2019 – 2020 Civil Grand Jury

KPMG COUNTY TRANSFORMATION PROJECT: BENEFIT OR MILLIONS SQUANDERED?

Summary

In September 2015, Riverside County's Board of Supervisors (Board) and the County Executive Officer (EO) hired international accounting and consulting firm KPMG to recommend cost-cutting efficiencies in County public safety services and review contract city rates for law enforcement. The contract cost $761,600.

It included

- The Sheriff's Department
- The Office of the District Attorney
- The Office of the Public Defender
- The Probation Department

Over the next two years, the parties amended the contract as follows:

- $15.7 million to assist the County in implementing recommendations from the original study (Amendment 1)
- $2.7 million to determine additional efficiencies and cost savings in ten other County departments (Amendment 2)
- $2 million to assist the County in implementing recommendations in three of the ten departments reviewed under the second contract amendment (Amendment 3)
- $20.3 million to assist in implementing the rest of their (KPMG's) recommendations (Amendment 4)

The County ended up spending $36.4 million on the Project.

Over the past several years, the KPMG County Transformation Project (Project) and its cost received many public and private criticisms and defenses. The 2019-2020 Riverside County Civil Grand Jury (Grand Jury) sought to determine whether the Project achieved verifiable cost savings and benefits. To the extent that expected or desired results were not achieved, the Grand Jury explored why not and suggests improved methods to manage this and similar future projects. This Project might yet provide benefits to the County in the future.

Our investigation included

- Examining numerous documents
- Reviewing video recordings of the discussion of the Project in Board meetings
- Interviewing 22 current and former County elected officials, management, staff, and the KPMG Lead Senior Project Manager

In our approach to the investigation, the Grand Jury viewed it as the responsibility of County officials or agencies which claimed that there were benefits from the Project to produce evidence of those assertions. The "burden of proof" was on those who claimed benefits rather than on the Grand Jury to "prove" that such benefits did not exist.

Following is a summary of some of the Grand Jury's key findings:

- The EO has not substantiated assertions of current and future cost savings, although the Project has provided some limited savings.
- As part of the Project, the County contracted for the Workday Human Resources software package in 2017 and canceled the contract in 2019 before completing implementation. The contract commitment was for over $17 million. At the time of cancelation, it had cost the County more than $8 million, and the eventual cost of cancelation is still unknown. Lack of commitment by users to accommodate business practices to the system contributed to its failure.
- The Project's cost expanded to more than 54 times the original contract's size without competitive bidding for the additional work.
- The County paid KPMG a blended rate of over $370 per hour for tens of thousands of work hours with very few quantifiable and measurable deliverables. When the Grand Jury requested evidence of completion of some of the deliverables, the County provided no proof that they were completed or received by the County. Thus, the County has not received what it paid for in these instances.
- The EO reported to the Board of Supervisors that many of KPMG's recommendations had been implemented, but the Grand Jury found the work incomplete.
- The Board has not followed up on some of the Project's recommendations to realize savings and benefits.

The Grand Jury recommends that

- Before the County assumes significant financial obligations for professional services, including major software projects, the Board of Supervisors and the EO see that all necessary factors and commitments are in place and sustainable to ensure the expenditure's expected results.

- The Board adopt a policy stating that for substantial (for example, more than $500,000) contracts, including follow-ons to contracts, the County will always solicit and consider competitive bids.
- The Board establish an agency independent of any department to perform audits of projects to ensure satisfactory completion and to verify claimed benefits. The agency could be part of the Auditor/Controller's office, akin to the Internal Audit department in other California counties, or to an Inspector General's Office in many other governmental entities.
- The Board and the EO re-examine the initiatives recommended in the Project, to sponsor, monitor and report on those still offering benefits and cost savings to the County.

Background

Project History

In September 2015, Riverside County hired international accounting and consulting firm KPMG:

> *"…for an assessment of the criminal justice system organizational and operational performance, financial review; and, review of the law-enforcement contract city rates."*[1]

The contract price of the assessment and review was $761,600. The purpose was to find new efficiencies and cut costs for public safety services, including the Sheriff's Department, the Office of the District Attorney, Office of the Public Defender, and the Probation Department. (The review of the contract city rates was a review of the rate the Sheriff's Department charged cities for law enforcement.)

The work's primary motivating factors included recent California legislation AB 109 and Proposition 47, and increasing labor and pension costs associated with public safety personnel.

In KPMG's final report from the assessment and review, dated March 2016, there were 51 recommendations across the County, the four agencies, and contract cities focus areas.

Also, in March 2016, the County approved Amendment 1 to the KPMG agreement, authorizing an additional $15,730,000 "*in order to commence the*

[1] "Submittal to the Board of Supervisors" from the County Executive Office, September 24, 2015

project's implementation phase."[2] The scope of Amendment 1 covered "*support and assistance to meet the following objectives."*[3]

1. *"<u>Strategy Support</u>: Facilitation of COUNTY strategic planning and development of goals, objectives, and measures against which COUNTY will measure the success of implementing recommendations.*
2. *<u>Analysis Support</u>: Data and process analysis to obtain a deeper empirical understanding of current COUNTY operations utilizing statistical sampling and lean process analysis techniques as appropriate.*
3. *<u>Change Support</u>: Facilitations of change impact analysis and communication related to recommendations and operational changes selected by COUNTY for implementation.*
4. *<u>Program Support</u>: Facilitation of COUNTY program governance and oversight to help ensure adherence to expected timescales and benefits related to recommendations being implemented by COUNTY."*

In addition, in March 2016, the Board approved Amendment 2 for $2,700,000 to determine additional efficiencies and cost savings in ten additional departments outside of Criminal Justice. Those departments were[4]

- Information Technology
- Human Resources
- Economic Development Agency
- Facilities Management
- Purchasing & Fleet Services
- Public Social Services
- Detention Health
- Code Enforcement
- Planning
- Animal Control

Amendment 3 to the KPMG contract in December 2016 added $1,998,600. The purpose was to *"begin the process of 'Phase 2 Implementation'*[5] "of recommendations in three of the ten departments reviewed under Amendment 2 (Information Technology, Human Resources, and Planning).

