OFFICE OF THE

CITY AUDITOR

IMPROVEMENTS ARE NEEDED IN THE ADMINISTRATION'S WORK MANAGEMENT SYSTEM

A REPORT TO THE

SAN JOSE

CITY COUNCIL

AUGUST 1985

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CITY OF SAN JOSÉ, CALIFORNIA

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OFFICE OF THE
CITY AUDITOR

August 20, 1985
Job No. 5-41M-2

Honorable Mayor and Members
of the City Council
801 North First Street - Room 600
San Jose, California 95110

Transmitted herewith is a report I prepared in response to a May 28, 1985, City Council request to review the Administration's Work Management System and identify how the Council can input the system and become active participants (Referral Number 5-28-85-7a).

On August 2, 1985, a draft of this report was submitted to the Administration for review and comment. In addition, the Administration was given until August 19, 1985, to submit a written response to be incorporated into the final report. The Administration did not exercise its option to have a written response included in the final report but may provide a written response at a later date.

I will present this report to the Finance Committee at its August 26, 1985, meeting. If you need additional information in the interim, please let me know.

Respectfully submitted,

Gerald A. Silva
City Auditor

GS:ars

EXECUTIVE SUMMARY

In response to a May 28, 1985 City Council request, the Office of the City Auditor has reviewed the Administration's Work Management System and identified how the Council can input the system and become active participants (Referral number 5-28-85-7a).

The City Administration's Work Management System is essentially a Management by Objectives/Management by Exception Concept. Like all effectiveness measurement systems the Administration's system can be a useful management tool provided it is properly and diligently implemented, effectuated and monitored. However, our review of the Administration's Work Management System revealed that certain requisite effectiveness measurement system elements are either missing or are inconsistently applied. In addition, the Administration's proposed timeline for interaction with the City Council is incongruent with the Administration's trimester performance review process. Finally, it appears that the Work Project component of the Administration's Work Management System has a potential to constitute de facto policy or budget formulation that is more properly in the City Council's purview. Accordingly, more frequent and intensive City Council involvement seems appropriate in the Work Management System.

It is recommended that:

Either the City Council Committee of the Whole or Standing Committees establish a formal procedure for reviewing Work Programs and Work Projects. Such a review should correspond to the Administration's trimester reporting system and should be designed to ascertain:

- The propriety of agency program objectives.
- The sufficiency of agency program objectives.
- How agency targets were established.
- Causes for apparent program ineffectiveness and proposed steps to correct such situations.
- The propriety of any implied policies in proposed Work Projects.
- Any Budget implications in proposed Work Projects.

In addition, the Administration should initiate a process to assess:

- The propriety of Work Program targets and
- The reliability and accuracy of reported actual results.

IMPROVEMENTS ARE NEEDED IN THE ADMINISTRATION'S WORK MANAGEMENT SYSTEM

The City Administration's Work Management System is essentially a Management by Objectives/Management by Exception Concept. Like all effectiveness measurement systems the Administration's system can be a useful management tool provided it is properly and diligently implemented, effectuated and monitored. However, our review of the Administration's Work Management System revealed that certain requisite effectiveness measurement system elements are either missing or are inconsistently applied. In addition, the Administration's proposed timeline for interaction with the City Council is incongruent with the Administration's trimester performance review process. Finally, it appears that the Work Project component of the Administration's Work Management System has a potential to constitute de facto policy or budget formulation that is more properly in the City Council's purview. Accordingly, more frequent and intensive City Council involvement seems appropriate in the Work Management System.

EFFECTIVENESS MEASUREMENT SYSTEMS

Accepted management practices require a system to measure effectiveness. Such systems basically involve charting progress toward program objectives and comparing actual achievement against what was intended.

The use of systems to measure effectiveness is commonplace in the private sector. When profit is the primary objective, financial systems can be relatively easily designed to compare actual profits with targeted profits.

Performance Indicators

All effectiveness measurement systems require quantifiable expressions of program objectives. Because program objectives rarely are stated in quantitative terms measurable surrogates or performance indicators need to be developed. Often multiple performance indicators are needed to capture the intent of a single program objective.

In governmental programs measurable indicators must always reflect the desired societal change or result intended by the program objectives. According to the General Accounting Office, performance indicators should possess the following qualities:

Validity	-	Reasonably represent the program objective
Sufficiency	-	The number of indicators adequately reflect the intent of the program objective

Validity

A valid performance indicator should reflect the intent of the program objective. Thus, it should generally not measure workload data. In addition, a valid performance indicator should minimize the measurement of changes not attributable to the program. The following example illustrates.

> The results of a school lunch program intended to improve nutritional status should not be measured by the number of meals served. Valid indicators would measure the presence of certain required vitamins and minerals in the foods consumed.

