

**ROLE OF THE CHIEF ADMINISTRATIVE OFFICE
AND
ASSET MANAGEMENT
IN LOS ANGELES COUNTY**

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Economy and Efficiency Commission Members

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**REPORT ON
THE ROLE OF THE CAO
AND
ASSET MANAGEMENT
IN LOS ANGELES COUNTY**

SUMMARY

On May 10, 1988, on motion of Supervisor Schabarum, the Board of Supervisors asked our Commission to evaluate the current status of its reorganization programs, with attention to its recent actions affecting the role of the Chief Administrative Officer, current vacancies in department head positions, and the status of system development.

Regarding the CAO, the Board has appointed the incumbent as Acting Director of Facilities Management, Acting Purchasing Agent, and Acting Director of Data processing, following vacancies in each of those departments. In addition, the position of the Director, Parks and Recreation, is vacant at present.

The relevance of vacancies to the County's reorganization strategy is this: If the Board is committed to realigning and consolidating County functions, then an appropriate time to evaluate the potential for realignment in any department is when the directorate is vacant. The vacancy eliminates the chance, too common in government, that a reorganization proposal would be

viewed exclusively as implying an unfavorable assessment of the performance of the department head.

Following study and review of the County's situation, we present three recommendations. Briefly stated, they are:

- ! sever facilities management, data processing, and purchasing and stores from the direct control of the Chief Administrator's Office;
- ! consolidate facilities management, data processing, and purchasing and stores into a single department reporting to the Board 9 and create a new asset management function as part of the new department.
- ! consolidate the Department of Beaches and the Department of Parks and Recreation.

Role of the CAO - The CAO is established and functions best as a staff officer to the Board of Supervisors. Managing line operations of facilities management, data processing, and purchasing creates a conflict between the staff responsibilities of the CAO to inform and advise the Board and his operating responsibility to deliver services. We evaluated alternatives, and recommend that the Board reassert its definition of the role of the CAO as a staff officer.

Internal Services - We believe it is essential to consolidate internal service functions into a centralized structure responsible for marketing facilities management, data processing, and procurement services to County departments. Technological developments are forcing unification of these functions. Both data processing and communications are becoming more closely linked to one another, and both are increasingly facility dependent.

Moreover, one of the most significant current opportunities open to the Board is to create a new function with the mission to maximize the return the County achieves on its considerable investment in plant and equipment. We believe this asset management function should be initially located in the Internal Services Department, because that department will be responsible for the acquisition and maintenance of all County property and equipment. However, we also believe that the new functions might more properly be a separate department, reporting directly to the Board and we plan to continue evaluating that and other options over the next several months.

Parks and Beaches - The management responsibilities of parks and beaches are nearly identical. The departments should be consolidated in order to effect a reduction of administrative costs, and to unify recreational programs countywide. The functions of the Small Craft Harbor Division of the current Department of Beaches and Harbors are not compatible with or properly aligned with the function of beach management. The functions of Small Craft Harbors are properly those of asset management - to preserve and protect the County's interest in Marina del Rey, and to maximize return on investment. The Board would do well to recognize this explicitly.

In the remainder of this report, we describe each of our recommendations in detail.

RECOMMENDATION 1

We recommend that the Board of Supervisors separate the operational responsibility for the following functions from the Chief Administrative Office:

- ! Internal Services (Facilities Management, Communications)
- ! purchasing and Stores
- ! Data processing
- ! Asset Development

and define the primary role of the Chief Administrative Office as that of chief of staff for the Board of Supervisors.

DISCUSSION

During the past year, upon resignation of the incumbent County officials, the Board of Supervisors appointed the Chief Administrative Officer as Acting purchasing Agent and Acting Director of Data processing. In 1986, following our recommendation to consolidate Facilities Management with the CAO, the Board appointed the Chief Administrative Officer as Acting Director of Facilities Management and authorized a consolidation of that department into the Chief Administrative Office. However, the Board has not approved a consolidation of Data processing or purchasing with the office of the Chief Administrative Officer. The current and proposed structures for these functions are depicted in Figure 2 (following Recommendation 2).

Recommendation 1 addresses the question of what the appropriate role is for the Chief Administrative Office in the County system. We base our recommendation on our analysis of the role of the Chief Administrative Officer. In our 1983 study, Decision-Making and Organization in-Los Angeles County Government

we emphasized the need to clarify the role of the Chief Administrative Officer. The issue at this time is the same as it was then: striking a balance between the staff responsibilities of the CAO, to advise the Board of Supervisors, which can be defined and achieved under the current Charter, and the administrative responsibilities, which cannot.

Fundamental Authority. When the Board of Supervisors created the office of the Chief Administrative Officer in 1938, it acted in response to the recommendations of the Commission for Government Simplification. That commission had recommended that the Board call for a Charter amendment to establish a County manager who would appoint and direct the heads of all departments of the County except those headed by elected officials. Instead, the Board created an Administrative Officer, who would "coordinate", and who would direct operations put in his charge by the Board. The CAO would not be a manager of County operations, since the Board, not the CAO, would appoint department heads. Instead, the CAO would have the responsibility to present a budget to the Board for its approval, and would have the right to attend all Board meetings and comment on the proceedings. Without the appointing authority, no CAO has accepted accountability for the performance of County departments. The CAO exercises considerable power through the budget and through advising the Board on department head compensation, but cannot efficaciously direct or discipline them. To the extent that the CAO can use these devices to manage, it is management by negotiation.

Department heads can always seek to persuade the Board to reverse the CAO.

Historical Alternatives. Since that time, Boards of Supervisors have adopted a variety of philosophies governing the role of the CAO. The formally defined role has vacillated between that of

staff officer for the Board, responsible for informing and advising the Board on County operations, including budgets, but in no way responsible for any of them; and,

administrative officer on behalf of the Board, which delegated some of its operational responsibilities, chiefly those of such internal administrative functions as personnel, building and facilities management, and purchasing.

The differences between a staff officer and an administrative officer are significant. What is expected of a staff officer is information, objective analysis, and professional advice. Someone else carries out the recommendations if the Board adopts them. What is expected of an administrative officer is effective and efficient management of line operations in the administrative fields - personnel, purchasing, facilities, and data processing.

The functions of a chief of staff and an administrative officer are not necessarily mutually exclusive. However, if the staff officer is managing operations, then the degree of objectivity regarding those operations must necessarily be compromised, and will lack credibility. The functions of the same individual as a chief staff officer and a manager of administrative operations will be in tension with one another, since the

staff function will require disinterested analysis and review of his or her own decisions as manager of operations.

How much operating responsibility the CAO has for administrative operations at any point in time has been solely a function of the decisions of the Board of supervisors in office at that time. It is based on the Board's perceptions of the personal capabilities and priorities of the person they appoint as CAO, together with the supervisors' interest in performing the tasks of management. The Board is responsible for the management of the County - not the CAO.