Amendment 4 in July of 2017 added $20,300,000 to the original contract. Part of the Scope of Work[6] is identical to the Scope of Work in Amendment 1.

[2] Amendment No. 1 to the agreement with KPMG LLP, March 17, 2016

[3] Amendment 1, Attachment A-1, scope of Work, p.3, October 16, 2016 (Note: The Scope of Work is dated subsequent to the submittal from the EO and the signing of Amendment 1.)

[4] Amendment 2, Attachment A-2, Additional Scope of Work, p.3

[5] Submittal to the Board of Supervisors from the EO, December 13, 2016, Background, p.2.

[6] Amendment 4, Attachment A-4, p. 3

Overall, it included *"Strategy Support", "Analysis Support", "Operational Support", and "Performance Support".*

Amendment 4 also specifies numerous "components" of support (five pages worth) to "*contain costs, enhance outcomes, and improve efficiency."*[7] (Some of these components will be discussed later in this report under the section entitled Investigation.)

Together, the contract amounts for KPMG totaled $41,490,300. Billing for each Amendment was based on actual hours expended by KPMG consultants, at a "blended" rate of $370.56 per hour. (A blended rate is the average hourly rate of the individual consultants involved, weighted by each one's estimated percentage of the total hours to be expended.) In the end, the County reduced the Amendment 4 amount to $17,248,482 and spent $15,121, 516 of it such that the final amount of expenditures on the KPMG contract and all amendments totaled $36,361,216.

Conflicting Comments

Over the past several years there have been various criticisms as well as laudatory defenses of the KPMG County Transformation Project (Project) and its associated costs. Some public commentary has called the project a boondoggle and a waste of taxpayer money, while other comments have lauded the project as providing significant benefits and cost savings to the County. Some of these comments have come from County officials, political candidates, union officials, and certain members of the Board of Supervisors.

Goals of the Investigation

There were significant costs associated with the Transformation Project in addition to the more than $36 million paid to KPMG. (These additional costs are outlined in this report under Investigation.) Overall, it was a considerable expenditure for the County. Although the money was spent over several years, it represented about 5% of the County's yearly discretionary budget.

Because of the Project's significant expenditure and the ensuing controversy, the Grand Jury sought to determine the verifiable cost savings and benefits. Where the Project did not achieve the desired results, the Grand Jury strove to explore the reasons and recommend better ways of handling such a project, as well as how benefits might still be attained in the future.

[7] Amendment 4, Attachment A-4, pp 4-8

METHODOLOGY

The Grand Jury examined the following documents, websites, and materials:

- Submittals to the Board of Supervisors by the County Executive Office, September 24, 2015; December 13, 2016; August 28,2018; June 25, 2019
- County of Riverside Adopted Budgets, 2015-16 to 2019-20
- County of Riverside Recommended Budget, 2020-21
- KPMG LLP Contract with the County of Riverside and subsequent Amendments
- KPMG "Criminal Justice System Review", March 2016
- Riverside Press Enterprise, "How this Election Could Be Bad News for KPMG's Riverside County Contract", May 17, 2018
- IE Business Daily, "Riverside County Consulting Contract Has Union Up in Arms", May 29, 2018
- County Transformation Project Updates and invoices bundles from KPMG, various dates 2016-2019
- KPMG, "Countywide Strategic Review" Report July 2017
- http://countyofriverside.us/AbouttheCounty/BudgetandFinancialInformation.aspx#gsc.tab=0
- https://countyofriverside.us/portals/0/Government/Budget%20Information/19-20/FY19-20_Adopted_Budget_@2019-12-3_Electronic%20Version.pdf
- Board of Supervisors Meeting June 20, 2017 Policy Item 3.50 Workday Signed Contract
- https://www.workday.com/en-us/industries/government.html#?q= Letter to the Senior Vice-President, General Counsel and Secretary of Workday, Inc., from the County Executive Officer, April 23, 2019
- The Complete Guide to Software as a Service, Revised Edition, Robert Michon, 2019
- "Criminal Justice System Review," March 2016, prepared by KPMG
- "Contract History and Price Reasonableness, "in the "Submittal to the Board of Supervisors" for Amendments 1-4, provided by the County Executive Office
- https://blog.embarkwithus.com/what-are-the-fees-hourly-rates-of-accounting-consulting-firms
- The Theory and Practice of Change Management, Fifth Edition, John Hayes, 2020
- Managing Change in Organizations: A Practice Guide, Project Management Institute, 2012
- Emails to the EO from the Grand Jury, November, 2019-May 2020
- Email response from the EO to the Grand Jury, November, 2019-May 2020

- https://countyofriverside.us/Portals/0/GrandJury/GrandJury2018-2019/Riverside_County_Dept_of_Animal_Services.pdf?ver=2019-06-12-132609-057

The Grand Jury also interviewed the following individuals:

- County Executive Officer
- Former County Executive Officer
- County Chief Operating Officer and County liaison to KPMG
- Asst. Human Resources Director, formerly Human Resources Director
- Asst. County Executive Officer and Human Resources Director
- Deputy Human Resources Director
- Asst. County Executive Officer, Public Safety
- Captain, Sheriff's Research Development Group
- Deputy Human Resources Director, Technology Solutions & Analytics
- Deputy Human Resources Director, Financial Operations
- Lead Senior Project Manager, KPMG / RIVCO Transformation Project
- Former Human Resources Senior Analyst, Project Lead
- Former Asst. County Information Officer
- Asst. Human Resources Director
- Chief Deputy District Attorney
- Director of Purchasing and Fleet Services
- Asst. County Executive Officer and Chief Information Officer
- County Auditor-Controller
- County Chief Financial Officer
- Former County Chief Financial Officer
- Two of Five County Supervisors

In addition, the Grand Jury viewed recordings of various meetings of the County Board of Supervisors (BOS) found on the County website under Board of Supervisors.

It should be noted that most of the Grand Jury's investigation was limited to five of the 20 departments for which KPMG issued recommendations, plus the Executive Office. Those were

- Sheriff
- District Attorney
- Information Technology
- Human Resources
- Purchasing & Fleet Services

The Grand Jury chose these five because they were the only ones for which the County Executive Office claimed specific cost savings amounts.

