

**OUR SOLUTIONS, OUR STRATEGY**

## OUR SOLUTIONS

Every citizen and taxpayer of North Carolina stands to win as a result of the North Carolina Government Performance Audit Committee process. But winning will carry a price, because our recommendations require the State to make tough decisions and take strategic risks.

Our Committee adopted 350 recommendations for improved management and delivery of State services. These recommendations call upon the State to:

*Pay attention to basics.* Cleaning up the details of government operation may not be glamorous, but it can make the State work better for our citizens—at a lower cost.

*Introduce innovative practices.* In several areas, we're saying the old ways of doing things won't give us the solutions we need to survive and prosper in the 1990s. We must take calculated risks, choosing long-term payoffs over short-term gain.

*Reorganize for quality service.* The organization of State government has a direct effect on our bottom line—service delivery. Grouping similar programs together can help the State reduce duplicative efforts and costs, pinpoint accountability and improve responsiveness to our customers' needs.

*Improve technology.* Technology is a powerful tool. Making new technology available—and making smarter use of the technology that exists—can result in increased productivity, reduced costs and better service.

It is impossible to summarize in a brief report the thousands of pages and hundreds of recommendations that have come through the Government Performance Audit Committee process. However, we believe it is important to distill this work to a series of messages so that all citizens of North Carolina can understand what needs to be done, why it needs to be done and what the potential benefits are to all of us.

In the sections that follow, we'll highlight dozens of our recommendations as an introduction to the Committee's report as a whole. The full report, including volumes of working papers, 57 issue papers, four performance audits and related draft legislation, contains the information this Committee considers vital to putting our recommendations to work.

*"The first thing we  
have got to look at  
is how we get these  
dollars back to the  
place they came  
from—the  
taxpayers."*

Representative  
Daniel T. Blue, Jr.  
Speaker of the  
North Carolina  
House of  
Representatives

All of our recommendations can be summarized into six themes. The changes necessary for the State's future will demand:

- A more efficient government
- A government focused on better ways to serve citizens
- A results-oriented government
- A government that fosters economic growth
- A government that uses technology wisely
- An educated society prepared to meet its future

Change is tough, unsettling, and just plain hard work. The Government Performance Audit Committee is aware of this. We expect some of our recommendations to challenge—even disturb—those among us who are comfortable with the status quo and those who are willing to rest on past achievements. But if we are “To be, rather than to seem,” as our State motto urges, then we must act. Now.

The recommendations in this report offer a pathway to the future. Let us begin our journey.

## A MORE EFFICIENT GOVERNMENT

North Carolina State government is a big business. If you compare the State to the private sector, our revenues of roughly \$13.6 billion in fiscal year 1991-92 place us 29th among the Fortune 500, alongside such multinational firms as Digital Equipment and Westinghouse Electric.

NORTH CAROLINA GOVERNMENT IS BIG BUSINESS		
The Fortune 500: Largest U.S. Industrial Corporations		
RANK	1991 ORGANIZATION	SALES IN MILLIONS OF DOLLARS
1	General Motors	123,780.1
2	Exxon	103,242.0
3	Ford Motor Company	88,962.8
4	IBM	64,792.0
5	General Electric	60,236.0
25	RJR Nabisco Holdings	14,989.0
26	Hewlett-Packard	14,541.0
27	Tenneco	14,024.2
28	Digital Equipment	14,024.2
*Revenues, fiscal year 1991-92		

(EXHIBIT 6)

Source: *Fortune*, April 20, 1992

*“If we can’t get  
some specific  
recommendations  
of changes to be  
made that will  
make government  
more efficient,  
then we are  
wasting our time.”*

Senator  
Dennis J. Winner  
Asheville

Our business is service to the State's 6.7 million citizens. To serve them well in the 1990s, we must find fresh new ways of doing things. Like other large businesses facing tough times, the State must learn to use its resources more efficiently.

