2004-2005 MARIN COUNTY CIVIL GRAND JURY

"Looking Between the Lines"
A Review of the County's Budgeting Processes

Date of Report: May 23, 2005

SUMMARY

While researching Marin County's fiscal year (FY) 2004-2005 budget, Grand Jury members encountered language describing the goals for programs that varied widely in clarity and revealing a paucity of performance indicators that could measure outcomes. We could not identify either the costs or the personnel requirements needed to achieve a given goal.

The Grand Jury discovered that this budget represented the first phase of a new program, Managing for Results (MFR). To assist in its implementation, a training program, Maximizing Performance, had been developed and made available to senior management. We soon realized that the budget process was evolving. However, we found that commitment to the MFR program varied from department to department, and therefore MFR was in varying stages of development.

The Grand Jury discovered that the current financial system, Marin Accounting and Reporting system (MARS), was no longer supported by the vendor and was being replaced by the Enterprise Response Planning System (ERPS). Estimated costs for the ERPS run to as much as 15 million dollars, and some believe that it will probably be more by the time it is operational.

We also discovered that it was difficult to establish clear lines of authority and accountability as well as the fact that, although the County Administrator is responsible for implementing the budget, he is not accountable for program outcomes. We were informed that the MFR program is intended to usher in a "Pay for Performance" program; however, no timeline was offered for its implementation.

The Grand Jury recommends that:

- The Board of Supervisors (BoS) assign accountability for program outcomes
- The MFR include definite timelines for its implementation
- The Maximizing Performance program be mandatory
- Performance indicators be outcome-based
- The performance indicators be compared to other counties and the private sector to find the best practices so the County can ensure "We are doing the right things well"
- Mechanisms be put in place so, when opportunities for improvement are identified, the improvements can be made in a timely manner

BACKGROUND

As a result of perusing the County's budget report, the Grand Jury discovered that the goals presented for each program area varied in clarity which hampered measurement of goals. In addition, we could not identify a single instance in the budget where a goal could be matched with either a line item dollar amount or the number of full time employees (FTEs) allocated to that goal. The Grand Jury, therefore, thought it timely to examine the budget with the intent of providing a constructive review and initiated an inquiry into the County's budgeting processes.

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METHODOLOGY

The budget for each service area was analyzed for the following:

- Clarity of language used to describe goals
- Measurability of goals
- Linkage of goals to a line item (monetary resources)
- Linkage of goals to FTEs
- Patterns and anomalies in the line item portion of the budget
- Responsiveness to previous Grand Jury Reports

Following these analyses, some service areas were selected for further investigation, and the department heads of these areas were interviewed.

DISCUSSION

The County organizational structure is divided into five service areas: Health and Human Services, Public Safety, Administration & Finance, Community Development & Public Works, and Community Services. The service areas are further broken down into 20 departments, 13 of which are managed by officials appointed by the elected Board of Supervisors and one by the University of California (Farm Advisor) with the remaining six department heads elected by the County residents to serve four year terms.

