

MEMORANDUM

TO: Congressman Jim Florio
 FROM: Tim Carden
 DATE: 11/1/89
 RE: Statewide Audit

*David - pls
 review w/ Carl +
 Scott & advise
 AS AP*

Executive Summary

The purpose of this memorandum is to recommend a structure and methodology for undertaking the state spending audit you have pledged in a cost efficient and timely way. I believe such an exercise is warranted and can be constructive. This document will confirm my view that professional consultants - e.g. management consultants and/or accounting firms - should be used only for specific projects appropriate to their technical capabilities. A volunteer group of knowledgeable citizens appointed by you should direct the effort.

The composition of this ad hoc "Board" is of critical importance. With few exceptions it should not include current government employees or individuals slated to serve in your administration. It should include individuals with knowledge of state government operations and spending who also bring relevant skills to the task from their own social and professional activities. This Board and the overall project should be directed by one of its members and supported by a small paid staff and the services of professional consultants, as required.

The timetable for this project should be very short: 90-120 days. A report produced in this timeframe will provide you with a series of alternative actions within 60 days of being inaugurated. To conform to this schedule, the agenda of this group must be focussed not boundless. A tight schedule has the additional benefit of limiting expectations and speculation about the outcome of this audit. Depending on the outcome, this group or some subset could be called upon by you for immediate follow-up action or at some time in the future, should circumstances warrant it.

The budget for such a project, which might easily attract privately donated support, should be in the range of \$170,000-270,000, depending on staffing levels and consultant fees.

The benefits of this approach, which is discussed in more detail herein, are as follows:

- 1) You fulfill a campaign commitment quickly, at minimal public cost.
- 2) You create a Public/Private venture to determine cost saving measures and efficiencies. This offers both the positive perception of an open approach to government administration and a means of sharing the difficult burden of constraining state resource allocation.
- 3) This is a vehicle for using citizens who were active in your campaign in developing policy and for involving key members of different state constituencies and communities in one of your first efforts to improve the quality of state government.
- 4) The structure of a volunteer board overseeing professional services blends objectives of generating a professional product and of also achieving cost-containment. Private contributions will further enhance the image of the effort.
- 5) You will have results that can be utilized within the current fiscal year and built into the FY91 budget as well.
- 6) The questions to be raised in such a review of spending practices require an awareness of the economic, social, and political implications of alternative actions among different constituencies. Citizen oversight of staff and paid professionals can help incorporate these considerations into the report.
- 7) To orchestrate the most useful result will require balancing the effect of recommending controversial but warranted actions with producing a report that you can fully accept. This structure will permit your transition team and then your executive staff to be informed and involved in the development of the result without being directly associated with it. It must be a practical usable document that helps you meet near-term budgetary challenges without embroiling your office unnecessarily in counter-productive controversy.

- 8) This is a fiscally responsible exercise that will establish your expectation of competent and efficient delivery of service by state government.

Two final points:

- 1) Time is of the essence. This group should be functional before Thanksgiving to be able to produce worthwhile results in a timely fashion.
- 2) This project, to the greatest extent possible, must operate outside of the public spotlight. Time is too short and the issues/choices too potentially sensitive to permit time-consuming and counter-productive advance debate/speculation over the report. This can be managed through close coordination with your staff during transition and beyond.

If this approach appeals to you, I would be glad to discuss how I could assist in this effort on a voluntary basis. My experience at the New Jersey Department of Transportation, and as Cabinet Secretary both give me an unusual knowledge of state operations. As Cabinet Secretary I was involved in administrative and operational issues with most of the Cabinet agencies. As Commissioner of Human Services, I conducted the first personnel audit of all administrative jobs in the Department, eliminating over 500 positions in administrative or support functions. This, as you may recall, was during the first year of Reagan budget cuts (1981), and these efforts helped reduce the negative impact on community programs of the federal cutbacks.

As an investment banker for the past five years, I have served as financial advisor and underwriter to state level issuers in New Jersey and in numerous other states. I have also worked closely with county and local governments to help them implement sound debt management practices. Any state audit will have significant implications for local government's financing of operations and service delivery.

I look forward to hearing from you after November 7th.

The Statewide AuditOVERVIEW

1. The audit will be the responsibility of a small group of citizen/supporters who oversee the activities of paid staff and consultants. The work load would be divided up by government agency and function among board members, and staff would be assigned accordingly to different members' tasks. A consistent methodology for discovery would be applied as a guideline to all initial reviews, and the staff director and Board chairman would supervise the process to ensure consistency.

The findings derived from the initial reviews will be used to determine priorities for more extensive analysis and to evaluate the methods of inquiry and to develop new ones as required.

2. This project needs to be focussed and swift. For this reason it is important to exploit the knowledge of people who can quickly identify the issues and areas of activity upon which to concentrate first. This criteria should be applied to both Board members and staff. I would recommend a combination of government graduates and representatives of business, industry, academia, and other professional areas that have skills and knowledge to contribute to the process.
3. It is important not to institutionalize the audit process or team. You should demand and receive a product within 60 days of your inauguration. At that point the implementation becomes the responsibility of your cabinet officers and your office. It is always possible to re-create this audit group or request some follow-up by a sub-set of the original team. This, however, should not be part of the initial framework.
4. Managing the expectations is as important as the actual results of the audit. The goal is to produce a report and set of actions that you can embrace and that exceeds the expectations. This can be achieved if the timetable is kept short and the initial objectives are outlined in such way that ensures surpassing them.
5. To manage the expectations it is equally important that the project be undertaken as far from the spotlight of press and public discussion as possible. This can be achieved through coordination with your staff and through recognition among audit participants of the detrimental effect of press disclosure and public analysis of unconfirmed or draft recommendations.