The Grand Jury's methodology was to view it as the responsibility of County officials or agencies which claimed that there were benefits from the Project to produce evidence of those assertions. The "burden of proof" was on those who claimed benefits rather than on the Grand Jury to "prove" that such benefits did not exist.

INVESTIGATION

Cost Savings

A Submittal to the Board of Supervisors by the County Executive Office (EO) on August 28, 2018 stated that

> *"Over the past two fiscal years, the county has reduced projected spending by approximately $100 million, against an approximate $32 million-dollar investment, primarily in Public Safety workstreams."*[8]

The breakdown of that "*reduced projected spending*", and expenditures on KPMG, are shown in Table 1, below, which was provided as shown to the Board of Supervisors in the same August 28, 2018 report. It shows that $89 million of that reduced project spending was in Public Safety, with another $11 million in Human Resources and Fleet Management & Procurement.

Table 1

Workstream	Total Contract	Expenditures To Date	Remaining Balance of Contract	Contract Savings to Contingencies	Remaining Contract Spend		Reduced Projected Spend to Date	Projected Annualized Reduction in Spend
Public Safety	20,391,600	16,491,600	3,900,000	1,900,000	2,000,000		89,000,000	
Human Resources*	4,200,000	2,976,150	1,223,850	1,223,850	-		4,000,000	1,700,000
Facilities Management, Fleet & Procurement**	2,100,000	1,735,120	364,880	364,880	-		7,400,000	8,600,000
ServiceNow	300,000	237,212	62,788	62,788	-		-	-
Countywide Department Review***	4,898,700	4,898,700	-	-	-		512,400	1,200,000
Finance & Accounting	500,000	500,000	-	-	-			
County Performance Unit	3,200,000	1,662,054	1,537,946	-	1,537,946			
Cross-System Integration	5,900,000	3,184,843	2,715,157	-	2,715,157			
Totals	41,490,300	31,685,679	9,804,621	**3,551,518**	6,253,103		100,912,400	11,500,000

* Reduced Costs dependent on expected staffing changes across the county
**Reduced spend is dependent on renegotiated contract terms and expected staffing changes across the county
***Included: HR, IT, Planning, Code Enforcement, EDA – FM, Purchasing and Fleet, DPSS, Animal Services, Inmate Health

[8] "Submittal to the Board of Supervisors", August 28, 2018, BOS agenda item 3.80

A table showing the same exact savings was provided to the Board of Supervisors in a Submittal from the EO on June 25, 2019.[9]

The Grand Jury asked the EO to provide the calculation methodology and figures used to determine this reduced projected spending of over $100 million. The written response from the EO stated

> *"The difference between ask and give for the Sheriff and District Attorney budgets over two budget years = $89 million estimated total savings."*

In their response to the Grand Jury the EO also pointed to recommendations by KPMG, implying that savings were the result of implementing those recommendations. It was not clear which recommendations or budget years were being referenced, particularly because the same figures were provided a year apart referring to "the past two fiscal years". A second request of the EO and Sheriff's Department representative for documentation of these savings was made approximately one month before the County COVID-19 shutdown and there has been no response. The EO provided no other figures or calculations supporting these savings, including for the additional $11 million cited that brought the total to over $100 million. Requests by the Grand Jury to the EO for citations to additional specific projected future savings in any other departments beyond the $100+ million cited also generated no response.

Public Safety

The Grand Jury examined published budgets for the Sheriff and District Attorney (DA) for the fiscal years 2016-17 through 2019-20.[10] Table 2, below, shows total and discretionary[11] amounts requested (ask) and Adopted (give) as well as Actual expenditures for 2016-17 through 2018-2019.[12]

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[9] "Submittal to the Board of Supervisors", June 25, 2019, BOS agenda item 2.4 (viewed 7-12-2020)

[10] Budget documents are available on the County website at https://countyofriverside.us/AbouttheCounty/BudgetandFinancialInformation.aspx#gsc.tab=0 (viewed 6-30-2020)

[11] Discretionary funds, Net County Costs (NCC), are funds controlled by the Board, not coming from outside agencies

[12] Note that Adopted amounts differ slightly from Actual expenditures because of additional requests and adjustments during the year.

Table 2

RIVERSIDE COUNTY REQUESTED AND ADOPTED BUDGETS				
Department	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**
Sheriff-Total				
Requested	729,790,882	712,304,958	716,368,994	741,570,559
Adopted	681,179,350	680,348,798	710,200,558	741,570,559
Difference	48,611,532	31,956,160	6,168,436	0
Actual	674,898,818	684,537,117	679,940,763	
Sheriff-Discretionary*				
Requested	324,793,328	311,013,522	293,059,746	300,747,686
Adopted	276,359,563	275,048,079	286,891,310	300,747,686
Difference	48,433,765	35,965,443	6,168,436	0
Actual	274,733,304	286,818,791	278,898,079	
DA				
Requested	110,933,967	119,684,436	119,919,739	124,232,118
Adopted	116,445,828	117,459,103	124,836,712	129,232,118
Difference	-5,511,861	2,225,333	-4,916,973	-5,000,000
Actual	114,314,950	118,827,244	119,406,586	
DA-Discretionary*				
Requested	62,983,881	59,261,998	65,464,025	70,380,998
Adopted	69,095,742	65,380,998	70,380,998	75,380,998
Difference	-6,111,861	-6,119,000	-4,916,973	-5,000,000
Actual	61,081,816	73,212,411	73,122,229	
*Net County Cost				

Table 2 shows that the combined difference between ask and give for the Sheriff and DA for 2016-17 and 2017-18, the two fiscal years prior to the EO's 2018 assertion, was $81,112,680, and for 2017-18 and 2018-19, the two fiscal years prior to the EO's 2019 assertion was $31,097,906. $81 million is close to $89 million, but $31 million is not. Moreover, it is at least questionable to claim that the difference between what one wants ("ask") and what one gets ("give") is a "savings". Cost avoidance may be a more appropriate term. Note also that adopted Net County Costs for the Sheriff dropped slightly from 2016-17 to 2017-18, but have grown each year since 2017-18. Note also that in each of the fiscal years most relevant to the KPMG Project (i.e., when adoption of recommendation would have the most effect on headcount, 2016-2018) the headcount that the Sheriff requested was the same as that approved.[13]