Formal Role Definition. Within the current structure. the Board could abolish the office of the CAO with no noticeable effect. The Board would need only to assign certain responsibilities to other departments:

- ! the responsibility to publish a proposed budget,
- ! the responsibility to provide information and analysis,
- ! the responsibility to manage internal administration.

Each of these functions could be performed by another existing officer of the County government - budgets by the Controller, analysis by an Auditor or a Legislative Analyst, internal administration by a person appointed to direct an internal services agency.

Thus, the role of the Chief Administrative Officer is ill-defined. It is characterized by the following:

- ! the CAO has no legal existence established by the voters in the Charter or the statutes. and performs no function which could not be performed by another officer of the County;

- ! the CAO's power can be exercised solely within the framework of same Board of Supervisors' willingness to adopt recommended budgets, policies, and actions;
- ! historically, the CAO's responsibility for internal administration has vacillated between almost none (1960's and 1970's), and almost all (1940's and at present);
- ! with respect to offices created by the Charter or by State law, the CAO cannot be accountable as a manager unless the Board appoints the CAO to the office, since the CAO cannot appoint the holders of those offices;
- ! the CAO is responsible to "coordinate" administration of the departments.

Administration: Ordinance Authority. On the other hand, since the creation of the office, the CAO has had certain authority and responsibility to control the administrative functions of the County, regardless of whether or not the resources are organized within the Department of the GAO. In order to carryout the coordination of Board functions, the boards of supervisors from the beginning have delegated to the CAO the "power and authority" to:

- ! transfer equipment, machinery, furnishings, or supplies from one [department] to another;
- ! make recommendations to the board of supervisors and the director of personnel for the temporary transfer of personnel as in his judgment is necessary from time to time to enable the respective [departments] to perform their functions or accomplish their work with the greatest efficiency;
- ! administer a comprehensive records management program;
- ! plan, coordinate, set priorities, and monitor all data processing functions;
- ! review and approve the expenditure of funds appropriated for capital outlay;

- ! recommend the creation or abolition of positions in any of the departments;
- ! direct the management, maintenance, and repairs on quarters occupied by [departments].

These provisions of the County Administrative code reflect boards' recognition, since 1942, that the CAO's "coordination" role can be effective only if it is accompanied by some power to control purchases, facilities, data processing, organization. and personnel.

Current Alternatives. As long as the Board of Supervisors continues an office of the CAO to assist it in coordinating its managerial responsibilities, it will be necessary to delegate some degree of authority over internal administrative functions. The question is, to what degree should the CAO be directly in charge of the management of such functions, including the appointment of those operating the departments of Facilities Management, Data Processing, Purchasing, and Personnel?

We considered two alternative means of structuring the internal services and staff functions, based on the following.

- ! To manage its responsibilities under the Charter, the Board of Supervisors needs the following:
 - organizations whose primary responsibilities are to produce services consumed by the public, including the development of infrastructure (public works) ;
 - organizations which provide infrastructure for the provision of those direct services, including information, housing for county officials, and so forth (internal services);

- organizations which provide objective information, analysis, and strategic advice to the Board for policy development

! The internal administrative functions of personnel, purchasing, facilities management and data processing have three several components:

- policy development and enforcement,
- production of services operations within the standards established by policy, and
- monitoring and reporting on the effectiveness of operations.

! Unified management of internal administrative functions is preferable to coordination.

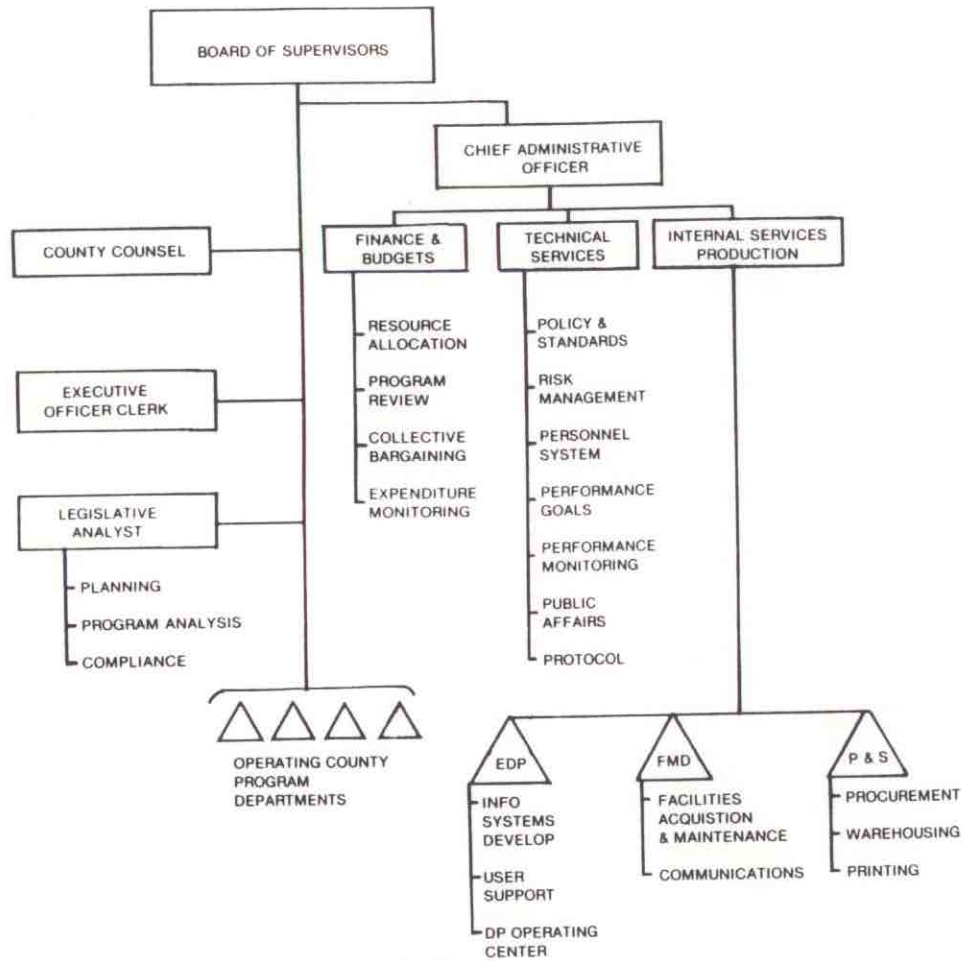
! It is never reasonable to hold any official accountable for the performance of those he or she does not appoint.

In the current structure, the Board has organized multiple service-producing departments, ranging from the Department of Health Services with 22,000 employees, to Consumer Affairs, with 20. It has merged the internal services and policy development functions with the CAO.

