 1% of ISD's income.

Commissioner Sylva informed Mr. Lambertson that members of the Economic Task Force of the EEC attended a Small Business Commission meeting and heard about ISD's goals for procurement. She suggested continuing a dialogue with the Small Business Commission on goals for economic development and will undertake a follow up. Mr. Lambertson thanked Commissioner Sylva.

Chairman Philibosian thanked Mr. David Lambertson for his time and for his insightful and informative presentation.

[Return to Top of Presentation](#)

[Return to Agenda](#)



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