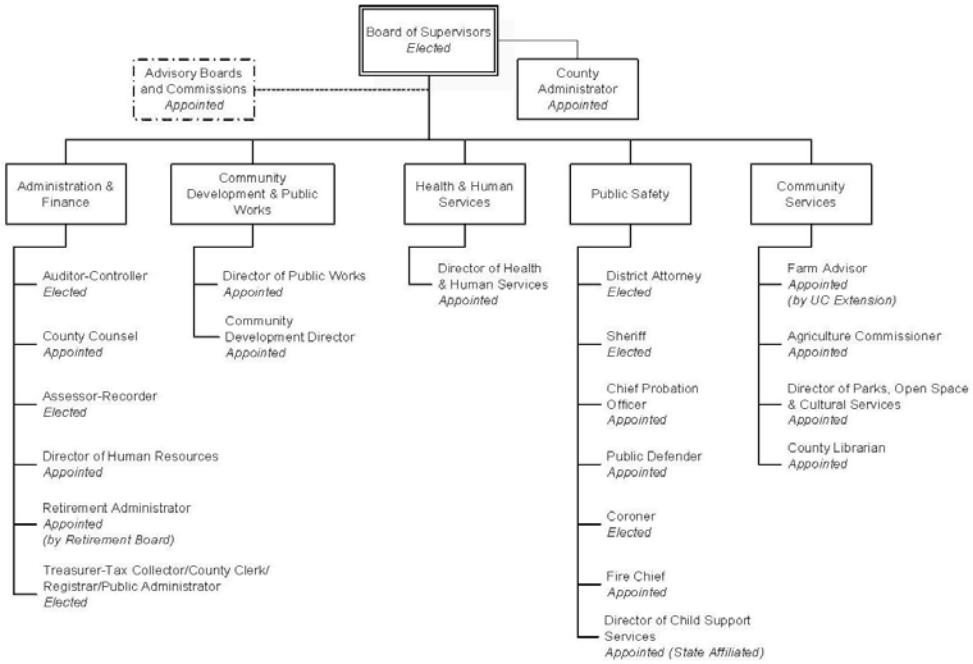

Figure 1 – County Organization Chart by Service Area

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Several years ago, the county began to move in the direction of developing a more user-friendly budget that was also more business-like in manner. This fiscal year (FY), 2004-05, the County adopted a new format for budget reporting. (The guiding principles for the budget can be found in the Appendix.) The new format was created to provide a more user-friendly budget, and it included a "Book Budget" along with the traditional financially detailed "Line Item" budget (See *Budget Terminology*, below.).

Budget Terminology

Book Budget – The narrative part of the budget – details program accomplishments, goals and objectives, a brief description of the program and its responsibilities.

County Baseline – Service costs such as personnel and benefits, insurance, construction costs, building maintenance.

Line Item - That part of the budget detailing the revenues and expenditures – the financial aspects of the budget.

The previous, traditional budget format consisted of totals (revenues and expenditures) for each service area. Programs, goals, and initiatives were not delineated and, for those who were not well-versed in accounting procedures, it was not a user-friendly document.

Interviews revealed that the development of the FY 2004-05 budget was an evolving process. Departments had been instructed to identify programs, goals, and objectives. The outcome of this process was called the "Book Budget." It was clear that this Book Budget was an attempt to develop a scheme of departmental measurements.

Our initial analysis focused on looking for links in the budget between goals and program costs in terms of money and FTE. The linkages could not be found. We inquired into this further and discovered that the linkages did not exist in the soon-to-be-replaced Marin Accounting and Reporting system (MARS) and that its replacement, the Enterprise Response Planning System (ERPS), would not be capable of supporting these linkages. During our inquiry we discovered that the new book budget format is a component of the County's Managing for Results (MFR) program, and that evaluating the budget processes objectively would first require understanding the MFR program, itself.

Managing for Results

Managing for Results is a management system designed to:

- Assist departments to align their resources and programs with Countywide goals
- Measure outcomes as an aid to decision-making
- Provide better information to the community and improve customer service
- Improve the implementation of organizational and business improvement goals adopted as part of the County's Strategic Plan.

The goal of MFR is to align County resources to those County goals deemed to be the most important and to increase accountability for the results of programs. In December of 2004, the

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Board of Supervisors (BoS) adopted Countywide Goals and indicated their intent to continue developing a management system that included Managing for Results. The BoS has decided that MFR is essential in order to achieve the goal of Marin being a "Well Managed County," i.e., "an organization that is results-oriented and customer-focused." An intent of the MFR process is to "move us from attempting to do everything well, to making sure we are doing the right things well" illustrated in Figure 2.

