

LOS ANGELES COUNTY
ECONOMY AND EFFICIENCY COMMISSION

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

June 25, 1982

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Honorable Board of Supervisors
Los Angeles County
383 Hall of Administration
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Dear Supervisors:

Mechanical Department

Introduction

On February 2, 1982, you asked our Commission to work with the Chief Administrative Office on monitoring the implementation of past recommendations to improve operations of the Mechanical Department. Our task force has concentrated on reviewing implementation progress rather than on initiating and conducting a new study of the Department's management Systems.

The Mechanical Department has been subjected to audits, reviews and studies for years. Our commission, Grand Juries, the Chief Administrative Office, the Auditor Controller, and the Contract Services Advisory Committee have each conducted at least one review and produced a series of detailed recommendations.

On a scorecard basis, most of the recommendations have been implemented or are in final implementation stages. On a substantive basis, however, several central issues raised in the studies remain unresolved even when the underlying recommendations have been implemented or are in some stage of implementation. For example, the Department reports that it has implemented the 1973 and 1977 recommendations to establish engineered work performance standards for the building crafts. The Data Processing Department has developed and tested computer programs to report comparisons between actual performance and those standards. It is unclear how Department executives use the available information to monitor performance, reward effectiveness, or correct deficiencies.

In developing our recommendations, the task force concentrated on identifying obstacles to the implementation of prior recommendations and to the effective use of the resulting systems after implementation.

Like any other County department, the Mechanical Department must operate within the framework of a larger bureaucracy, under sustained public scrutiny, surrounded by rapidly advancing technology, in a period of severe financial decline. These conditions breed uncertainty and indecision: one reason that the Department has difficulty implementing past recommendations is that it is faced with a constant stream of new ones based on new technology and on a changing vision of how the overall County management system should operate. We believe that this should stop. The Board and the Department have the ability to act now to improve operations with current systems and without a radical overhaul of County-wide policy.

ApproachRECOMMENDATION 1.

The task force recommends that the Board of Supervisors discourage any additional studies, reviews or audits of the Mechanical Department by the Chief Administrative Office, Auditor Controller, Grand Jury, or advisory committees and commissions for at least 18 months. We exclude from this moratorium those instances in which an internal investigation may be needed to ensure the County's financial accountability and those in which technical support is needed to assist the department in implementing Board policy.

Discussion. The Mechanical Department is over audited. Department management needs time to reflect, to plan, organize and accomplish the implementation of recommended improvements. To hold the executive accountable for accomplishing these improvements, it will be necessary first to obtain firm commitment to implementation and to guarantee Board and Chief Administrative Office backing during implementation. We do not claim that audits and reviews are necessarily disruptive. Rather, it is characteristic of continual audits that they become so routine that implementation can be subordinated to the need to respond to audit processes and findings. We propose that the Board and the Department executive, establish an agreed-on policy that the next two years will be devoted to a comprehensive implementation effort rather than to new studies.

In making this recommendation, the task force intends to shift the focus in the Mechanical Department from analysis and design to practical systems implementation, and to relieve Department management from the responsibility to react continuously to outside influences. We do not intend to exempt the Department from scrutiny that may be needed to protect the public from fraud or malfeasance, and we do not intend to prevent the

Department from obtaining technical assistance in accomplishing such objectives as increased contracting.

RECOMMENDATION 2.

The task force recommends that the Board of Supervisors and the Department executive place top priority on the effective use of current control and management information systems rather than on new systems development or applications of contemporary systems technology.

Discussion. The Mechanical Department has chronic difficulty with materials management, work authorization and billing, and controlling the demand for and production of work.

These difficulties have been addressed in prior audits as information systems problems. The first ingredient in inventory control is accurate information about the status of current supplies and the rates of consumption for each purpose. The second ingredient is management action based on that information. Similarly, accurate financial information is essential to control, but the information must be followed by action for control to improve. The information must be used.

Control problems in the Mechanical Department have been associated with its information systems. For example, 18 of the 30 recommendations in the 1973 report of the Grand Jury's contract auditor referred to the need for management information. Subsequent audits contain the same kind of concentration.

County support departments have responded by assisting the Department in developing information systems for use by managers in the Mechanical Department. Those systems are not, of course, perfect. Technology has developed and continues to develop.

New information Systems are better than those developed as recently as a year ago.