We are continually scanning the horizons for best practices in government, business and academia which collectively we can mold to our unique needs. Applying these improved management strategies to government will help us:

- Reorganize to bring employees closer to the customers they serve
- Empower employees to make better decisions
- Improve the State's ability to become more responsive to change
- Motivate, monitor and reward performance
- Maintain or enhance the quality of services

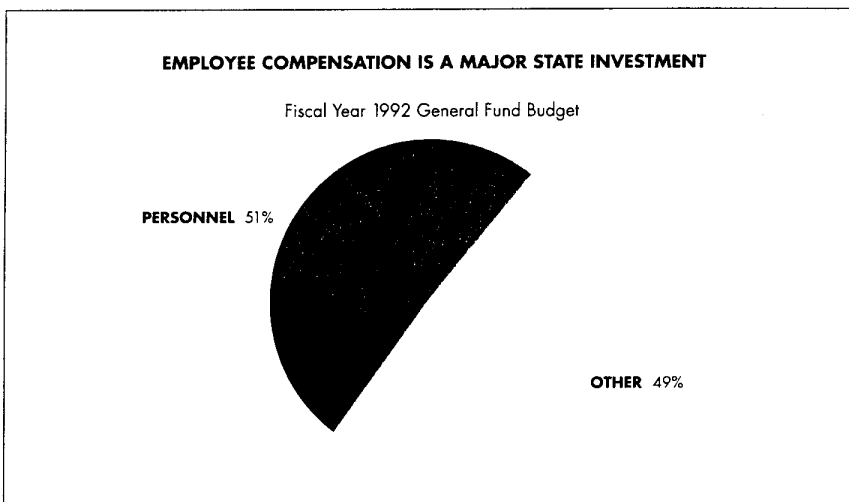
Such a shift in the culture of State government begins with the recognition that the State's 212,000 employees are our single most valuable resource. As the trustees of our public funds, they have a right to expect us to set standards, to give them the tools to carry out their responsibilities, and to hold them accountable for their performance.

And, as the purchasers of their services, we have a right to expect the most efficient and effective use of our money. Employee salaries and benefits are one of North Carolina's largest expenditures. Funding for these 212,000 positions—including the 94,000 government positions considered in this report as well as 118,000 State-funded positions in local public education and community colleges—totaled over one half of the State's budget in fiscal year 1991.

North Carolina needs to make the most of its human capital. But major weaknesses in the system hamper the State's ability to motivate, develop,

*"Rules, policies  
and procedures  
have been  
substituted for  
judgment and  
good common  
sense."*

State Employee  
Survey Response



**North Carolina  
needs to make  
the most of its  
human capital.**

(EXHIBIT 7)

Source: Office of State Budget and Management

reward and retain our workforce. The Government Performance Audit Committee found that in many agencies, State workforce morale is poor and management is frustrated.

Our employees want to do better, but they cannot, due to:

- Organizational barriers within and across agency lines
- Restrictive rules and regulations that stifle flexibility
- Rigid personnel practices
- Unnecessary layers of management

People who work for the State know that change is needed. When asked for their suggestions for improving their own activities, 33,705—more than one-third—responded. Many of their recommendations have been incorporated into this report and will result in potential savings of millions of dollars.

Middle and upper level managers also voiced their strong opinions in a special report from the North Carolina Society of Certified Public Managers: “We strongly believe that only a fundamental shift will make any significant change. Business as usual will keep us mired in the undesirable conditions of today.”

The Government Performance Audit Committee believes several things must happen to achieve this goal. Among the most important steps to producing a more efficient government are the following:

**RECOMMENDATION 1:** *Restructure certain State government agencies to reflect program priorities.*

A clear, carefully aligned State government structure has a positive effect on helping states manage in tough economic times. Furthermore, the focused accountability of senior management levels is an integral practice for successful management of a big business, in the private or public sector. In several areas, North Carolina’s existing organizational structure clearly fails to pinpoint responsibility and accountability, coordinate related programs and provide the General Assembly with a consistent picture for managing government. Realignment is necessary to reflect both the current definition of program priorities and the flexibility required by constant change. We recommend that the General Assembly:

- Restructure the Department of Labor to include the Employment Security Commission. Place all worker training programs, now scattered among the Department of Commerce, Employment Security Commission and the Department of Labor in the Department of Labor.
- Eliminate the Department of Crime Control and Public Safety, assigning functions to appropriate agencies. Move Emergency

*“As professional managers, we share some of the public’s frustration, since we see inefficiencies first hand.”*

North Carolina  
Society of  
Certified Public  
Managers

**Realignment is necessary to reflect both the current definition of program priorities and the flexibility required by constant change.**

Management and the National Guard to the Governor's Office, Highway Patrol to the Department of Transportation, Alcohol Law Enforcement to the State Bureau of Investigation, Community Service Work Program to the Department of Correction, Victim's Compensation to the Administrative Office of the Courts, and Crime Prevention to the Department of Justice.