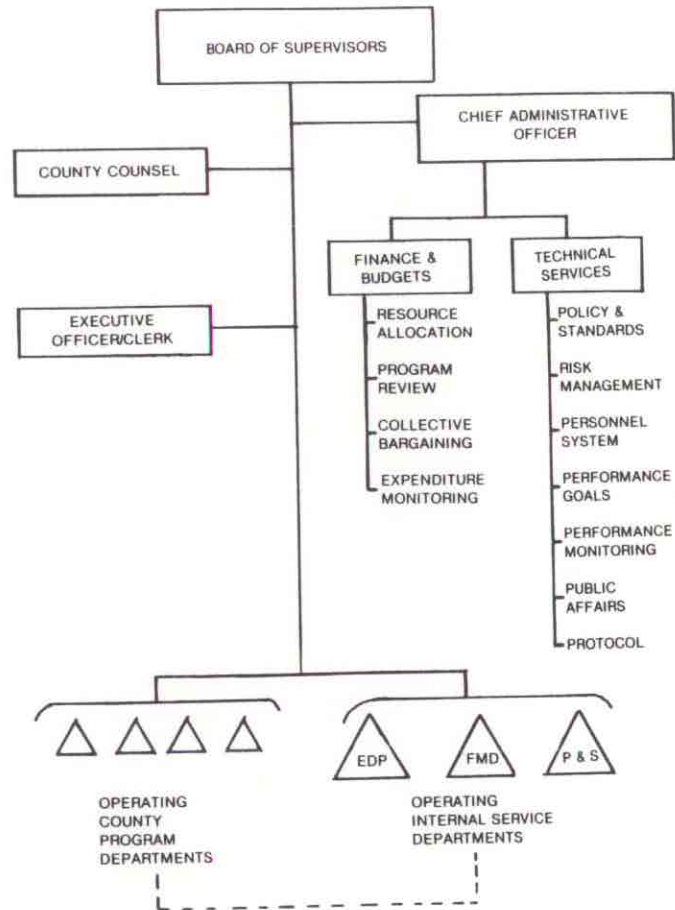
Two alternatives to the current structure are depicted in Figure 1. In the first, the role of the Chief Administrative Officer would be to produce all internal services and determine the policy governing standards for the provision of those services. By appointing the CAO as Director of Purchasing and Stores and Data Processing, the Board has essentially implemented this kind of structure at this time. However, the alternative differs from the current structure in that it recognizes the need for a separate department. The Legislative Analyst would be needed to provide advisory and strategic input to the Board of Supervisors.

**FIGURE 1
ALTERNATIVE CAO ROLES**

1. AS CHIEF ADMINISTRATOR



2. AS CHIEF OF STAFF



LEGEND

△ a service producing operation ("line" functions)

□ management or advisory ("staff") functions

In the second alternative, the role of the CAO would be to determine the policy governing standards for the provision of internal services and provide advisory and strategic input to the Board of Supervisors. However, the CAO would have no direct responsibility for producing internal services. They would be produced by independent agencies or departments whose directors would be appointed by and directly reporting to the Board of Supervisors. There would be no need for an independent Legislative Analyst.

Advantages and Disadvantages. The primary advantage of the current structure, in which the CAO is an administrative official producing services, is that the costs of coordination are low. Since policy formulation and production of the services governed by the policy are managed by the same executive, the problem of making sure that they are aligned is diminished. The primary disadvantage of the current structure is that it diminishes the objectivity of the information available to the Board of Supervisors. The CAO cannot provide credibly objective information (from the Board's perspective) regarding decisions made by the office of the CAO. The Board would have to believe the CAO objective regarding his own decisions. The risk of error increases because the CAO in a staff role is required to evaluate decisions of the CAO in the administrative role.

For example, the CAO must develop policy governing internal services and monitor the performance of internal service operations. A key question for performance monitoring is whether the

performance is deficient on the policy is wrong. This question cannot be resolved with the CAO in both roles. Therefore, the costs associated with the risk of failure are higher than when information and advisory functions are fully separate and isolated from operational functions.

To correct that problem, the first alternative we considered would provide for a second, independent source of information and analysis - the Legislative Analyst. This would create a new department, with its attendant bureaucracy and cost.

The advantage of the second alternative, in which the CAO would function primarily as chief of staff for the Board, is that it ensures a fully independent source of advice and analysis supporting the Board's policy development requirements and providing for analysis of the performance of the internal service functions. The disadvantage of this alternative is that coordination costs would be higher than when the CAO directly controls administrative operations. The CAO would control policy and finance for internal services, but not manage them. Therefore, the need to provide for continual communication between those producing the services and those setting the policies would increase.

In an organization with the size and complexity of the County, failures in a facilities management system, information processing, or procurement can paralyze the entire system. It is essential to provide for fully objective, independent sources of information to the Board to minimize the risk of such failures. The best source of such information is the CAO, provided

the CAO is not the same individual as the manager of the services themselves. On the other hand, the costs of coordination and communication can be expected to decline as computers come in to more widespread use and the transmission of information becomes less costly. In the County system, it is more important for the Supervisors to provide for an independent and objective source of production. The risk of any lack of objectivity in the information provided the Board could cause failures of essential information systems, procurement policy, and property management that would affect virtually every operation of County government.

CONCLUSION

The disadvantages of the current structure, in which the CAO functions as an administrative officer in charge of the production of operational internal services, outweigh its advantages widespread use of computer and network technology can be expected to reduce coordination costs, while the size of the County system implies that it should minimize the risk of failure.

The first alternative we considered would correct the primary deficiency of the current structure by adding a function and a new department. This would be an unnecessary additional cost and add complexity to the Board's already unwieldy structure. Therefore, we believe the advantages of the second alternative, in which the CAO is a chief of staff for the Board, outweigh its disadvantages. The costs of coordination can be expected to decline.

Thus, our recommendation is that the Board of Supervisors adopt the second alternative, establishing the CAO's role as chief of staff, with no operational responsibility.

RECOMMENDATION 2

We recommend that the Board of Supervisors create an Internal Services Department by merging the following and appointing a single Director to manage the centralized functions:

- ! Internal Services (facilities, communications from CAO)
- ! Data processing (from CAO)
- ! purchasing and Stores (from CAO)
- ! Asset management (from CAO), together with
 - Small Craft Harbors (from Beaches and Harbors)
 - Aviation (from Public Works)

and, further, instruct the Director of Internal Services to develop a comprehensive asset management program for the County as a whole.

DISCUSSION

The chart in Figure 2 illustrates the current structure and the structure we propose for these internal services functions. Within its authority under the Charter, the Board of Supervisors can create such a department. Under current interpretations, the Board would accomplish the merger of the Purchasing Agent into this department by appointing the same individual as department head and purchasing Agent. Table I, below, summarizes the budgeting elements that apply to the new department.