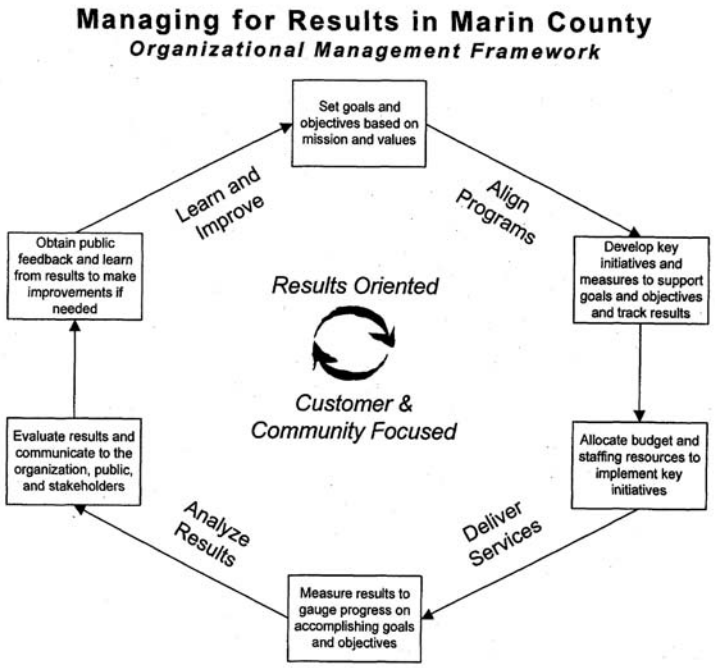

Figure 2 Marin's Managing for Results Overall Process

The budget process provides a mechanism to review Countywide goals and priorities, to update them, or to shift resources among them. For the FY 2004-05 budget, department heads were asked to identify departmental core priorities and to further define their departments by programs, including details about the allocation of resources. This comprises the first phase of the new budget process. In the second phase, departments were asked to complete a Department Performance Plan.

The development of the annual budget and the budget document, itself, is to reflect the MFR strategy. The annual budget process includes a deep analysis of the County baseline (basic operating costs) and program outcomes. Each component of the traditional budget development process has been amended to align it better to MFR strategy and the goal of becoming a "Well-Managed County."[1]

[1] Management for Results Resource Guide

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The Managing for Results framework begins with the County Mission:

"The mission of the County is to provide excellent services that support healthy, safe and sustainable communities, preserve Marin's unique environmental heritage, and encourage meaningful participation in the governance of the County by all." (Countywide Plan)

The Mission identifies five broad areas of community expectations the County is to focus on: Healthy Communities, Safe Communities, Sustainable Communities, Environmental Preservation and Community Participation.

In December 2004, the Board of Supervisors approved the following set of high-level Countywide Goals (illustrated in Figure 3) that combine these areas of community expectations with internal strategies adopted as part of the Strategic Plan. Departments used these Countywide goals to develop departmental-level goals and objectives.

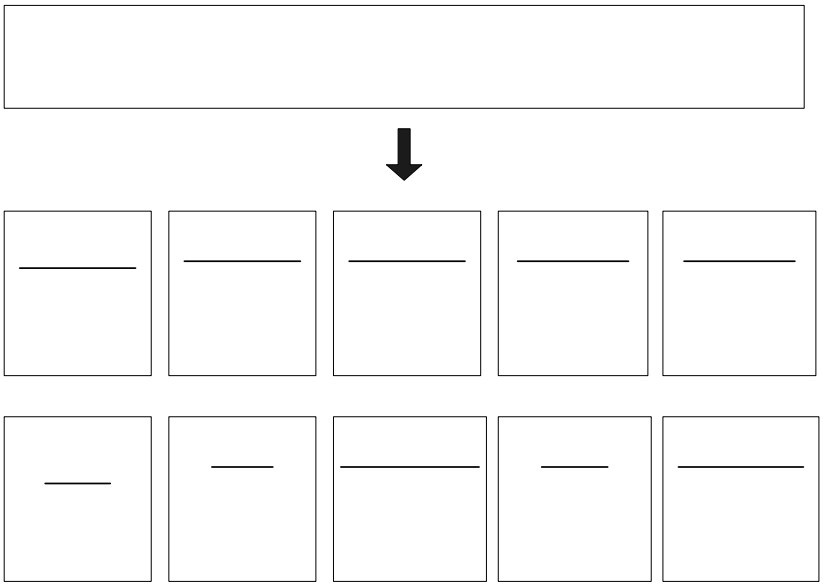

Figure 3 Countywide Goals

"This management system is an important step toward achieving the Board's goal of becoming a 'Well-Managed County'-- a results-oriented, customer-focused organization whose programs, budgets, and business systems are aligned with the overall mission, values, and goals."[2]

[2] ibid.