The County CEO reported in the December 13, 2016 Board meeting that a ten California county survey conducted by the EO determined that as a percentage of NCC (Net County Cost), the costs for Riverside County Public Safety were higher than almost every other California County. Whereas other

[13] See County budgets at https://countyofriverside.us/AbouttheCounty/BudgetandFinancialInformation.aspx#gsc.tab=0 (viewed7-12-2020)

counties averaged 50-55% of NCC, Riverside was spending 75%.[14] The Grand Jury discovered that it had been a goal for some time to bring Public Safety costs more in line with these other counties. The Sheriff's budget request for 2016-17 was, indeed, cut by $48,611,532, or almost 15%. Also, for 2019-2020 the (newly elected) Sheriff's budget was reduced from what was asked in 2017-18 and 2018-2019. In 2016 the reduction may have been an estimate of the result of KPMG's recommendations at the time that KPMG was just beginning to implement them under Amendment 1. Such an estimate would have also been before one County Supervisor asked in the same Board meeting of December 13, 2016 *"When are we actually going to book some savings…?",* and no one answered that they had already seen savings and considered the reduced adopted budget as savings from the Project. Currently, discretionary Public Safety expenditures appear to be in the 50%-60% of total discretionary expenditures.

The benefit in Public Safety from KPMG recommendations most often cited by Grand Jury interviewees was that less sworn and more unsworn (and less costly) personnel are now being used by the Sheriff in positions not requiring sworn personnel. The primary example is in detention facilities (jails). When asked for specifics about these savings, County officials said that they are made obscure by increased salaries and benefits costs for Sheriff personnel but provided no evidence or calculations of such savings.

The Grand Jury was also informed by a member of the DA's office involved with the KPMG Project that no cost savings to the DA resulted from recommendations made by KPMG. In fact, the DA was given more than was initially asked in each of the budget years from 2016-17 to 2019-20. It is also not evident that the Board would have denied additional budget increase by these departments regardless of the KPMG study.

The Grand Jury concludes that based on published County budget reports, interviews, and the lack of evidence provided, claimed savings to the Sheriff's and District Attorney's offices since implementation of KPMG's recommendations lack validation.

Human Resources (HR)

Table 1, also provided to the Board on June 25, 2019, asserts a "Reduced Projected Spend to Date" in Human Resources across County departments of $4 million, Using the same definition that the EO gave the Grand Jury regarding the Sheriff and District Attorney, this would mean that at the time of the report to the Board, it was predicted that various departments would "ask" for $4 million more than they would be given over two budget years as a result of the KPMG Project. Table 1 also shows "*Projected Annual Reduction in Spend*" of $1.7 million. The Grand Jury assumed "*budget years*" is the same

[14] http://riversidecountyca.iqm2.com/Citizens/calendar.aspx?From=1/1/2016&To=12/31/2016 at about 59 minutes into the video (viewed 7-12-2020

as fiscal years, and it was not made clear which two years were meant. However, with the EO or Human Resources providing no additional information about which departments and which years, the Grand Jury was unable to validate these savings. As can be seen in Table 3, below, there was no difference in ask versus give (Requested versus Adopted) in fiscal years 2017-18, 2018-19, or 2019-2020[15] for HR itself.

Table 3

RIVERSIDE COUNTY HUMAN RESOURCES				
	BUDGET BY BUDGET YEAR*			
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Requested	unidentified	11,567,131	10,655,713	12,069,664
Adopted	10,971,317	11,567,131	10,655,713	12,069,664
	*Budget shown is net after chargest for services, revenue, and transfers			
		EXPENSES		
Actual	23,474,814	24,931,045	25,595,684	unavailable
Increase over previous year	unidentified	1,456,231	664,639	

There was an increase in Human Resources spending (expenses) from 2016-17 to 2017-18 of $1,456,231, and from 2017-18 to 2018-19 of $664,639 as shown in Table 3. However, those increases are inconclusive since most of the HR budget is derived from revenues received from other departments, and the discretionary (Net County Cost) amount received by HR is negligible (around $500,000) compared to HR's overall budget. Not included is the $3 million plus (noted in Table 1) spent by the EO to achieve the predicted savings.

In the August 28, 2018 EO report to Board, it was also stated that:

> *"As a result* [of KPMG's work] *the county is implementing a new shared services operating model for HR to improve service delivery to departments. This model enhances HR's operational performance and provides county departments the ability to reduce duplicate human resources costs over the next 12 months."*[16]

The "*ability to reduce…costs*" does not, of course, mean costs were reduced. Terms such as "*ability to reduce costs*", "*projected spend*", and "*ask versus*

[15] https://countyofriverside.us/AbouttheCounty/BudgetandFinancialInformation.aspx#gsc.tab=0 (viewed 7-12-2020)

[16] Attachment to "Submittal to the Board of Supervisors" entitled "COUNTY TRANSFORMATION PROJECT UPDATES", p.4.

give" are somewhat meaningless. What matters is whether the County has actually reduced and will reduce costs, and, after requesting it, the Grand Jury was offered no evidence that there were savings in other departments as a result of KPMG's work with Human Resources.

The Grand Jury concludes that the accuracy of assertions made to the Board of Supervisors by the EO regarding County cost reductions because of KPMG's work in Human Resources is not substantiated by any documentation provided to the Grand Jury.

Purchasing and Fleet Services

The area in which the KPMG County Transformation Project appears to have provided the clearest cost savings to the County is in Purchasing and Fleet Services. (At the time of the KPMG study the department was called Facilities Management, Fleet, & Procurement.)