This recommendation addresses three questions:

- ! consolidation of internal services functions in a single department.
- ! centralized management of the internal services functions,
- ! creation of a comprehensive asset management function.

**FIGURE 2
CURRENT AND PROPOSED STRUCTURE
ADMINISTRATIVE SERVICE OPERATIONS**

CURRENT STRUCTURE

PROPOSED STRUCTURE

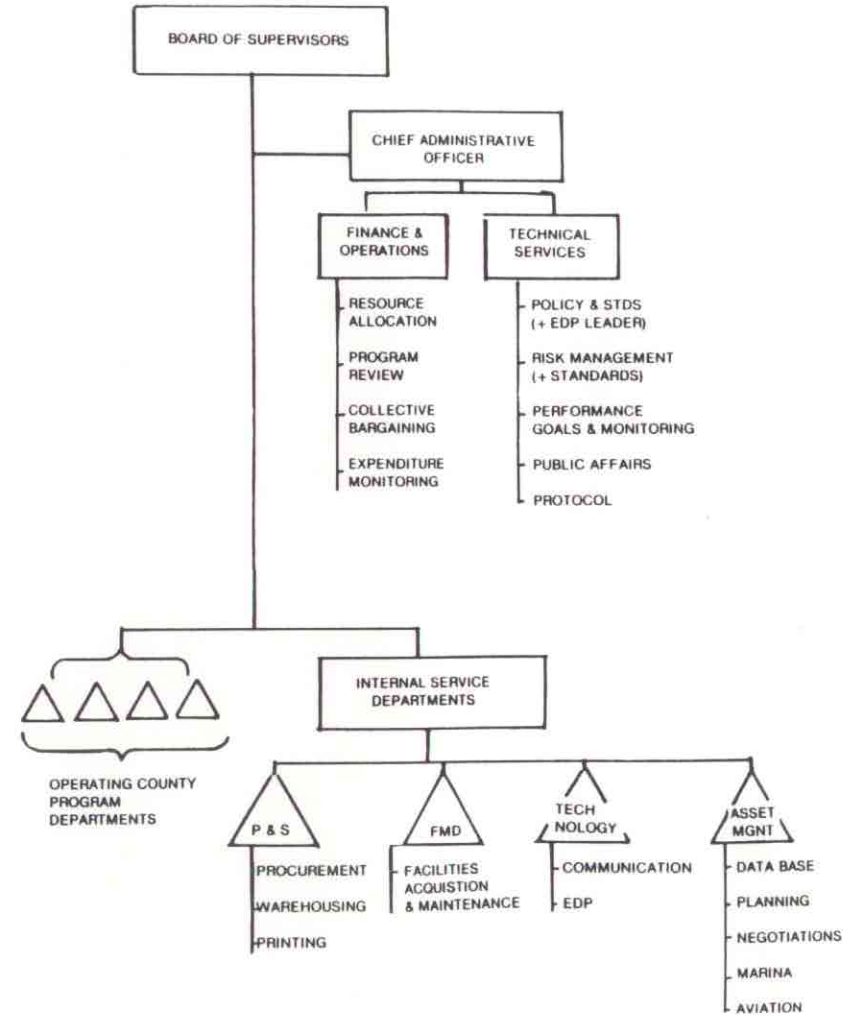
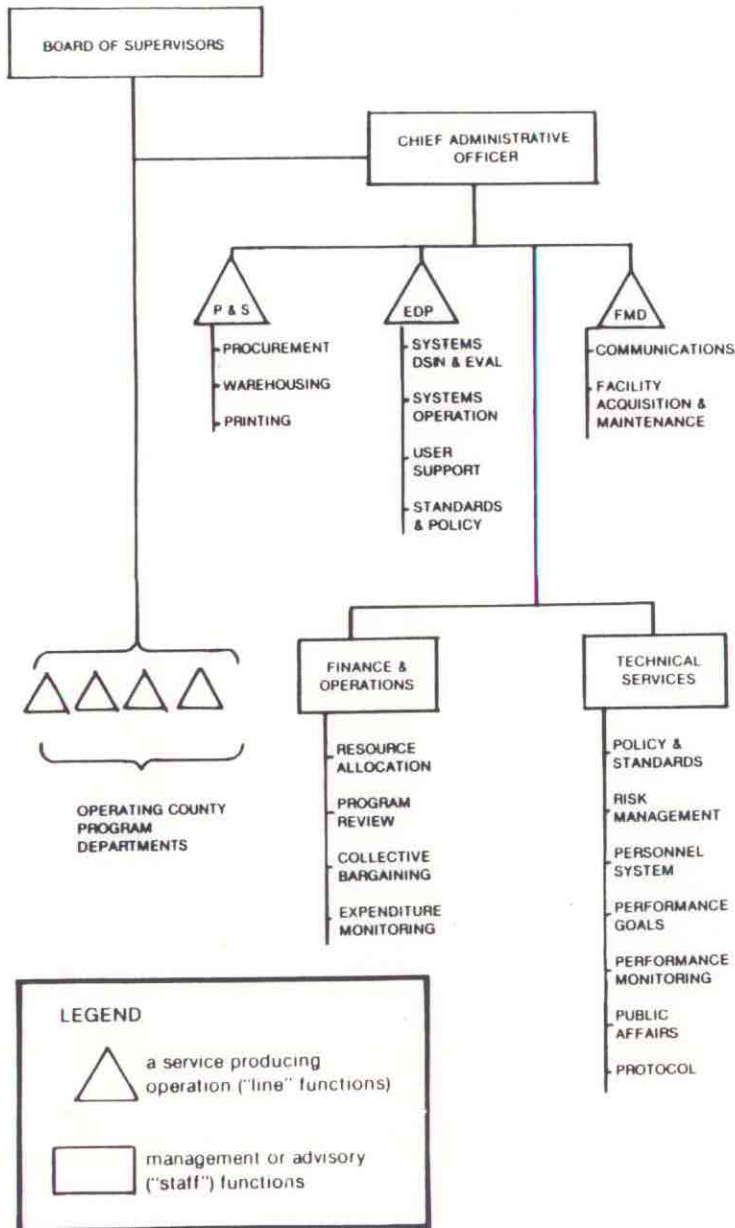


TABLE I

CURRENT BUDGETS OF INTERNAL SERVICES/ASSET MANAGEMENT
(1988-89 Recommended)

(Budgeted Costs \$Million)