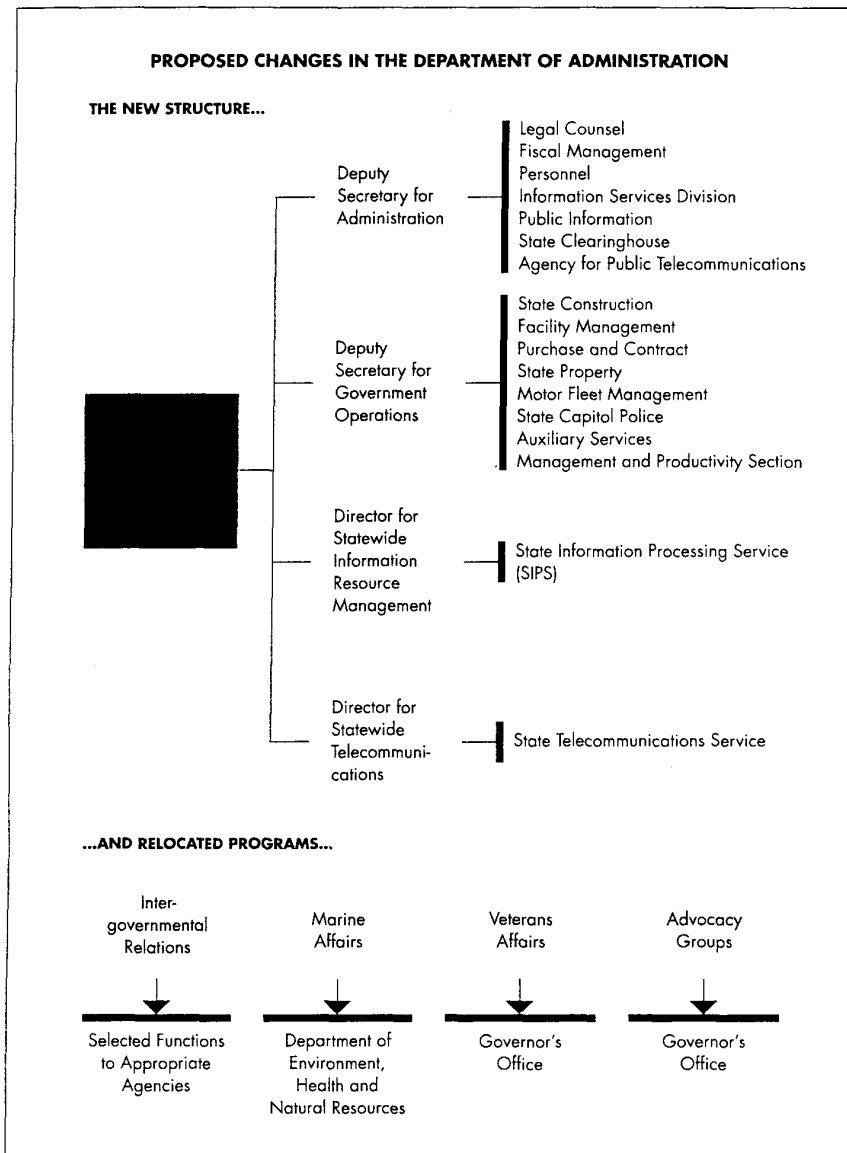
- Consolidate correction functions in the Department of Correction by organizing all Community Corrections programs into a single division; moving the Community Service Work Program into the Department of Correction from the Department of Crime Control and Public Safety; and reducing the Division of Prisons' Area Command.
- Consolidate all child support enforcement services in the Department of Human Resource's Division of Social Services. Continue handling receipt and distribution of child support payments through the Administrative Office of the Courts, while discontinuing the agency's enforcement efforts.
- Reorganize regional delivery of the Department of Revenue to make it more effective in collecting the State's tax revenues. Eliminate 19 of the Department's field offices, leaving 36 permanent offices across the State.
- Realign the Department of Public Instruction, as part of the broad restructuring of education discussed in a later section, *An Educated Society Prepared to Meet Its Future*.
- Consolidate the nine offices of the Business and Industry Division and seven regional offices of the Community Assistance Division into three Department of Commerce regional offices.