In its August 28, 2018 report to the Board of Supervisors, the EO reported:

> *"Purchasing has implemented recommendations in specific activities that achieved $7 million in reduced spend in FY17/18. The county will achieve future annualized reduced spend of $8.6 million through the life of the contract(s) terms. Most of these reductions are related to information technology (IT)…Fleet Services recently disposed of 331 underutilized vehicles providing an annual reduction in spend of $512,400 for vehicle maintenance fees."*[17]

Documentation provided to the Grand Jury by the Purchasing and Fleet Services Department substantially validates those savings and the calculations used to derive them. The report of the Performance Measure "*Negotiated contract costs savings achieved*" in the Purchasing Department's yearly budget, an excerpt from the 2019-20 Adopted Budget of which is shown below, reiterates those savings.[18]

Performance Measure(s)	**FY 17/18** Actuals	**FY 18/19** Target	**FY 19/20** Target	**Goal**
Negotiated contract cost savings achieved (in millions)	$7.6	$8.6	$9.4	$9.4

[17] "Submittal to the Board of Supervisors", August 28, 2018, p.5

[18] 2029-2020 County Adopted Budget, Purchasing and Fleet Services, p. 98 https://countyofriverside.us/Portals/0/Government/Budget%20Information/19-20/FY19-20_Adopted_Budget_@2019-12-3_Electronic%20Version.pdf (viewed 7-12-2020)

Note, however, that these savings would not be (and are not) reflected in the Purchasing and Fleet Services actual dollar budget, which has generally remained level over the past several years. Rather, these savings would be reflected in the budgets of departments for which purchases are being made. These savings were not examined in other departments by the Grand Jury. That task would be made more difficult because money saved may have been allocated to other purchases or expenses.

A senior executive in Purchasing and Fleet Services, who was closely involved with the Project, credits KPMG's recommendations, as well as the County's implementation of them, for the cost savings. It should also be noted, however, that another senior County executive with knowledge of the department and KPMG's work there stated that many of the recommendations were already being implemented before KPMG arrived.

Specifically, in Fleet, for fleet vehicles driven by a department, KPMG's recommendations helped the County identify the mileage below which it is not cost effective for a department to keep a vehicle. This has resulted in a smaller fleet of County vehicles.

In Purchasing, according to the senior purchasing executive, one of KPMG's recommendations encouraged the County to team with other government entities to obtain favorable quantitative pricing on purchases. For example, the County has teamed with San Bernardino, San Diego, and Orange Counties on a combined three-year fleet vehicle contract at favorable group pricing. Another KPMG recommendation spurred the County to consolidate vendors, particularly in IT, to achieve cost savings. Previously, various departments would make their own purchases of, e.g., laptops or software programs like Microsoft Office. These purchases were not consolidated into fewer County contracts for favorable quantitative pricing.

Documentation provided to the Grand Jury appears to support actual cost savings in Purchasing and Fleet Services from the KPMG County Transformation Project of about $8 million per year for FY 2017-18 and FY 2018-19, with similar savings amounts projected for future years.

<u>Additional Costs – Workday</u>

The EO's August 28, 2018 update on the Project to the Board stated

> *"…a new county-wide Human Resources application (Workday) is being implemented that will increase efficiencies and improve business processes through automation."*

The Board of Supervisors had approved the contract with Workday in June of 2017 for a total commitment of $17,092,970 including professional services for implementation.[19]

Workday is a widely used Financial and Human Capital Management (Human Resources) software system, offered by Workday, Inc., for which users pay a subscription fee to operate in the "cloud", i.e. operate on remote computers managed by Amazon Web Services. According to Workday's website, numerous local governments have successfully implemented Workday.[20]

Sometime before April 2019, the County stopped work on implementation of Workday, and on April 23, 2019 sent a letter to Workday entitled "Notice of Termination of Master Services Agreement, Notice of Termination of Professional Services Agreement". The letter, from the County Executive Officer, explained that:

> *"The Workday platform cannot be successfully implemented within the timeline and the parameters the parties agreed to and the County has not obtained the benefits of its subscription".*

The letter goes on to state:

> *"The County has incurred substantial costs for a project that did not deliver a fully functional solution on the bargained for terms. In terms of the County's direct losses, it has paid approximately $5,223,898 in subscription service fees under the MSA, and approximately $2,561,353 in professional services fees under the PSA, for a total of approximately $7,785,251. The County has suffered other losses in addition to the fees paid under the Contracts."*[21]

The EO informed the Grand Jury that:

> *"…the above amount does not reflect the County's obligation still owed to IBM for the payments to Workday."* [Note that the County borrowed from IBM Credit LLC to finance the project.] *"Nor does it reflect the total costs incurred by the County*."

The EO also provided a schedule to the Grand Jury that shows $360,801 in interest paid to IBM Credit LLC as of July 2020 for financing the implementation. Total costs of the Workday project would also include the

[19] See Board of Supervisors meeting of June 20, 2017 Policy item 3.50 Workday signed contract

[20] Examples are City and County of Los Angeles, City of Ontario, City and County of Denver; City of Orlando; City of Dallas. See https://www.workday.com/en-us/industries/government.html#?q= (viewed 7/18/20)

[21] Letter to the Senior Vice President, General Counsel and Secretary of Workday, Inc., from the County Executive Officer, April 23, 2019

cost of County staff hours spent on the implementation. Not including the cost of KPMG's work on selection and implementation of the system, the County has incurred a loss of at least $8 million as a result of an implementation of Workday that was declared a failure only 21 months after it was approved. Some County officials declined to comment on the Workday matter, implying that it may be the subject of future litigation.

Grand Jury interviewees disagreed on whether Workday was the best solution and could have been made to work. There was consensus, however, that the primary reason for abandoning Workday was its inability as written to accommodate the County's method of allocating timesheet hours among various projects, including more than 300,000 project codes over numerous departments. Use of Workday would have required either County departments changing the way they allocated time, or building add-ons and interfaces to the old system (PeopleSoft version 9.0) until Workday built a solution to incorporate the County's requirements into their product.

Workday collaborated with the County to try to come up with a solution, and, in the end, advised the County they would have a solution in the future at an additional cost, but with no guarantees as to timing. Currently the County has decided instead to upgrade its current Human Resources system to PeopleSoft version 9.2 and is in the process of implementation. The cost for the PeopleSoft upgrade is estimated at $2.8 million.[22]

The main purposes of implementing a new HR system were to

- Retire the ten plus year-old PeopleSoft 9.0 system that was highly customized and, therefore, was very expensive and time consuming to support, upgrade, and modify to meet changing requirements
- Incorporate more up-to-date features that the PeopleSoft system either could not accommodate or would be time-consuming and cost prohibitive to implement
- Use a system that is characteristic of today's cloud-based "Software-as-a Service" (SaaS) model where a service provider hosts applications for customers, and makes them available to these customers via the Internet

This kind of computing requires that users accommodate their business practices to fit the software provided, and customization for unique requirements is exceedingly rare. This is because the vendor does all of the maintenance and upgrades which apply to every customer. The Grand Jury was informed that the County was repeatedly advised and understood that Cloud services are rigid and users must accommodate their business practices in order to achieve the benefits of using them. It appears that in the end, some County departments were unwilling to change the way they

[22] The upgrade cost estimate provided to the Grand Jury by the County Chief Financial Officer.

operated, particularly regarding the very detailed charging of time, and Workday, as offered, could not meet these requirements.