<u>Function/Account</u>	<u>Budgeted Positions</u>	<u>Gross Expense</u>	<u>Transfers</u>	<u>Revenue</u>	<u>Net</u>
Internal Services					
Facilities and Purchasing					
Operations (CAO)	2,996	198.0	150.2	25.0	22.8
Facilities Spec Mnt.	....	18.7	0.0	8.0	10.7
Telephone	....	46.9	46.4	0.5	0.0
Utilities	....	86.0	29.0	6.9	50.1
Disaster Aid	....	30.0	0.0	30.0	0.0
Music Center Options	....¹	6.3	0.0	5.0	1.3
Rent (Incl. Debt)	....	67.2	0.0	8.1	59.1
General Debt	....	9.8	0.0	9.8 ¹	0.0
Cable TV	....	1.7	1.7 ²	0.0	0.0
Courthouse Constr.	....	43.2	18.4 ²	24.8	0.0
Justice Facilities	....	39.2	14.6 ²	24.5	0.1
Other Cap. Projects	....	230.0	0.0	210.8	19.2
Asset Management					
Operations	30	1.5 ³	0.0	0.0	1.5
Marina Fund	....	26.0	0.0	26.0	0.0
Marina Operations	75	0.0 ⁵	0.0	0.0	0.0
Aviation Fund	....	4.2	1.0 ²	3.2 ⁴	0.0
Aviation Operations	74	8.2	0.6 ²	7.6	0.0
Data Processing	1,136	140.9	115.3	12.3	13.4
TOTAL	4,312	957.8	377.2	402.5	178.2

Notes to Table I

1. Tax revenue
2. Available Funds
3. Salaries and benefits only
4. May include double counted transfers from operating funds
5. Reflected in Marina Fund.

In addition, the recommendation implies further clarification of the role of Chief Administrative Officer with respect to these internal services functions.

This recommendation is a further development and refinement of earlier proposals of our Commission, several County officials, and several consulting studies. In the following paragraphs, we take up each of the points in turn.

CONSOLIDATION

We propose consolidation of these internal services functions primarily in order to unify support services to County program departments. Their programs share the following mission elements:

- ! each manages and controls major investments in fixed assets, including the preservation and protection of assets;
- ! each supports the primary mission of providing services to optimize the use of assets by County departments, and each is in a position to minimize the kind of suboptimization that has increased County costs in the past, (for example, the inability to consider transportation costs and communications costs associated with facility location decisions or purchasing decisions as we documented in earlier studies)
- ! each is a part of the overhead load on County programs which serve the public
- ! each is affected by and must respond to current technological developments;
- ! each is being forced by technology and by County policy to relinquish the culture of an internal monopoly, and act instead as a competitive provider to County executives.

In addition, these departments are highly visible politically. County facilities are used extensively by the public, and represent a physical presence for the Supervisor in the District which elects him or her. Each interacts consistently with powerful corporations that supply the County. For each of them, the cost of failure could be disastrous - breakdown of the communications links supporting law enforcement, for example, or of the data systems supporting the County's financial affairs.

Communications and Data Processing. In 1986, our Commission recommended the consolidation of the communications functions of the Facilities Management Department (now the Internal Services Agency in the CAO) with the Data Processing Department. Following that recommendation, which was not implemented, Theodore Barry and Associates recommended the same thing. In that case, the recommendation was disapproved by the Chief Administrative Officer. In both cases, the recommendation was motivated by the technological fact of contemporary information processing, that the acquisition and maintenance of communications technology is becoming more and more critically associated with information processing technology.

Facilities, Communications, and Data Processing. However, this does not mean that communications and data processing technology should be detached from facility acquisition and maintenance. In fact, the same technological trends are supporting the development of innovations in construction and building

maintenance. New buildings can be "smart" - that is, they can use information systems to optimize operational costs, energy consumption, security, and other facility-related functions. New buildings can be designed for shared tenant services, including communications and data processing, and old buildings can be retro-fitted for optimal networking. Working patterns may be developing that will radically change the design of human working environments. For example, the transportation/communications trade-offs may lead to increased use of telecommunications for certain kinds of work - which would favor the development of widely dispersed small facilities over centralized large facilities. Employees will demand consideration of human factors in office design as the use of personal computers becomes more widespread. contemporary business people in the United States and Japan are developing new design concepts for office workers - facilities designed to support "knowledge workers", most of whose work is concentrated in manipulating information.¹ Businesses are merging or forming joint ventures to exploit these trends - IBM has a project with Nippon Telephone and Telegraph, for example. Firms such as Ford/EDS have developed data centers integrating all these Technologies, for the US Army and others.

Customer Interaction. The same kinds of processes apply to facility development as to information systems development, and the same kinds of customer groups must be served. Both must consider the functions performed by the client departments or

agencies in designing a system or a facility. Both are project driven - project management is critical to the development process. Both must be concerned with the life cycles of the Systems they develop - life cycle costs, and replacement costs or reuse. Both must provide for training, and for ongoing maintenance and operation of the systems they develop.

Client Multiplicity. Customers in the County system are seldom single departments. In 1984, following extensive study, Arthur D. Little defined three levels of County information systems - countywide, multi-department, and departmental. County service delivery systems are multi-departmental, and, in many cases, multi-jurisdictional. In the case of services for children, for example, we and the Interagency Council on Child Abuse and Neglect (ICAN) have identified the activities of over 25 city and county agencies whose responsibilities have a direct impact on children's welfare. In an effective system, these agencies must be able to share data and information processes. They can do so with appropriate communications linkages and security systems, regardless of their locations in facilities, but the facilities themselves must be designed to support such linkages. We believe that few or no non-trivial County information systems can be properly defined as single-department. In all cases, the information that a County department has and uses may be needed by others, even if that need is not known or understood at present. Communication linkages among all County facilities will become increasingly critical.

We believe that the first step to enable the County to exploit these trends is to consolidate the departments whose services are most closely linked to asset-based systems acquisition and maintenance - Facilities Management, Data Processing, and Purchasing and Stores.

To be sure, the specific technologies of procurement, ware-house management, printing, building crafts, and information or data processing differ from one another. They would be separate sub units in the new department. Their management would be unified. Their missions and their approaches to providing for the infrastructure needs of County programs would be brought into alignment.

Size and Complexity. One of the objections to consolidation raised by County officials is that the new, consolidated department will be large and complex. In our view, this objection has no merit. The functions are already large and complex. The fragmentation of related missions and functions into several independent units, each with its own political base, administrative bureaucracy, and service constituency leads to increased unnecessary complexity in the Board's management responsibility. Consolidation reduces complexity. It should also reduce size, since the unification of administration leads to a reduced need for staffing of business functions.

CENTRALIZED MANAGEMENT

Policy of Decentralization. We have promoted the decentralization

of County internal services. It has been a cornerstone of our recommendations for reorganization and decision systems improvement since 1982. In our view, the best way to break up the monopolistic behavior of internal services functions is to give their client departments the choice of whether to purchase services internally or from a competitive outside firm. This is also, in our opinion, the best way to maximize the returns from the county's contracting policies, because it will force the internal services departments to become competitive, whether or not the services are contracted.

The policy has been effective in moving the internal services departments toward a more entrepreneurial stance. The Facilities Management Department and the Data processing Department have each developed a strategic plan to market their services internally, under the assumption that they will have to compete with alternative outside providers. They are becoming more customer oriented, and they are systematically streamlining operations.