*"Because of the organizational structure we have, we are spending a lot of money on duplicated programs."*

James Goodmon  
Raleigh

**RECOMMENDATION 2:** *Create a new Department of Administration to better support the mission of government.*

High quality, effective citizen service cannot be provided without equally high quality support services. These support services, such as purchasing and data processing, are the machinery that makes other government agencies run smoothly. For some administrative services that cut across departmental lines, central provision is the most economical way to deliver first-rate management services. All such services need to be under the responsibility of the Secretary of Administration and directed to empower other agencies to deliver services. Programs with service delivery responsibilities distract from the function of the administrative arm of government. We recommend that the General Assembly:



**High quality, effective citizen service cannot be provided without equally high quality support services.**

(EXHIBIT 8)

Source: KPMG Peat Marwick Issue Paper

- Move the State Information Processing Service (SIPS) from the State Controller's Office to the new Department of Administration.
- Move the Management and Productivity Section from the Office of State Management and Budget to the new Department of Administration.
- Remove from the Department of Administration those functions that have service delivery responsibilities and policy implications by moving advocacy groups and Veterans Affairs to the Governor's

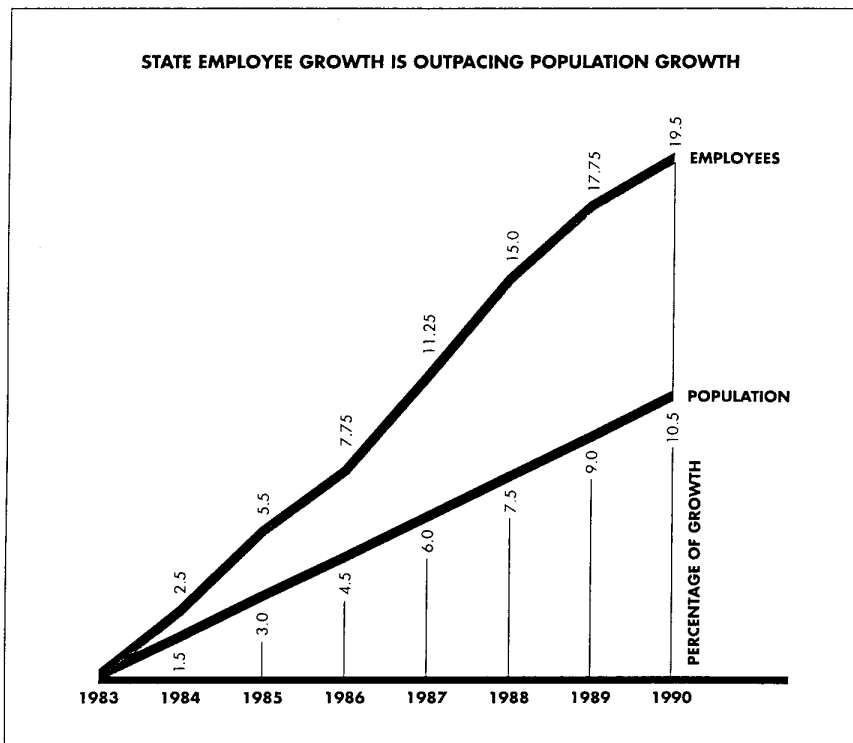
Office; the Office of Marine Affairs to the Department of Environment, Health and Natural Resources; and selected Intergovernmental Relations' functions to a more appropriate agency.