The Grand Jury offers no opinion on whether the business practices which Workday cannot accommodate are right or wrong for the County, or on whether Workday could have been enhanced to incorporate these practices. Note, however, that it is common and typical that major system changes require major changes in the way business is conducted. It is one of the reasons that "Change Management" has become a discipline in itself in the business world. Also, the current trend is for organizations to move to the SaaS model in order to take advantage of modern technologies such as the use of mobile devices, user ownership of their own data and systems, and less reliance on large, expensive in-house data centers and IT organizations.[23]

Other Benefits

Key Performance Indicators (KPIs)

Key Performance Indicators (KPIs) are quantitative measures designed to indicate how effectively a department or business unit is operating. They also allow measurement of progress over time in meeting overall strategic objectives. KPIs began appearing in County budget reports in FY 2017-18, apparently because of several KPMG Countywide recommendations in their initial Countywide Strategic Review. Those recommendations included[24]

- *"**CW-4a** Develop Countywide performance accountability structure and measures", and*
- *"**CW-5** Develop Countywide data and analytics hub framework and capability"*

Following are some examples of KPI's reported in County budget reports through 2019-2020:

- Percent of eligible staff completing de-escalation training (Sheriff)
- Work Release Program (WRP) enrollments (Sheriff)
- Average Days to Disposition for General Felony and Misdemeanor Cases (DA)
- Average Days to close employee relations cases (HR)
- Licensed users accessing GIS system (RCIT)

KPIs are not apparent as of this writing in the newly formatted Recommended Budget for FY 2020-2021.[25]

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[23] See, e.g., The Complete Guide to Software as a Service, Revised edition, Robert Michon, 2019
[24] KPMG, "Countywide Strategic Review", July 2017, pp. 16, 18
[25] See County budget reports at https://countyofriverside.us/AbouttheCounty/BudgetandFinancialInformation.aspx#gsc.tab=0 (viewed 7/18/20)

The introduction and implementation of KPIs in County departments has had mixed reactions and mixed results. One senior manager who was heavily involved with KPMG in the Project stated to the Grand Jury "*It was the most productive thing KPMG did. Their recommendations were mostly logical and have helped a great deal.*" That same senior manager also informed the Grand Jury that all of KPMG's other recommendations had already been identified and started before KPMG even began its work in that department. A manager from another department advised the Grand Jury that whereas before the Project that department had developed quantitative goals, the Project spurred them to report on whether these goals were achieved. The head of that department, who was newly hired by the County in 2018, told us that s/he didn't read or learn about the Transformation Project until several months after starting, and now they are significantly revising the KPIs initially recommended by KPMG.

The Grand Jury was also informed, initially, that the Sheriff's department resisted implementing KPMG recommendations, including specific KPI measurements. However, the Grand Jury was also informed that with the EO's guidance, the Sheriff's Department is currently incorporating them using the name Objective Key Results (OKRs) along with additional ideas from other sources besides the Project.

One thing about KPIs is clear, and that is that the EO has backed away from monitoring and reporting on KPIs. The Grand Jury was advised by the EO that County departments reported quarterly to the EO on the status of KPI improvements, and that the EO passed those reports on to the Board of Supervisors. When the Grand Jury asked for those reports, the written response was that:

> *"…updates were verbal, there are no documents available to provide. The Year-End Validation Reports will be produced annually following closure of the fiscal year budget. A Year-End Validation report will be produced for the Fiscal Year 19/20 Budget."*

The Grand Jury was not provided with a Year-End Validation report. More significant is the apparent abandonment of the mechanism recommended by KPMG to manage and follow up on KPIs and the Project after KPMG's departure, the County Performance Unit. (See County Performance Unit (CPU) below.

Sheriff

The Grand Jury learned that when the Sheriff's budget was drastically cut in 2015 and 2016, the number of sworn staff on patrol and responding to calls was also cut such that the Sheriff and Board of Supervisors received numerous complaints from constituents about long wait times for Sheriff's officers after 911 calls.

One of the key findings from KPMG coming out of the Criminal Justice Study was that sworn personnel were spending their shifts doing desk jobs rather than on patrol and responding to calls. KPMG's made several recommendations from this finding, including

> "*RSO-1 Conduct detailed review and analysis of patrol work demands*
> *RSO-2 Perform a review and analysis of patrol supply factors*
> *RSO-3 Conduct a review and analysis of investigative workload demands"*[26]

The Grand Jury also learned that the Sheriff's Department resisted implementing some of these recommendations,[27] but that around the beginning of 2018 agreed to implement several pilot projects in various stations to validate some of KPMG's recommendations. The pilot studies then led to some reallocation of sworn staff. There was also a reduction in citizen complaints about Sheriff response times in late 2017 and 2018. This corresponded with implementation of some of the KPMG pilot studies in Sheriff's substations, and also with restoration of part of the Sheriff's budget. It is difficult to say whether the KPMG recommendation, restoration of budget, or both, resulted in the decrease in response times and of citizen complaints.

The Sheriff's Department has now set up a "Research Development Group" to continue implementing some of the recommendation from the KPMG Project, as well as other best practices. One of the results has been a re-allocation of sworn and non-sworn deputies such that sworn deputies are used only where required and non-sworn are used where sworn personnel are not necessary, such as in certain positions in detention facilities. This would logically appear to have reduced costs, and a number of interviewees cited the re-allocation of sworn versus non-sworn personnel as a major benefit coming from the Project. However, as noted above, no documented evidence of specific cost savings was provided to the Grand Jury by the EO or the Sheriff's Department.