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The mission of

According to the MFR Resource Guide, the benefits of the program will include:

- Helping the Board of Supervisors set Countywide goals and objectives over a 2-5 year timeframe by better informing them about important issues
- Helping departments monitor and improve program results. As part of a continuous improvement approach, this information could help departments determine whether activities not contributing to desired results needed to be modified.
- Meeting customer expectations by basing planning and resource allocation on customer needs. Both Countywide and department goals will be developed in part by assessing community needs and determining the appropriate response.
- Improving communication and collaboration by actively communicating program results to the community and the organization. Partnerships with the community and cooperation among departments are promoted to encourage collaboration on achieving goals and objectives.
- Improving communication and accountability for the County's use of tax dollars to help build public support. Customers, stakeholders, policy makers, and senior management will have a more effective means of communicating desired results and where programs stand in meeting expectations.
- Helping Board members and departments make decisions about resource allocation.
- Empowering employees by providing departments an opportunity to identify goals, clarify desired outcomes, and share information to employees. Employees will have a better sense of their department's and the County's direction and how their work contributes to that direction.

A replacement of the County's current financial system, Marin Accounting and Reporting system (MARS. The vendor, American Management Systems, no longer supports MARS.) is also being developed. The replacement, Enterprise Response Planning System (ERPS), will have all the functionality of the old one but will also have a significant amount of additional functionality, especially in the area of grant and project accounting. ERPS will also replace the County's current payroll system, providing an integrated financial and human resources/payroll system for the first time.

The new system is expected to be in place with financials functionality July 1, 2006, and with payroll and human resources functionality January 1, 2007.

We were advised that, even after the addition of ERPS, there still will be a problem regarding linking goals and/or FTEs to the budget. Furthermore, utilization of this new system will require a significant cultural change and will include such items as accountability and time sheets. We do not, however, know the full details of the ERPS capabilities and do not want to speculate about them.

Estimated costs for the ERPS run to as much as $15 million, and some believe that it will cost even more by the time it is operational. Will it do what it is supposed to do, and will it justify the costs? There is insufficient information for the Grand Jury to effect a cost/benefit analysis of the ERPS. Therefore, only time and use will confirm its worth. We were advised by one department

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that it could take as long as three years for it to develop appropriate performance measures, and that even with the new accounting system, it will not be able to track a program's costs or FTEs but will have to continue relying on local accounting mechanisms.

Phase One of the Budget Process

New to the County's FY 2004-2005 budget was a format intended to provide better information about costs and revenues of the County's programs. This format included a summary of FY 2003-2004 Service Area accomplishments, Program Area accomplishments and a department mission statement. Charts detailed the number of positions (FTEs), program expenditures, program revenues and the amount of Net County Costs (NCC) associated with each program in a department. Following the Service Area summary and Program Overview charts was a definition of each program, including a description of responsibilities, accomplishments, goals and objectives, and workload indicators.[3]

The program goals and workload indicators really caught the Grand Jury's attention. Language describing the programs and their goals ranged from being crisp, clear, and concise to being nebulous and impossible to measure. In comparing one department to another, we wondered if they came from the same organization. We also found that the indicators tended to be volume indicators (i.e. how many people received services). These indicators do not tell how many successes or failures were produced by the services (i.e., they were not outcome-based). Furthermore, they did not indicate the extent to which the services reached the community, nor did they provide information regarding whether or not it makes sense for the County, itself, to be performing the services. The indicators do not have comparators, i.e., ways to compare something against something similar or against a standard.

Due to the vagaries of the State budget and the need to balance the County's shortfall, the FY 2004-2005 budget process represents only an early phase in the approach to a full MFR. Some departments did not view MFR as a management tool, and some seemed to embrace it wholeheartedly.