Policy Implementation. However, the decentralization were commended, and the Board adopted, was limited to decision-making and funding. The idea has been expanded recently to include not just the shift of decision-making authority to user departments to choose their suppliers. but also the shift of operational authority and personnel. That is, the CAO has, through the budgeting process, added a third option: that departments

can manage and produce the internal service themselves. Thus, funding and personnel have been transferred from Facilities Management and Data processing to the Department of Health Services. Even capital projects have been decentralized.

This policy is one of dispersal of resources, not of the decentralization of decision-making. Although it is based on the premise that "departments should manage their own operations", it is likely to lead to trouble for the following reasons:

- ! line program departments do not have the depth of managerial expertise and experience that has been developed in the data processing, facilities, and procurement specialties ;
- ! the proliferation of dispersed operational units to provide technical support services will eventually lead to major increases in total county overhead, as the line departments try to develop internal expertise in managing the technical specialties;
- ! the policy locks in the isolation of County departments from one another, which will make more difficult the development of multi-department and countywide systems, thus increasing coordination costs at a time when they should be reduced by the availability of communications technology.

Thus, we believe that the decentralization of decision-making should be continued, but not the dispersal of internal service resources. If a client department chooses to contract with a private firm, rather than use the internal services department, then the internal service department will have to undertake the necessary reductions to maintain its break even position (net cost of zero). We have supplied ample information on the options open to the County to accomplish such reductions. Our recommendation is therefore to retain Facilities

Management, Data Processing, and Procurement as centralized functional services. We base our conclusion on our review of

! recent trends in business and industry, and

! several models for providing for user-driven management of systems development efforts.

Industry Trends. Business and industry undertook a radical dispersal of information systems resources through the 1980's. The current trend is to reverse it: to recentralize² Irwin Sitkin, the Vice president of Corporate Administration at Aetna Life and Casualty was quoted recently as saying:

"Many companies followed Citicorp's lead by pushing thousands of minis and micros out to departments. But often these well-intentioned efforts to get close to end users weren't accompanied by increased gravity and control at the center and a cohesive strategic plan."

Such organizations as Security Pacific, Merrill Lynch, and Aetna are recentralizing, but they are not attempting to fight the technology. They are supporting increased networking. increased use of personal computers and local networks, and increased choice of supplier on the part of users. But they are not supporting the dispersal of resources and management to the end user departments. We believe it is particularly critical in the County to avoid the dispersal mistake that these companies are now working to reverse. In the County, departments are seldom free standing business units. The degree of inter-dependence among departments is high. The department in the county structure - is an artificial boundary. Regardless of how much success the Board

achieves with department consolidation, it will never be true that service systems are single department. For example, it will always be true that service systems to protect children from exploitation will involve both law enforcement and social services, but it would be absurd to propose consolidating the department of the Sheriff with social services units.

Therefore, it will be essential to provide for centralized decisions governing the interactions and communications of data and processes over all departments.

Business and industry have also recognized the need for centralized procurement and standards development. The issue is not merely cost reduction - although that is significant enough- but also effectiveness. Without standards, systems that should be linked in the future may be designed in ways that would preclude integration.

Finally, IBM has also recognized and is acting on the need for recent centralization. It is developing communications systems architecture that will support the centralized control of systems used by diverse, but linked, departments.

Users Decide. Centralization does not mean that the County should revert to the historical problems associated with making the central internal services department a center of policy and control that left user departments with little or no influence over their systems. In 1983, Arthur D. Little recommended establishment of "Systems Planning Units" to govern the development of information systems over several departments. The concept is

similar to that used in business - governing systems development through a "Strategic Information Unit". It has been applied successfully in the County, with the development by the Information Systems Advisory Board (ISAB) of the countywide Criminal Justice Coordinating Committee. It has also been applied to countywide systems, in the development of the new accounting system and the payroll and personnel system. It can be applied successfully in facilities programs as well - for example, the new Dependency Court projects should be controlled by a group composed of all the departments whose clients will use it, not just the Superior Court.

Other work in local government supports the same kinds of structures for systems development: that is, a strong committee of users supported by a strong centralized service department. A similar model has been developed by the URBIS group at the University of California in Irvine, and is being implemented in Phoenix. Absolute measures of the effectiveness of this method of organizing and managing systems development - for information systems or facilities development - are not yet available. We believe that the approach is far superior to the radical dispersal of technical resources to line program departments which seems to be the current policy of the CAO. Thus, our recommendation is to continue the strong centralized internal services functions.

COMPREHENSIVE ASSET MANAGEMENT

Through the general and enterprise funds, the County has

invested at least \$2.7 billion in fixed assets (non-depreciated historical cost). Of this amount, about \$2.0 billion is in land and improvements, and \$400 million in equipment. We estimate that the amount invested in data processing equipment amounts to \$90 million. In addition, the County's rental budget includes annual expenses of \$8.3 million for non cancelable leases.

No single County organization is accountable to the Board for its management of this investment in fixed assets. The CAO has an organization that has identified certain county-owned parcels as candidates for revenue-producing deals with developers. At least one of these projects has succeeded, and others are progressing. However, the CAO's function is not responsible for the overall development of all types of County assets as income producing resources. nor is it responsible for ensuring the best and most efficient use of those assets.

Definition. Our recommendation is to create a single organization responsible for optimizing the use of assets, within the new Internal Services Department. We include the following in the definition of the function we envision:

- ! long range asset development program planning
- ! project programming, management and control
- ! standards
- ! operations and maintenance
- ! technical support and services

We include the Small Craft Harbor Branch of the Department of Beaches and Harbors. The public-private partnership at Marina del Rey is the best example we know of supporting our belief that the County can find ways to develop under-utilized assets for public benefit and the benefit of the County as an institution. We include the Aviation Division from the Department of Public works. The County's five airports in our view, represent one of the most significant current examples of assets that can and should be developed, in collaboration with the private business community, to exploit the coming growth in general business aviation.

Study Background. During September, we engaged HRS Associates, a consulting firm specializing in human resources management, to assist us in facilitating a study of Parks and Recreation Beaches and Harbors, Facilities Management, and the Public Library by representatives assigned by the Directors of those departments, we have reviewed two reports generated by that work: the report reflecting a consensus of the study team (Attachment I), and the report reflecting the independent conclusions of the consultant (Attachment II). Following extensive interviews of County officials, the study team agreed to the following finding:

"There is no strategic and systematic process for managing the County's real estate assets and income producing processes. presently, some of the County's real property assets are under the operational direction of departments, while others are under the direction of the Assets Division of the CAO's office or the Facilities Management Department, also reporting to the CAO. Currently, the County manages more than four thousand separate facilities, both large and small, for its own use; large real estate developments like the Marina del Rey and twenty or more other major parcels under consideration of development or redevelopment for the purpose of revenue generation. Additionally,

several operating departments exercise control over revenue generating concessions occupying County owned or operated properties

through contracts with outside businesses or suppliers of services.