However, the drive to apply ever newer and better technology obscures the need for executive attention to the uses of currently available systems and dilutes the attention of the executive to the improved control for which the systems were designed and implemented. No information system accomplishes anything by itself. The computer is nothing more than an aid to organized and efficient feedback of data to managers who will act on it. Use of computer systems requires:

- disciplined control over the timeliness and accuracy of input data
- feedback in the form of action based on information organized and reported by the system

The County has a substantial investment in the information systems designed for use by the Mechanical Department. It is true that the systems lack the integration of today's sophisticated "top down" designs. That does not make them useless. The major current deficiency in the Department's information and control systems is that they are not used effectively. Before investing in the design of costly new systems, the Department should place top priority on using all the capabilities of the inventory control, facilities maintenance, financial information and fleet maintenance information Systems which are internally available for use in the County. This focus on use will have the added advantage of ensuring that future systems design takes into account all the requirements of management rather than only those that can be guessed at theoretically.

RECOMMENDATION 3.

The task force recommends that the Board of Supervisors direct the CAO and County Counsel to develop and affirm explicit policy controlling contracting with private firm's to permit line operating departments to make the decision to seek bids for the performance of Mechanical Department functions, provided only that they also seek a bid from the Mechanical Department.

Discussion. Mechanical Department functions are suitable for contracting with the private sector. The services are available in the private sector and are organized in a highly competitive and decentralized industry.

The lag in contracting functions of the Mechanical Department has been caused primarily by the County's inability to demonstrate the cost effectiveness of a decision to contract before issuing Requests for Quotation or Proposal. In those instances where the County has been able to clearly demonstrate a potential savings, the Department can and has contracted for services that it once produced internally. For example, it is contracting for security services, parking services, elevator repair and towing services, and it has issued Requests for Quotation for fleet maintenance, building maintenance and boat repair.

At present, when the Mechanical Department provides some service for another County department, either one may initiate the decision procedure established by the Chief Administrative Officer to meet Charter and legal requirements controlling a decision to contract. When a department receiving the service initiates a proposal to contract with a private producer, the procedure requires the Mechanical Department to show why it cannot be contracted.

The Chief Administrative Office (CAO) evaluates the information supplied. The CAO will authorize the tenant department receiving the service to proceed independently with the contracting proposal whenever the data supplied by the Mechanical Department does not support a no-contract recommendation

The decision procedure is further complicated by the recognition in the County of two classes of contracting proposals - those permissible under civil service provisions before the electorate adopted Proposition A in 1978 and those permitted by Proposition A. Moreover, depending on the departments involved, State and Federal regulations governing the financing of intergovernmental programs can have an impact on contracting decisions because those regulations include specific civil service system guidelines.

The reality is, the decision to recommend contracting for any Mechanical Department service is the responsibility of the Mechanical Department and the CAO. Tenant departments which consume the services have no control over that decision but must nevertheless share the costs of the services to be provided, including the overheads of the Mechanical Department.

Our proposal would change current Board policy to strengthen the role of the department receiving services from one of initiating the process to one of central influence on the decision affecting its own budget.

We recommend a positive process: 1) the receiving department requests bids or estimates from alternative producers, including both private firms

and the Mechanical Department, 2) the Mechanical Department (as well as the private producers) commits to the quoted price, terms, and work statement, 3) the CAO reviews the information for accuracy and recommends the cost-effective alternative.

Shifting more responsibility for contracting decisions to the tenant departments which are presently Mechanical Department clients would put the Mechanical Department on a competitive footing with private producers of similar services. This would increase the pressure on the Department to reduce its costs, or, alternatively, would reduce the size of the Department when its clients found a preference for contracting. We recommend that the Board change the policies for contracting, including "sundry service" contracting, to permit client departments to seek bids from the private sector for Mechanical Department work.

Our commission and the Contract Services Advisory Committee made a similar recommendation in July 1980.

Issues for Action

As we pointed out in the introduction, central issues raised in past audits appear unresolved, even in cases where the Department reports that a recommendation has been implemented or is in process. In the following, we single out what appear to us to be the most significant of these repetitive, chronic problem areas. We do not believe that any additional study or analysis is warranted to determine the "best" course of action. Action is needed on these recommendations, which have appeared in some form in audits

of the Department since 1959. That the same areas are still problems can mean one of two things:

-- the recommendations were wrong

-- the County lacks either the determination or the ability to correct the problems.

The recommendations were not wrong. In fact, the Department has concurred with them. We believe that an appropriate Board strategy to improve accountability for implementation would be to obtain a firm commitment from the Department executive to focus solely on a few attainable goals. We have included, as Attachment A, a list of the items we believe should be included in a joint policy agreed to by the Department and the Board.

Billing and Costs-Applied Accounting

RECOMMENDATION 4.

The task force recommends that the Board of Supervisors hold the Mechanical Department executive accountable for implementing the capability, if authorized by the Board, to bill or cost-apply 100% of its costs.

Discussion. The Department does not bill or cost apply its services on a County-wide basis. The amount of its budget accounted for in services billed to County departments using them has been essentially constant at 38%-40% for ten years. Charging back all of the Department's costs to the tenant departments which consume its services would improve financial discipline in the Department and strengthen control over the demands for services by tenant departments.