Phase Two of the Budget Process

Phase Two was being implemented as the Grand Jury began its investigation. This phase focuses on the Department Performance Plan, which is the foundation upon which departments are to implement Managing for Results in FY 2005-06. The Performance Plan is a tool to assist departments to identify their most important goals and how they propose to achieve them.

In the FY 2004-2005 budget process, departments were asked to define their departments by programs, including details of resource allocation, and to develop department mission statements. Because the initial focus in FY 2005-06 is to deal only with defining goals and objectives, departments were not required to develop performance measures at this time. Nevertheless, the Management for Results Resource Guide states that if programs readily lend themselves to identifiable performance measures, departments may develop them

[3] County of Marin FY 2004-2005 Budget – Final

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The intention of the Department Performance Plan, according to the Management for Results Resource Guide, is for departments to:

- "Define their top departmental goals for the next two to five years. Generally, the number of goals should be no more than five, although large departments could have up to seven
- "Indicate how their goals align with the Countywide Goals and to specify those programmatic objectives and key initiatives that would indicate how the department's programs will carry out the goals
- "Be concise, with responses averaging 5 to 15 pages, with lengths varying by size of department
- "Examine their structure and programs and to focus on their most important goals"

Maximizing Performance

Maximizing Performance is a program designed to assist an organization interested in enhancing, or developing, a performance management program. It is "success based," focused on supporting and enhancing the performance of successful employees rather than focusing primarily on identifying employee performance or performance goals. What seems significant about this program is that it is voluntary. For instance, at the time of this report, only 5 of the 20 departments had engaged in Maximizing Performance program training. While not conclusive, this suggests that departments are not responding to Phase Two of the MFR process.

Performance Indicators

Most of the performance indicators we reviewed in the budget seemed to be based on activity levels, such as the number of times a service was rendered, or they were expressed in financial terms. While these may be starting points in the measurement process, they do not measure progress toward an objective, nor do they measure the success (or failure) of an initiative, employee attitudes, or managerial development. The lack of results-oriented performance indicators and comparators makes a cost/benefit analysis of any initiative, objective, goal or program virtually impossible.

We also found that there was an assumption that budgetary control was a responsibility of top management which seems to run counter to the idea of empowering employees and does not provide incentives for employees to assume their own responsibility for outcomes. The assumption that budgetary control is the responsibility of top management alone has historically been a significant driving factor in employees' perceived need to unionize. It would therefore seem to undermine the concept driving the MFR program, which is defined as:

> *"A process that sets goals, identifies objectives and initiatives, and emphasizes allocation of resources to achieve meaningful results. The desired results are based upon identified needs of customers and stakeholders, and are used to improve the quality and cost-effectiveness of programs and services."*[4]

[4] Management for Results Resource Guide.

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Financial accounting is obviously important and necessary; however, the assumption that performance can be expressed in financial terms provides neither employee incentive for innovation nor feedback on progress toward objectives. Therefore, whether a department (or an employee) performs well or poorly is not measurable within the parameters of the financial accounting system. This is best expressed by comments we heard to the effect that "they only care about the numbers, not what we do." This, coupled with an attitude that "the taxpayer will take care of it," diminishes an employee's inspiration to be involved in the budgetary process, be it in development, bringing an initiative in under budget or breaking the budget.

Financial assumptions and counts of the number of times a service was rendered do not provide adequate indicators that a service is reaching the community, nor do they provide a means to perform a cost/benefit analysis of a program. The Grand Jury found that some interviewees voiced dissatisfaction with both the quantity and quality of services provided to the community. Some of the complaints included:

- Insufficient health and mental health services
- Deteriorating roads
- Diminishing air quality
- Long waits for planning and building permit approvals
- Insufficient public transportation
- Traffic "go slows" on Highway 101

In the absence of results-oriented performance indicators and comparators, there is no way to make an adequate cost/benefit analysis of a program, nor are there means to forecast its effectiveness or its utility to the community. Measurements need to be based upon real goals, not something that is artfully worded, artificially low, too easily achieved, or even unrealistically high. Comparators provide a means to make an informed decision possible.