"Under the present arrangement, there is no clear system for tracking and accounting for these properties and contracts; assuring the application of desired business standards; auditing revenue performance; conducting consistent scheduled maintenance programs and allocating required maintenance funds; coordinating the pursuit of lease renewals and renegotiations; and, numerous other sound asset management practices."

The study team recommended that the County undertake a study.

Following the study, the consultant, in his supplemental report, makes the following recommendation:

"It is recommended that a new Asset Management Division be created by combining certain functions and activities now under the CAO's Asset Management Division, Facilities Management Department, and Beaches and Harbors (specifically those activities related to Marina del Rey). The head of this Division would report directly to the CAO.

In its recent review of the asset management practices of the State of California, the Little Hoover Commission similarly recommended centralization of asset management programs as they relate to real estate:

Adopt an organizational structure for State property management which establishes mechanisms designed to ensure accountability of decision making. Such a structure should centralize policy development, require the development of operational plans, establish procedures for accountability, and monitor accomplishment of measurable objectives." ³

The former Director of Parks and Recreation, Ralph M. Cryder, made similar recommendations when the Board began to implement the reorganization program, and several staff people in the CAO's office have conducted preliminary investigations into the potential of further development of the County's resources.

In our current work on contracting, we have engaged the services of Deloitte Haskins and Sells to assist our task force in identifying alternative means of improving the financial performance of the Antelope Valley Rehabilitation Centers (AVRC). Although that study is not completed, indications are that the task force and Deloitte Haskins and Sells will find that management of the AVRC as an income producing asset is both feasible and desirable. In a partnership arrangement, for example, the County could develop the property for further use as an alcoholism and substance abuse treatment center, funded by industrial employee assistance programs.

Information Systems Assets. In the information systems field, the current trend in business and industry is to view both information itself and the hardware and software supporting its development, dissemination, and maintenance as assets subject to the same kind of rigorous justification as other corporate assets. In fact, with current technology, the development of major information systems (very large projects) is evolving in the direction of asset based development, rather than as one-time efforts which freeze the users' requirements.⁴ We made a similar recommendation in 1982, when we stressed that the kinds of systems the County can use most effectively, cost accounting and inventory management, should be built on the exist-in base - systems that the county already had. That is, information systems can be used and reused, maintained and eventually replaced, in the same way as real property assets.

During 1986, as part of our work on contracting, we identified significant opportunities to develop the County's base of demographic and geographic data as a marketable asset. The County has initiated work on developing an integrated system to support departmental needs for such data, but we know of no progress in LOS Angeles to develop a public-private partnership for marketing and using that data and system. In San Diego, by contrast, there is a partnership that has been active for several years.

Experts in information systems have similarly begun to, view micro and mini-computers in widespread use as assets which incur maintenance and operational costs in addition to their acquisition costs. They are developing methods of measuring the effectiveness of Systems in terms of return on investment. For exam-pie, in a recent study, Nolan, Norton & Co. found that the annual cost of owning a microcomputer, on average, is about \$18,000. They estimate that most companies are generating returns of 10% to 20% on the investment, while productivity improvements of tenfold should be possible. ⁵

Mission and Function. Although the CAO has an asset management division. it is project-driven. The CAO has no charge to concentrate on the overall development of any Systems as assets, with the needs of the entire County in view.

The kind of asset management we envision is comprehensive and operational. It would centralize the responsibility for planning and

development of projects, including information-based projects, for all departments and for all

County assets, and it would manage and monitor those projects. The mission would be to develop and implement plans and programs to optimize revenue returns on LOS Angeles County's investments in real property, physical, and intellectual assets, consistent with the legal and public interest responsibilities of County government. The primary objective would be to increase County revenues and the value of County assets. Increases in revenues are to be shared between the overall needs of the County and those of individual departments, as currently defined under the County's Budget Savings Retention Plan.

The principal duties would be:

- ! to develop a comprehensive, strategic countywide asset management plan which encompasses major real estate holdings, major physical assets, and intellectual and professional capabilities;
- ! for those assets directly assigned to the Asset Management Department, develop and implement programs to optimize the County's revenue return on its investment, consistent with County government's responsibilities to the public interest;
- ! for those assets assigned to other County departments, work in conjunction with individual departments to develop and implement standards and programs for optimizing the County's revenue return on its investments, consistent with the mission and goals of the individual department;
- ! aggressively and creatively seek out inter-department opportunities to optimize revenue returns from assets held in more than one department;
- ! in conjunction with Facilities Management, develop a data management system which will provide a central inventory of County-owned properties.

Centralized Management. We considered several alternatives for the organizational placement of the asset management function. Asset management includes three major components:

- ! determining which properties to target, and what kinds of development to seek for them;
- ! deal making and negotiations; that is, the function of finding enterprises interested in working with the County on the development, and negotiating the terms and conditions;
- ! managing the operating development; that is, the function of ensuring that the County's interests are protected and meeting the County's side of the agreement.

Operating County departments have performed all of these functions related to property they manage. The beach maintenance people of the Beaches and Harbors Department have negotiated productive arrangements with restaurants, and have developed Recreational Vehicle Parks at some sites. The Parks and Recreation Department has operating agreements with several concessions.

The centralization we propose would operate in the same way as the centralization of other facility-related functions. That is, the Internal Services Department would not be a monopolistic provider of the services of developing the projects. Rather, it would be available for support of the departments. The most important element in the program we propose is its focus on a countywide plan for asset development and management, for all fixed assets.

In any County asset management function, one of the most critical responsibilities will be to assess the trade-offs between the public interest in increasing income for the County, the public interest in

providing public services at County facilities, and the public interest in maintaining County property in a safe and useful condition for public purposes. Thus, clearly,

one primary responsibility of those managing this function would be to work closely with the departments and the Board on balancing these priorities.

Alternative Structures. We considered whether the function we recommend should be located organizationally in the Internal Services Department or in one of the following:

- ! Chief Administrative Office
- ! Treasurer Tax-Collector
- ! Public Works Community Development Commission
- ! Employees' Retirement System
- ! A separate department reporting to the Board

We prefer locating the function in the Internal Services Department initially. This reporting arrangement will unify all the functions affecting the acquisition, use, maintenance. and development of County fixed assets, excepting only the public infrastructure of roads, flood control, sewers, and so forth. The department will therefore be able to integrate all factors affecting life cycle costs, returns on investment, and divestiture options in its design and planning.

It may be desirable to "spin off" some such developments from the centralized function to the applicable operating department, once the development is completed and its use well established. In the case of the AVRC. for example, the Department of Health Services would be most

directly concerned, and therefore in the best position to manage ongoing operations, and should be the primary beneficiary of the revenue and other benefits.