Sufficiency

With regard to sufficiency, it is crucial that when indicators relating to a particular objective are grouped, they provide a

comprehensive measure of effectiveness. The number of indicators required to sufficiently represent a program objective is largely a function of need. That is, additional indicators are appropriate if they provide new information that is pertinent to the determination of effectiveness.

Performance Standards

A performance standard is the desired level of achievement for a performance indicator. Selecting performance standards is the most elusive aspect in any effectiveness measurement system. The following rules of thumb apply to performance standards.

- City Council prescribed levels of achievement should be used as the performance standard when available.
- A performance standard should be objective rather than the subjective opinion of program management.
- A performance standard should represent the outer limit of what a program is expected to accomplish.

Prescribed Standards

Legal authorities that establish and fund governmental programs seldom explicitly designate what the objectives or level of performance of the programs are to be. However, a program, by definition, comprises specific activities that attempt to accomplish one or more objectives.

In those situations when the City Council has expressly stated an intended level of performance for a program that level should be the performance standard used to measure the effectiveness of the program.

Objective Standards

The development of a performance standard should involve some aspect of objectivity. Standards that are developed from highly subjective sources, such as program management, should be questioned.

A variety of objective sources can be used to set performance standards. Examples of objective sources include: independent authoritative sources, generally accepted standards, industry standards, and comparable programs in other jurisdictions. The following example demonstrates objectively developed performance standards.

> The quality of the water supplied by a local utility district could be evaluated in relation to standards developed by an appropriate authoritative source, such as a national health association.

Outer Limit of Accomplishment

Performance standards should be the outer limit of what an effective program should be expected to achieve. In other words, a program should be extended to meet the performance standards. If a performance standard is too low, then mediocrity or even incompetence becomes the standard for the program.

It is not appropriate to use last year's achievement level as a performance standard. Using prior year's accomplishments as performance standards merely measures program progress; it does not represent the outer limit of what a program should accomplish.

Data Sources

A data source contains information about the status of a perfor-

Data Collection Process

Data collection is the process of extracting performance indicator data from data sources to show the status or achievement level of a program for a specific time period. The quality characteristics that apply to data sources similarly apply to the data collection process. In both cases people are providing, collecting or otherwise manipulating data with varying degrees of accuracy, reliability and bias. Any effectiveness measurement system should have sufficient controls to minimize any possible distortion in data accuracy or reliability. The following qualitative characteristics are essential in a reliable data collection process.

- The individuals collecting the data should be properly trained.
- Mechanical devises collecting data should be appropriate for the task and in proper working order.
- Sufficient controls should be in place to minimize the incidence of clerical errors.
- The data collection technique should be appropriate.
- The performance data collected should be sufficient to document the status of the performance indicator for the period being evaluated.

Comparison Process

The final element in an effectiveness measurement system is the comparison process. This process involves comparing the actual level of performance against the appropriate performance standard. When the actual level of performance equals or exceeds the performance standard, the program is effective in achieving its objective. Conversely, a program's effectiveness is diminished to the extent the level of performance falls short of its performance standard.

Once a problem is identified it is necessary to determine why the problem exists and take the proper steps to correct the problem. This process closes the Management by Objectives/Management by Exception loop. If this final phase of the process is not executed effectively, then any effectiveness measurement system will be a mere academic exercise and a waste of valuable resources.

THE ADMINISTRATION'S WORK MANAGEMENT SYSTEM

As a means of assessing the Administration's Work Management System we 1) reviewed each City agency's Program Objectives and Measures as reported through the second trimester of 1984-85 and 2) contrasted those agency submissions against the effectiveness measurement elements described beginning on page 3. Specific identified deficiencies in some of the agency submissions were:

- Program objectives were actually workload targets.
- Targeted and actual results were not indicated.
- Agencies did not submit program measures.
- Program measures were not submitted in the prescribed format.
- Actual workload measures were shown but targeted workload measures were not.
- Targeted workload measures were shown but actual workload measures were not.
- Variances between targeted and actual results were inconsistently stated in both absolute terms and percentages.
- Clerical errors such as reporting a result as "favorable" when it was "unfavorable" and mathematical errors in computing percentages.
- No clean cut relationship between the program measure and the workload measures.

In addition, more generalized deficiencies in the Work Management System were:

- o Performance indicators were not valid.
- o Performance standards were not objectively established.
- o Performance standards were set too low.
- o Reported results were not bias free.
- o Reported results were not independently verified.

Performance Indicators

A significant number of performance indicators in agency submissions merely measure workload data. Such data while perhaps useful in terms of measuring program progress does not represent a valid performance indicator if it does not reasonably represent the program objective. In addition, performance indicators did not tend to emphasize the qualitative aspects of programs. The following examples illustrate the point.