**RECOMMENDATION 3:** *Redirect staff resources to meet the State's most pressing program needs.*

In a limited resource environment, priority should be given to those who deliver the services, rather than those monitoring, reviewing or supporting services. Our Committee identified many opportunities among State agencies to reallocate resources to service delivery by restructuring facilities, reducing

*"We have a problem in that State government tends to perpetuate itself."*

Representative  
Martin L. Nesbitt  
Asheville



(EXHIBIT 9)

Sources: Office of State Personnel and U.S. Department of Commerce, Bureau of the Census

excess layers of management, removing narrow spans of control and decreasing the ratio of support staff to professionals. It is estimated that the recommended position reductions will save \$78 million annually, once implemented. If the State implements new technology, improved systems and increased use of contracting out, there is potential to further reduce the size of the State's workforce over time. We recommend that the General Assembly:

- Eliminate or redeploy approximately 7,500 positions identified as inconsistent with the State's priorities for delivering services. The positions are listed by category in the following chart.

**In a limited resource environment, priority should be given to those who deliver the services, rather than those monitoring, reviewing or supporting services.**



A LEANER WORKFORCE DIRECTED TO STATE PRIORITIES	
RECOMMENDED STAFF REDUCTIONS TO BE IMPLEMENTED OVER 10 YEARS:	
Human Resources	5,988
Public Safety	771
Transportation	367
Public Instruction	138
Economic Development	48
Other	181

(EXHIBIT 10)

Source: KPMG Peat Marwick Issue Papers

- Implement these changes over a period of up to 10 years. The elimination of positions should occur, whenever possible, through attrition to minimize hardship on current employees.

**RECOMMENDATION 4:** *Develop a new classification and compensation structure that motivates and rewards enhanced performance.*

Issues affecting the competency, morale and potential of our public servants are at the heart of our challenge and our opportunity to improve government. The Committee can make all the recommendations we want to move organizations, change procedures and improve systems, but none of them will work without talented, dedicated, enthusiastic people.

Personnel policies and procedures have a direct effect on how well the State attracts, recruits, hires, trains, motivates, rewards and retains our employees. This classification and compensation system, however—which determines the pay, grade and promotion activity of the 94,000 employees in the executive branch—is fundamentally flawed. Our Committee found that the last comprehensive update of the system was done in 1949; the system has 4,891 classifications, more than twice the average of other states; and compensation is heavily weighted to across-the-board, cost-of-living increases and longevity. Patchwork solutions can no longer fix the underlying problem. It is time to take a fresh look at the entire system. We recommend that the General Assembly:

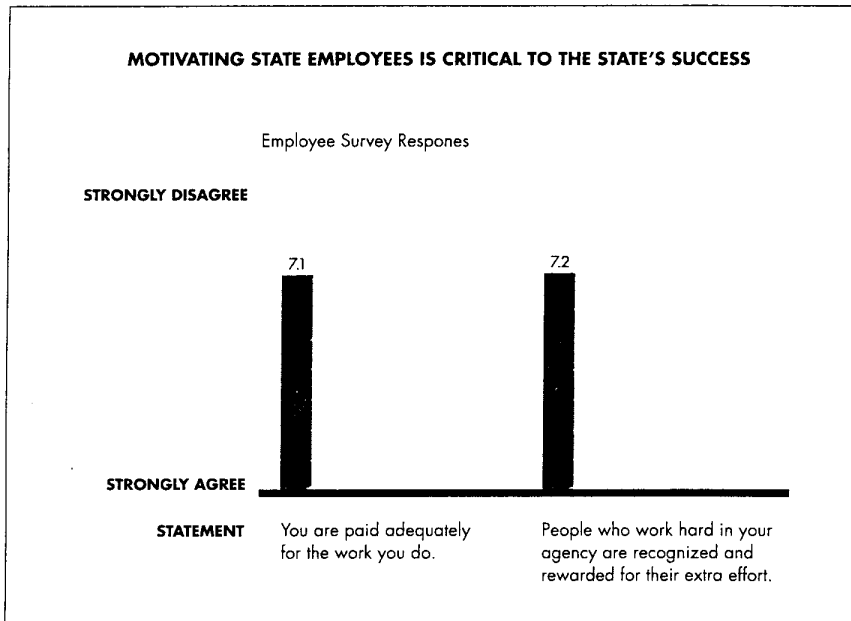
- Redesign the classification and compensation system.
- Develop an appropriate balance between central policy direction and agency level day-to-day management.