Similarly, the Department of Parks and Recreation may wish to continue managing properties for recreational uses such as golf courses or parks, regardless of the development activities that may have been introduced. In these cases, what we are proposing is that the Internal Services Department would function as a contract asset manager, to relieve the line operating department from the responsibility of operating facilities. As in the other cases where the Department would be providing a service, the client department would have the choice, according to standards developed by the CAO, of selecting another manager for the assets.

What is essential, however, is the centralization of the planning function. In this case, the Internal Services Department is preferred because it has the most comprehensive knowledge of County properties, and is developing a comprehensive asset base. The new internal services department we recommend is in a better position initially to do this than the CAO. The CAO can retain policy control through the budgets, capital projects budgets, and general oversight.

Therefore, we think that the function would be most appropriately managed through the Internal Services Department. That department will be responsible for the design, acquisition, and maintenance over the life cycle of all county assets, and accountable for producing reasonable returns on those assets. This location of the reporting

responsibility should be evaluated within one year, and changed if one of the other arrangements listed above would be more appropriate.

Thus, our recommendation calls for centralization of asset management in a new function assigned to the Internal Services Department

Role of the Chief Administrative Officer

Since the early 1970's. every study of the County's information processing needs, and most studies of its real property management functions, has recognized the need for a central role for the CAO in the management of those programs. The issue is the same in both cases. The acquisition, maintenance, and development of County systems - including facilities housing county programs involves multi-department projects, county wide projects and a few serving single departments. These projects require enormous infusions of capital and the coordination and cooperation of numerous county officials, suppliers, and other interest groups.

Priorities are a major issue. Standards must be developed and enforced, countywide. The function has been more clearly defined for information systems than for facilities, but it applies in both cases. In the 1970's, the CAO provided the leadership and the staffing for the EDP Coordinating Committee. In the 1980's the function has evolved into the CAE's "EDP Lead-ER" function, developed in 1986 and 1987 with the help of Arthur D. Little, Coopers and Lybrand, Touche-Ross, Theodore Barry and Associates, and others. We recommended a similar role for the CAO when we proposed decentralized decision-making in 1985, as adopted by the Board of Supervisors.

The central issue regarding the role of the CAO in asset management and systems development is one of power. County departments want to conduct their own systems development efforts and manage their own facilities acquisition. The law will not permit them to similarly manage isolated procurement systems, but they nevertheless continue to resist standardization. Someone has to set countywide standards and establish priorities. This is an appropriate role for the CAO, as staff to the Board of Supervisors. If it is not the CAO'S role, then it will not be done. Only the CAO has the countywide viewpoint and the kind of information that would support overall policy determination and standards.

A number of companies have developed a new, high-level corporate function, generally called the "Chief Information Officer". In most instance, however, this is a line operations position, which controls and provides for all of the corporation's information and information processing resources. This function, in our recommendation, would be assigned to the Internal Services Department. The CAO's role would be to provide staff advisory support to the Board regarding standards and policies (but not technological policies).

RECOMMENDATION 3

We recommend that the Board of Supervisors consolidate the Department of Beaches and the Department of Parks and Recreation.

DISCUSSION

Until 1969, the County's responsibilities for managing beaches were assigned to the parks and Recreation Department. Our recommendation is to return to that structure, provided that the management of the Small Crafts Harbor functions (Marina del Rey) is assigned to the Asset Management function we have recommenced.

The missions and functions of the two departments are quite Similar:

- ! each provides land and facilities for the recreational use of the public;
- ! each maintains those facilities in useful and safe condition;
- ! each provides for the safety and security of the public when using the facilities;
- ! each provides programs, facilities and services which are environmentally significant and sensitive;
- ! each negotiates revenue-producing concessions with private companies who wish to exploit the markets available from the public use of the facilities.

The current structure and the structure we propose for these functions are depicted in Figure 3. The budgeting data are summarized in Table II.

We see no reasonable organizational rationale for maintaining the management of beaches separately from the management of

TABLE II

CURRENT BUDGETS OF BEACHES/PARKS & RECREATION
(1988 - 89 Recommended)

Function/Account	Budgeted Positions	Gross Expenses	Budgeted Costs (\$Million)		
			Transfers	Revenue	Net
<u>Beaches</u>					
Operations	300	28.4	0.0	16.7	11.7
<u>Parks and Recreation</u>					
Operations	940	74.0	2.1	41.1	30.8
Development Funds		1.6	0.9 ¹	0.8	0.0
		11.0	5.7 ¹	5.3	0.0
		3.6	0.5 ¹	5.1	0.0
Total		118.6	9.2	67.0	42.5

NOTES to Table II

¹ Available funds

Although merging these departments can be expected to produce some savings of administrative costs - possibly as much as \$200,000 annually - we also believe that the integration of their program activities will produce benefits. For example, in our work with Children's Services, we found that the county maybe missing significant opportunities to reach numbers of young

people with alternatives to gang activity and vandalism. We have been told that Ventura County has had some success in sponsoring the use of such facilities to provide recreational activities organized by volunteer groups. Consolidation would help generate resources that could be used to develop similar long range programs in Los Angeles County, in collaboration with the Asset Management function we recommend above.

The Chairman of the Parks and Recreation Commission has indicated the concern of that commission to maintain the integrity of the Parks and Recreation Department as an organization separate from the Beaches (Attachment IV). We believe, but do not know, that the Board could also expect other organizations to express similar concerns. including such general purpose environmental groups as the Sierra Club. State organizations with an interest, such as the Coastal commission and the Resources Board. other County commissions, and other politically active interest groups.

The political issue is the same as we identified in our 1983 study. Once a separate department is created, it creates associated constituencies of suppliers and users who believe that structural change will threaten their interests. All the evidence we have so far testifies to the opposite. The consolidations that the Board has adopted have increased the effectiveness and efficiency of the affected programs, and have not resulted in any decrease of policy attention whatsoever. We there-fore urge the Board to undertake the separation of

the Small Craft Harbors Division from Beaches and Harbors, followed by the consolidation of beach management with Parks and Recreation.

NOTES

¹ Robert Chapman Wood, "A New Look at the Office," High Technology Business, October, 1988, 12.

² Ralph Emmett Carlyle, "Leading IS Shops Shifting To A Centralized Structure," Datamation (33:22), November 15, 1987, 17.

³ State of California, Commission on California State Government Organization and Economy, California State Government Management of Real Property, March, 1986, Recommendation B. p. vii, and throughout.

⁴ Daniel S. Appleton, "Information Asset Management," Datamation (32:3), February 1, 1986, 39

⁵ Paula S. Stone, "Research Report Outlines PC Managerial Models," Infoworld, July 4, 1988, 34.