<u>Human Resources (HR)</u>

As quoted above, the August 28, 2018 EO report to Board of Supervisors stated that:

> *"As a result* [of KPMG's work] *"the county is implementing a new shared services operating model for HR to improve service delivery to departments. This model enhances HR's operational performance and provides county departments*

[26] "Criminal Justice System Review", March 2016, pp. 45-49
[27] See the video Board of Supervisors meeting at 1 pm on July 25, 2017, starting around 30 minutes into the video

the ability to reduce duplicate human resources costs over the next 12 months."[28]

Cost savings resulting from Project work in Human Resources are addressed above. A majority of the seven former and current Human Resources staff and management the Grand Jury interviewed felt that the new shared services model in HR provided benefits to the County. Shared services refer to services provided by HR rather than various departments performing them individually. E.g., instead of people in many departments doing recruiting, recruiters would all reside in HR and share work among themselves. This model would also apply to other HR services such as employee relations.

HR provided material to the Grand Jury showing that "Average Days to Fill/Hire" (into a position) declined from 111 in FY 2017-18 to 71 in FY 2019-20. The material also describes a process by which recruiting was fully centralized between February 2018 and April 2019. Although the figure for FY 2017-18 conflicts with that which was reported in HR's FY 2019-20 budget (105 days),[29] the material does appear to show that the new shared services model coincided with a decline in hiring times. What was not shown in the material was any detail on the Departments' "*ability to reduce duplicate human resources* costs*".*

One way to validate that the new model was beneficial other than cost or staff savings would be the reaction of the departments being served in this way. The County requires that each department providing services to other departments conduct satisfaction surveys among the "users" or "customers" in other departments. The Grand Jury requested from the EO the past five years of survey results for Human Resources. However, the surveys for FY 2014 and 2015 ask different questions and report in a different format than those for 2017 and 2018, and 2017 and 2018 also report in a different format from one another. So, the Grand Jury was unable to determine if user satisfaction improved significantly from before the new model was implemented. (2016 results were not provided.)

No other specific benefits from KPMG's work in Human Resources were indicated to or identified by the Grand Jury.

Information Technology (RCIT)

KPMG made 11 recommendation to the Riverside County Information Technology Department (RCIT), labeled IT1 through IT11. A senior executive in RCIT, who worked in the Department throughout the Project, informed the Grand Jury that before KPMG made them, all recommendations were either implemented or planned for implementation by RCIT. In addition, the Grand

[28] Attachment to "Submittal to the Board of Supervisors" entitled "COUNTY TRANSFORMATION PROJECT UPDATES", p.4.

[29] https://countyofriverside.us/AbouttheCounty/BudgetandFinancialInformation.aspx#gsc.tab=0 (viewed 7/18/20)

Jury was informed that KPMG published the recommendations even though RCIT encouraged them not to, and that KPMG's work was not helpful to the Department.

The Grand Jury also learned from several sources that there may have been considerable benefit because of KPMG recommendations in Health and Human Services (DPSS), particularly relating to improved service delivery and outcomes. The Grand Jury was unable to investigate these potential benefits due to time constraints.

Project Governance and Management

Project Governance refers to the rules and guidelines by which a project is to be run. Project Management is about applying the Governance rules of a project to enforce them, monitor them, and report on their execution. On smaller projects this is carried out by a Project Manager, while on larger projects (like the KPMG County Transformation Project) it is usually done via a Project or Program Management Office (PMO) consisting of a number of individuals.

On this project, the County had neither an overall Project Manager or a PMO. KPMG assumed as much of the role as possible, however they had very little authority to enforce the rules. The EO had the official role of Project Manager, but the Grand Jury learned that meant primarily tracking and approving KPMG's invoices and payments and tracking the Project budget. There were at least two such "Project Managers" in the EO during the Project, both of whom were interviewed by the Grand Jury.

At least one portion of the Project, under Amendment 4, specified that KPMG assist the County in setting up a PMO in Human Resources.[30] No Program Management Office was ever created in HR.

The lack of effective Project Governance and Management was one of the causes of failings in the Project, including in the areas described below.

Competitive Bids

Even though the KPMG contract cost expanded to more than 54 times the size of the original contract, the County sought no additional bids for any of the additional amendments. This was justified in F11 supporting material ("Contract History and Price Reasonableness") submitted by the EO for each Amendment, by citing the original RFP (Request for Proposal) and competitive bidding process for the original contract.[31] The Grand Jury was advised by the Purchasing Department that there is no County policy regarding amendments to agreements for additional work except that the

[30] KPMG Contract, Amendment 4, page 5

[31] "Contract History and Price Reasonableness" in the "Submittal to the Board of Supervisors" for Amendments 1 – 4, provided by the County Executive Office

agreement must contain terms that allow for changes to the agreement, which it did in the case of all Amendments.

When the Grand Jury asked a former high-ranking County official why no additional bids were sought for amendments subsequent to the original KPMG contract, the response was that KPMG had developed the confidence of the Board, and the Board did not want another firm coming in with different ideas. That official also pointed out that no other "top tier" firms of the caliber of KPMG had bid on the original contract.

The Grand Jury notes that other "top tier" firms may have been more interested in bidding on $40 million worth of work versus the original $761,000. While it may be marginally justified that KPMG continued the work they initially did in Public Safety, there is less justification to have them begin in ten, (and eventually 20) other County departments, having demonstrated no particular expertise in these from previous work in the County. Yet the County committed almost $24 million more to KPMG in these areas with no competitive bidding.

Moreover, the Grand Jury questions the approach of paying a significant hourly rate for tens of thousands of hours of work with very few measurable deliverables – just "assistance". While KPMG's "blended" hourly rate was typical for the "Big 4" consulting firms,[32] certainly KPMG, or almost anybody would be thrilled to agree to such a sweet deal, when all they had to do was show up and help as best they could, but not be held accountable for the results (accountable meaning getting paid or not paid based on results).

Besides stipulating specific results in the various departments, perhaps an additional approach the County could have taken would have been to break up the amendments by the various departments. Then, after coming to agreements with department heads on which of the KPMG recommendations would be implemented, allowing the departments to hire outsiders to assist them, while holding the departments accountable to the expenditures and results. Departments may have hired KPMG or gone elsewhere. However, at least there would have been the opportunity to see if the County could have paid less for the same or more productive services.