6. The use of a citizen board overseeing professional staff and consultants has several benefits:
 1. It allows you to exploit private sector resources and expertise in addressing governmental management problems.
 2. It establishes a public/private partnership for more efficient government at the outset of your administration.
 3. It places the responsibility for achieving positive results on a diverse set of shoulders. You are in the position of having asked for help from a broad talent pool in the state to fulfill one of your priority campaign commitments.
 4. It is cost-effective. It is a framework which can and should attract private sector support - in either in-kind services or direct contributions. At the same time paid staff and consultants assure conformance to deadlines and production of a and quality report.

PURPOSE OF THE AUDIT. The following is an initial, not all-inclusive, list of the purposes of the audit:

1. To fulfill your commitment to undertake an audit of state operations.
2. To alleviate or diminish budget pressures in FY 90 & 91.
3. To identify waste, excess, or fraud in government programs and spending.
4. To generate spending choices.
5. To identify missed revenue opportunities.
6. To identify program efficiencies.
7. To justify certain spending requirements.
8. To identify politically viable policies and program changes that will save money.

METHODOLOGY. Within the time schedule of 90-120 days, it will not be possible to comprehensively review every state program. For that reason, the initial process must cast a wide net and then focus in on areas that offer the greatest potential return. The methodology should be developed by the audit team, but could include the following activities, which are divided into "broad brush" and "targetted" categories:

"Broad brush" Activities:

1. Budget Reviews by agency 1982-1990.
2. Classification of personnel growth by position and function

3. Identification of all discretionary spending items versus formula or mandatory spending; evaluation of criteria and analysis of growth in discretionary spending.
4. Analysis of overhead and administrative cost growth by agency.
5. Contract Administration - methods of award, level of staff involved and degree of oversight provided.
6. Financial analysis of major policy initiatives just initiated or pending.

"Targetted" Activities:

1. A personnel audit of all administrative and support personnel to identify unnecessary or duplicative positions.
2. An evaluation of product or service provided to determine effect of increased spending on quality.
3. A "beneficiary analysis": who has benefited from programs that received significant spending increases in recent years.
4. Comparison of similar providers of service to determine the most suitable. Between different agencies, between state and county government, between government and private non-profit providers there is opportunity to streamline costs and improve the quality of service by seeking out the "best provider".
5. Integrate services provided by different agencies to achieve better delivery at lower cost.
6. Eliminate or radically alter programs, based on analysis that demonstrates their irrelevance or inefficiencies.
7. Sell assets - cars, equipment, facilities deemed unnecessary or excessive.
8. Canvass comparable programs in other states to identify efficiencies and useful innovations.
9. Improve revenue collection.
10. Reduce overhead.

This list is intended to stimulate dialogue rather than actually define the only appropriate procedures to follow.

COMPOSITION OF THE AUDIT TEAM

Citizen Board 6-12
Staff 8-12

To operate efficiently the group, both paid and voluntary, should remain small. To be inclusive of different talents and interests a larger board may be required. If so, an executive committee of 6-8 persons should retain final authority over the report with the larger group serving in an advisory capacity. The Board's director should retain hiring authority and primary contact with the transition staff/governor's office. Many people outside this group would

be called upon to provide advice and impact into the report, but to control the process and the product, small is beautiful in this case.

The make-up of the Board itself is a matter that should reflect your views and interests. Members of the business and legal communities, the non-profit sector, public interest groups, academia, different state constituencies, and citizen leaders who were active on your behalf all deserve consideration. The staff, which would be hired on a 90-120 day contract should be headed by one or two people with extensive knowledge of New Jersey government programs, operations, and budgeting methods. Analysts with different experience and skills - including local government operations, budgeting, program management, human resources - should be included in the overall team.

In addition, the audit budget should include funds for select use of a major accounting or management consulting firms for certain quantitative analyses, verification of budgetary findings, organizing data and comparative analyses with other states' operations.

BUDGET. For purposes of discussion, budgeting for this project, assuming a 90-120 day period, should fall within the following range:

Staff (6-8 professionals, 1-2 support)	\$120,000 - 180,000
Consultant Costs	30,000 - 60,000
Office/Overhead	15,000 - 20,000
Miscellaneous expenses	<u>5,000 - 10,000</u>
Total	\$170,000 - 270,000

Through in-kind or direct contributions from supportive private sector interests, the government funded cost should be substantially less than the total cost. At the same time the funding should not affect nor appear to effect the project outcome or the report in any way.

CONCLUSION. To make this audit a useful management tool and not an overly belabored campaign promise, action should be taken swiftly. The project should be defined, completed, and delivered to you as soon as reasonably possible. There are many pitfalls to avoid in the process, and coordination with your office is important for that purpose. Properly executed, this report should identify numerous savings and efficiencies, means of improving services without spending more and an early confirmation of your commitment to harness public and private resources to streamline and enhance New Jersey's government.

cc: Douglas Berman
Steven Perzkie