*“The classification and salary standardization must always relate to positions as they are today. It is of very little value if it relates to conditions as they were some years ago, however good a piece of work it may have been at that date.”*

Report of the  
Salary and Wage  
Commission

October 1, 1925

- Reduce the number of job classifications and establish dual technical and management career tracks to promote greater flexibility for employee development.
- Eliminate longevity pay and tie performance evaluation to a pay-for-performance plan.



(EXHIBIT 11)

Source: State Employee Survey conducted by GPAC

The competency, morale and potential of our public servants are at the heart of our challenge and our opportunity to improve government.

**RECOMMENDATION 5:** *Strengthen employee training strategies and programs to improve delivery of service, employee performance and accountability.*

The quality management movement has pushed the private sector to recognize the need for continuous training in a world of constant change. Like any big business, the State's effectiveness will depend on preparing our employees for the challenges of the future. While data on training program usage and costs is not available, our analysis of related budget line item expenditures suggests that North Carolina has *decreased* its investment in employee training in recent years. An investment in training is an investment in the State's human capital. We recommend that the General Assembly:

- Develop a cost-effective strategy for identifying training and development needs, procuring appropriate training courses and monitoring training costs.

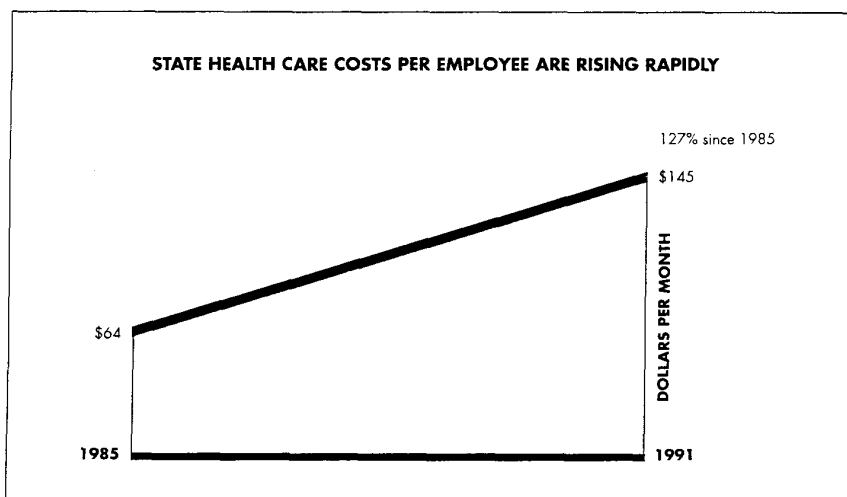
*"The biggest downfall in this agency is lack of training."*

State Employee  
Survey Response

- Coordinate responsibility for development and training courses with statewide applications in the Office of State Personnel. Increase training in performance measurement for all managers and supervisors involved in the employee performance evaluation process.

**RECOMMENDATION 6:** *Take steps to curtail the continuing escalation of employee benefit costs.*

Employee benefits, driven by increasing health care costs, are rising at an alarming rate. Despite sound cost controls enacted by the General Assembly over the past two years, the State teachers' and employees' health plan will cost taxpayers about \$521 million in fiscal year 1993. Based on growth of the past few years, \$90 million more will be needed for fiscal year 1993 and an



(EXHIBIT 12)

Source: Office of State Budget and Management

additional \$110 million the following year. The State spends an additional \$30 million a year for health care costs above what other employers are paying for equivalent services. We recommend that the General Assembly:

- Expand the Preferred Provider Organization (PPO) program or redesign the State health care plan to increase utilization of lower cost providers.
- Implement a program to better manage catastrophic costs, including expanded detection and prevention programs.
- Offer full flexible benefits (cafeteria plan) to allow employees to tailor the plan to their individual needs.

**Even slight changes in the way we do business will produce significant savings for our taxpayers.**