Pay for Performance

Information derived from interviews indicates that Pay for Performance is one of the objectives of implementing the MFR program. A Pay for Performance program rewards those whose quality and quantity of work exceed the norm as opposed to a simple pay system that rewards everyone equally irrespective of individual competency and initiative. Although we did not discover a time at which the Pay for Performance portion of the MFR program is scheduled to be implemented, given the variety of mechanisms that first must be developed and implemented, we were led to believe that it will not be soon.

Implementing a successful Pay for Performance program will require concurrence by all the players, including the unions. We were informed, however, that in the past, there has been little will to confront the unions over the issues of pay and performance, i.e., a person will acquire a raise in pay every x years whether or not he or she is doing a good job. While not conclusive, this implies that unions are driving the pay process. Further, in times of reduction in force, senior workers are retained regardless of the level and quality of their productivity. It remains to be seen whether the BoS will negotiate these issues with the unions. If not it would seem that the County is embarked on a program that will be difficult to implement.

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Previous Grand Jury Reports

The 2001-02 Marin County Grand Jury reviewed the County government and issued a report titled "County Governance – Do We Have It Right." That Grand Jury found that the Boards of Supervisors in general law counties, including Marin, (see definition in the box below) serve as both the legislative and executive body. Marin County, in contrast to other general law counties of similar size and characteristics, has not delegated its supervisory authority over departments headed by appointed directors to a chief executive (usually referred to as the County Administrative Officer (CAO) or County Administrator (CA) or, more rarely, a County Executive Officer (CEO)).

General Law Counties

California's Constitution of 1879 required the Legislature to establish a uniform structure of government for counties. All counties were then governed by established general law, hence the term "general law county." The Constitution was later amended to permit any county to adopt a charter determining the structure of its government, hence the term "charter county." As a general law (rather than a charter) county, Marin County must elect supervisors by district and must elect, not appoint, certain officers. The supervisorial districts must be roughly equal in population, not area, and their boundaries must be adjusted every ten years following the federal census.

While Marin has a CA, the role of the CA in Marin stands in sharp contrast to the CAOs/CAs in the information that other counties presented for review. The Marin CA has no supervisory authority over appointed department heads. Instead, these officials, in addition to being hired and fired by the BoS, report directly to the BoS and, in the case of major departments, to individual supervisors. While the supervisors of many other counties retain the ultimate hiring and firing authority, they all delegate direct supervisory responsibilities, including annual performance evaluations, to the CAO/CA. Since the CA in Marin has not been granted this authority, he cannot be held accountable for the performance and outcomes, whether favorable or unfavorable, of projects and programs.

In Marin, however, the CA is held accountable for budget preparation and control (after it is adopted). Therefore, it is natural for the CA to focus on adherence to the budget rather than on ensuring the success of projects and programs. In some cases, a reasonable degree of budgetary flexibility might make a significant difference to the outcome of a program, and a CA responsible for achieving outcomes might exercise more latitude in setting and controlling program outcomes. We note that in Marin, the CA is not expected to monitor the progress of projects and programs on behalf of the BoS *unless specifically asked to do so*.

When asked by the Grand Jury why Marin maintained this historic arrangement, senior County government officials expressed two concerns.

- First, most officials thought the CA could exercise an excessive degree of power if he or she were delegated direct supervisory authority over appointed department heads. The fact that the BoS would still retain its oversight function to protect against any potential abuses was not considered an adequate safeguard.
- Second, some officials argued that BoS supervision in which elected officials, rather than appointed officials, directly supervised appointed department heads ensured better responsiveness to the public. This advantage was viewed as offsetting any potential improvements in accountability that might come about if the CA were in charge of overall County administration.

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Several interviewees, however, did indicate the belief that any group trying to manage a complex set of programs entailing expenditures in excess of $300 million per year and a staff of over 2,000 would face enormous difficulties. However, they agreed that the lack of clear accountability under current arrangements constituted a significant and growing problem.[5]

The Grand Jury found that the conditions detailed in the 2001-02 Grand Jury report have essentially not changed and that the BoS believes that they are exercising adequate supervision over the department heads.