The Department's inability to accomplish this has been attributed to the need to prepare invoices and cost distributions manually. An interdepartmental subcommittee was formed for the purpose of determining whether the work authorization component of the County's FIRM system should

be implemented. The committee found that certain administrative policy questions had not been decided and recommended that the County issue a Request for Proposal for a systems development study by a consulting firm. The study would include a review of existing systems, including the FIRM system.

We believe that a consulting study is premature. No consultant will make much progress until internal County administrative policy is established on such issues as actual versus standardized billing rates, the detail required for audit trails, the inclusion of depreciation and other fixed costs, rate computations and the scheduling of billing cycles. Moreover, the County has a major investment in the FIRM system and several departments are now using it to cost apply their services. We believe that the Board should establish, as a matter of policy, that the County will implement cost accounting and work authorization components of the FIRM system with modifications as necessary to meet unique departmental requirements. The vendor who sold FIRM to the County and assisted in its implementation has since added enhancements and has supported full-scale implementation in several other California counties. A consultant, if one is needed, should be that same company hired on a negotiated sole source basis to assist in implementation of the system and its enhancements.

We emphasize that the County has a major investment in a cost accounting capability and has some experience with its implementation. That experience will assist in identifying modifications and enhancements to improve systems effectiveness. Investment in new systems and studies

is unwarranted until internal Systems have been tried. During implementation, the Board and the CAO should commit resources as needed for technical assistance in the Department. Proper implementation of any cost accounting system will require the Department to change its internal accounting structures and practices. The Mechanical Department will need technical help to accomplish this. It will need high level personnel with the authority and skill to enforce implementation disciplines. It will need guidance on financial policy from the CAD and the Auditor Controller. We are convinced that the benefits of implementing the County system will far outweigh the costs.

Work Production Standards

RECOMMENDATION 5.

The task force recommends that the Board of Supervisors hold the Department executive accountable for implementing and using all phases of the engineered work standards systems which have been developed for it and for expanding its applications to such other department functions as the automotive crafts.

Discussion. Implementation of work standards has been a longstanding primary goal of the Board of Supervisors and of the Mechanical Department. This has been one of the most repetitive recommendations affecting the Department. The Department's automated facilities maintenance system contains the ability to input standards and to compare task performance to those standards.

The Department should place priority on expanding the facilities maintenance system for application to all department functions. As managers gain experience in applying the standards, they should be modified to reflect any unique conditions of work in the County. Department managers will then

be in a position to encourage superior performance and to implement system-wide improvements based on an assessment of how superior performance is achieved.

Implementation Monitoring

RECOMMENDATION 6.

The task force recommends that the Board of Supervisors direct the Department executive to meet at least quarterly with members of the Economy and Efficiency Commission to review implementation progress and to ensure support as needed from other County departments.

Discussion. The Board of Supervisors has adopted a policy of goal setting, the foundation for the County's incentive program. Operational goals and objectives are effective accountability tools provided monitoring, feedback, and goal adjustment are included in the process of setting them.

What is needed is practice. Our recommendations are directed here at implementation and use of managerial capacity the County now has internally and can implement rather than on long-term design.

We have attached a list of commitments to implement our recommendations, in the form of goals the Mechanical Department can accomplish within the current framework (Attachment A). We propose that the Board and the Department head establish policy to accomplish the work set forth.

We are prepared to assist the Department in making sure that the County gains from experience in implementing them.

Sincerely,

Joe Crail
Commission Chairman

Jack Drown
Task Force Chairman

JC:yh

Attachment

cc: Mechanical Department Task Force
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ATTACHMENT A

Proposed Agreement between Board of Supervisors
and Los Angeles County Mechanical Department

The Board of Supervisors agrees to:

1. Discourage any additional audits or studies of the Department except for technical assistance required to implement Board policy and for audits required to ensure the County's financial accountability.
2. Obtain the support of other County departments where necessary to assure Mechanical Department success in implementing management system recommendations.

The Mechanical Department agrees to:

1. Establish the internal disciplines necessary to make County inventory control, financial information and management information systems work as intended within one year.
2. Implement the cost accounting and work authorization components of the County's in-house FIRM system, if necessary with the support of the vendor who supplied the system to the County, and apply 100% of department costs to client departments within two years.
3. Ensure effective use of all completed phases of the engineered work-standards system using for craft work through the Department's in-house Facilities Maintenance System within six months, and expand its application to other Department functions within two years.
4. Cooperate affirmatively with contracting policy developed and adopted by the Board of Supervisors as a result of recommendations in the Economy and Efficiency Commission Report.