Example	Comment
Ensure adequacy of terminal maintenance efforts (appearance, cleanliness and safety) by: 1. Maintaining customer satisfaction at a level of no more than 9 recorded complaints per 100,000 passengers.	No distinction between a mild complaint and a serious complaint. Maybe the goal should be no serious complaints.
For prompt control of fires and other emergencies insure that: 1. 90% of all companies are enroute within 120 seconds. 2. 70% of all response times are within 4 minutes.	Perhaps a target of keeping property losses below a certain limit would be more meaningful. What good does it do to respond to a fire within X number of minutes if the property is burnt to the ground when the fire trucks arrive?

3. 90% of all response times are within 6 minutes.

4. 75% of all fires are controlled within 15 minutes.

5. 90% of all fires are controlled within 1 hour.

To increase the number of people visiting the downtown area.

1. By increasing Auditorium/Convention Center event days by 5%.

2. By increasing CPA event days by 5%.

A target of increasing attendance at Auditorium/Convention Center and CPA events seems more appropriate. Increasing the number of events will not necessarily accomplish the goal of more people visiting downtown unless the events are well attended.

Performance Standards

As a rule, performance standards or targets should not be established by highly subjective sources, such as program management. In the Administration's Work Management System program administrators do set their own targets. In fact, many of the targets are the same targets that have been in the Administration's Program Budget Book for the last six years. While the Office of Management and Budget does some reviewing of certain program measures, no review is made of the appropriateness or the means by which program administrators established their targets.

As a consequence, our review revealed that generally the targets in the Work Management System are too low, as indicated below.

SUMMARY OF REPORTED RESULTS
IN THE WORK MANAGEMENT SYSTEM
THROUGH THE SECOND TRIMESTER OF 1984-85

Reported Results*	Program Measures Number	Program Measures Percent	Workload Measures Number	Workload Measures Percent
Targets met or exceeded	288	59%	69	60%
Targets not met	197	41%	46	40%
Total	485	100%	115	100%

* Targets or actual results were not shown for 39 Program Measures and 517 workload Measures.

Bearing in mind that a performance standard or target should be the outer limit of what an effective program should be expected to achieve, the above results clearly do not meet that criteria. Agencies are not, by definition, extended to meet their targets when 59 or 60 percent of those targets are being met or exceeded.

It should be noted that we observed instances where agencies set last year's level of achievement as this year's target. According to the General Accounting Office, such an approach only measures program progress, not effectiveness, and as such is inappropriate.

Reported Results

The actual results shown in the Work Management System are generated and reported by the administrators responsible for meeting the established targets. Aside from the obvious bias administrators have in reporting on their own activities, the Administration does not independently review the reported results for accuracy and reliability. Absent the quality characteristics of being reliable and bias free, the data reported in the Work Management System may not be a true reflection of program accomplishments. To the extent that situation exists

COMPARISON OF CITY COUNCIL INTERACTION
WITH THE TRIMESTER REPORTING PERIODS

City Council Interaction	Date of Interaction	Most Current Work Management System Information Available
Budget Hearing Process	June	Trimester Ending 2/28
Mid-Year Review of Services	January	Trimester Ending 10/31

As shown above the proposed City Council interaction is incongruous with the trimester reporting periods. As a result, the Council will be reviewing information that is two to four months old.

Work Projects

The Administration's Work Management System has two major components - Work Programs and Work Projects. This report is primarily concerned with Work Programs. However, there are other concerns the City Council may want to address regarding Work Projects. According to the Administration, Work Projects are:

> "... Beyond the expected day-to-day activities of a department are special functions which are usually major and complex undertakings of a one-time nature. These represent Work Projects. Work Projects are of definite scope, with identified tasks, specific timelines and needed resources outlined..."

Examples of Work Projects the Administration cites include expansion of an existing program, a departmental reorganization, and initiating a special study.

As such, it appears that Work Projects have a potential to constitute de facto policy formulation that is more properly in the City Council's purview. In addition, Work Projects may have budget implications that require City Council imprimatur. Accordingly, it seems

appropriate for the City Council to 1) review and approve Work Projects before they are initiated, 2) be briefed more than twice a year on Work Projects and 3) incorporate reviewing Work Projects into the annual budget review process.

Conclusion

The Administration's Work Management System can be a useful management tool. However, improvements are needed in the current system to insure that the system objectives and targets are appropriate and that reported results are reliable and accurate. In addition, the City Council should be involved in reviewing the reported program and activity achievements in the Work Management System more than twice a year and in congruence with the current trimester reporting process. Finally, the City Council should be reviewing and authorizing those Work Projects with policy overtones and significant budget implications prior to their initiation.

RECOMMENDATIONS

It is recommended that:

Either the City Council Committee of the Whole or Standing Committees establish a formal procedure for reviewing Work Programs and Work Projects. Such a review should correspond to the Administration's trimester reporting system and should be designed to ascertain:

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In addition, the Administration should initiate a process to assess:

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