FINDINGS

F1. Commitment to the "Managing for Results" program is inconsistent.

F2. Timelines for implementation of "Managing for Results" are either non-existent or not spelled out..

F3. Performance measurements that would provide a yardstick for goal achievement are non-existent in the Service Areas reviewed:

a. Performance indicators tend to measure volume and not performance-based on outcomes.

b. There are no indications of the extent to which services reach the community.

c. Performance indicators do not inform whether or not it makes sense for the County to be performing the services.

d. There are no results-oriented performance indicators, nor are there any comparators.

F4. The County Administrator generally is not held accountable for program outcomes, even though he is responsible for budget preparation and control.

F5. Establishing clear lines of authority and accountability is difficult.

F6. The "Pay for Performance" goal may not be achievable.

RECOMMENDATIONS

The 2004-2005 Grand Jury recommends that:

R1. The Board of Supervisors define accountability for program outcomes

R2. The "Management For Results" program have definite timelines for its implementation

R3. The Maximizing Performance Program be mandatory

R4. Performance indicators be outcome based

R5. The performance measures be compared to other counties and the private sector to find the best practices so the County can ensure "We are doing the right things well"

R6. Mechanisms be put in place so, when opportunities for improvement are identified, the improvements can be made in a timely manner

[5] 2001-2002 Marin County Grand Jury report, "County Governance – Do We Have It Right?"

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REQUEST FOR RESPONSES

Pursuant to Penal code section 933.05, the Grand Jury requests responses as follows:

- Board of Supervisors F1-F6; R1-R6
- County Administrator F1-F6; R1-R6

Elected Department Heads:

- Assessor-Recorder F1-F6; R1-R6
- Auditor-Controller F1-F6; R1-R6
- Coroner F1-F6; R1-R6
- County Clerk/Treasurer-Tax Collector/Registrar F1-F6; R1-R6
- District Attorney F1-F6; R1-R6
- Sheriff F1-F6; R1-R6

Appointed Department Heads:

- Agriculture Commissioner F1-F6; R2-R6
- Director, Child Support Services F1-F6; R2-R6
- Director, Community Development Agency F1-F6; R2-R6
- County Counsel F1-F6; R2-R6
- Director, Parks, Open Spaces and Cultural Services F1-F6; R2-R6
- Farm Advisor (appointed by the University of California) F1-F6; R2-R6
- Fire Chief F1-F6; R2-R6
- Director, Health and Human Services F1-F6; R2-R6
- Director, Human Resources F1-F6; R2-R6
- County Librarian F1-F6; R2-R6
- Chief Probation Officer F1-F6; R2-R6
- Public Defender F1-F6; R2-R6
- Director, Public Works F1-F6; R2-R6
- Retirement Administrator F1-F6; R2-R6

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APPENDIX

Guiding Principles for the FY 2004-05 Proposed Budget

The Proposed Budget adheres to the following budget development principles:

- Preserve and enhance critical service programs through creative approaches to providing County services, including initiatives that involve more interdepartmental coordination and cooperation
- Maintain excellence in service, while creating a sustainable future
- Assess program objectives within the framework of the County's Strategic Plan
- Address the long-term health of the budget and establish conditions for a sustainable budget
- Review and consider opportunities for departmental revenues when appropriate
- Provide an inclusive process with open communication
- Ensure every department participates in the process
- Maintain a positive working relationship with departments, employees, clients and the community
- Support department efforts to solicit feedback and suggestions from employees and customers
- Minimize impact on existing employees
- Manage for Results – make budget reduction decisions based on overall County priorities

The Proposed Budget also reflects the four strategies in the County Strategic Plan:

- Keeping the Service in Public Service
- Making Marin County the Employer of Choice
- Creating a Listening Organization
- Assessing Our Impact on the Community

These principles and strategies have directed the development of the FY 2004-05 Proposed Budget and have helped County departments identify their priorities.

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