Change Management

One of the areas the County neglected during the Project is Change Management. Change management is a collective term for all approaches to prepare, support, and train individuals and teams when their organization undergoes change. That change can be anything from procedures and processes, to major staff changes and systems changes. Change management has become a discipline unto itself due largely to the natural

[32] See, e.g., https://blog.embarkwithus.com/what-are-the-fees-hourly-rates-of-accounting-consulting-firms viewed 7/23/20

resistance of people to new processes, systems, expectations, and the way they do their jobs.[33]

The KPMG County Transformation project, as can be seen from KPMG's initial recommendations, involved a number of significant changes in County operations. The Grand Jury learned that while some departments embraced KPMG's recommendations, resistance to even have KPMG gather data and work with departments was widespread such that it was reported to the Grand Jury that one agency leader instructed those in his "portfolio" (a collection of agencies and departments) not to cooperate with KPMG and give them as little as possible.

In both very large amendments to their contract (Amendment 1 for $15,730,000 and Amendment 4 for $20,300,000), KPMG's Scope of Effort included providing support and assistance to the County in Change Management related activities. In Amendment 4 under Human Resources Transformation Support, Change Management is named and defined specifically, as shown in the section of the Amendment shown below.

COUNTY OF RIVERSIDE
AMENDMENT NO.4 TO THE AGREEMENT
WITH
KPMG LLP

Component	Scope of Effort
Organizational Change Management	Conduct stakeholder, impact, learning needs and readiness analysis to inform the development of change management, communication, learning and readiness plans to help key stakeholders and stakeholder groups through a seamless transition to the new HR TOM and HRIT with high levels of commitment and adoption.

Note, however, that KPMG's work was to "Support" and "Assist" the County in these activities. Aside from the questionable wisdom of formulating a contract in this way, discussed above under Competitive Bids, Change Management was ultimately the responsibility of the County. Certainly, one could expect some resistance among a population of around 20,000 County employees. There was also the factor of the Board's and the EO's authority over departments with elected heads (See Obstacles and Complicating Factors below.) Nevertheless, the County's inability to manage change in some areas appears to have been a factor limiting the success of the Project and may have contributed to the turnover in in several key departments.

Project Deliverables

Amendment 1 to the KPMG contract, under "CONTRACTOR PERFORMANCE", calls for the Contractor (KPMG) to *"complete the following*

[33] See, e.g., "The Theory and Practice of Change Management", Fifth Edition, John Hayes, 2020, and "Managing Change in Organizations: A Practice Guide", Project Management Institute, 2012.

Transformation Support tasks as directed by the COUNTY:" Following are some of those tasks:[34]

1. *"Summarize strategic planning workshop outputs…*
2. *Assist COUNTY in developing business case and scenario analysis documents…*
3. *Assist COUNTY in its efforts to provide training to COUNTY employees regarding enhanced use of workflow and workload analysis toolsets as well as statistical sampling and lean process analysis."*

The Grand Jury requested that the EO provide:

> *"Deliverables specified in KPMG contract Amendment #1: a- Board of Supervisors strategic planning workshop summary, b- Training materials, c- Business case scenario analysis"*[35]

The EO responded with the following:

> *"Answer: KPMG Contract Amendment No. 1 was presented to the Board of Supervisors on Tuesday, March 29, 2016. Including the Form 11, report and video of Board Workshop held on Tuesday, March 29, 2016.*[36]
>
> *Related Attachments: (F) DVD with video of Board Workshop held on Tuesday, March 29, 2016 **to be delivered next week to the Grand Jury offices** (G) 2016-03-29 Board of Supervisors – Public Agenda (H) KPMG Amendment No 1 Form 11 & Report "*

The Grand Jury is very puzzled by this answer. It essentially says that deliverables specified by Amendment 1 that was approved on March 29, 2016 were provided in the same meeting in which the Amendment was approved. Also, as noted above, the Scope of Work itself provided to the Grand Jury is dated eight months <u>after</u> the Amendment was approved. The Grand Jury reviewed Contract Amendment No. 1 including Form 11, as provided by the EO, the online video of the Board meeting (workshop) held on the afternoon of March 29, 2016, and the final report from the original contract from KPMG discussed in that workshop. The Grand Jury found no evidence of anything resembling the deliverables specified.

Note also that KPMG contract amendments may be in conflict with Board of Supervisors Policy A-18, which states

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[34] Amendment 1, pp. 4-6
[35] Email to the EO from the Grand Jury, Dec 4, 2019
[36] Email response from the EO to the Grand Jury, Jan. 9, 2020

"The department head shall be responsible for the satisfactory performance of the contract requirements by the contractor. This includes contract monitoring… and contractor evaluation…The establishment of a quantifiable objective is an essential element of the contract development process to enable evaluation."[37]

Although this policy is directed to department heads and departments, the Board itself contradicted that policy which governs County departments by not specifying quantifiable (and, therefore, measurable) objectives (deliverables) in the KPMG contract amendments.

County Performance Unit (CPU)

KPMG's Scope of Work in Amendment 4 includes *"County Performance Unit Implementation Support…to contain costs, enhance outcomes, and improve efficiency."*[38]

The Submittal to the Board of August 28, 2018 by the EO, referred to previously, states

"A key tenet to achieving reductions in spend and ensuring that county departments continue with transformation initiatives recommended by the consultant is the new County Performance Unit (CPU). The CPU is a management tool within the Executive Office to help create a culture driven by performance, accountability, and data-driven decisions. Assistant CEOs will work with county departments to assess performance and identify further efficiencies across departments countywide. The ACEO's, portfolios and departments develop strategic objectives and KPIs aligned with the county's LiftUp RivCo and Vision 2030 outcomes. …The CPU tool offers greater support of the transformation efforts both in the Executive Office and departments."[39]

The Submittal also states:

"The CPU initiative monitors the various transformation initiatives to ensure accountability and performance are consistently measured. CPU reviews strategic, operational and financial performance of departments and uses a central data-driven analysis and tracking hub within the Executive Office."

[37] https://www.rivcocob.org/boardpolicies/policy-a/POLICY-A18.pdf viewed 7/23/20
[38] Amendment 4, Attachment A-4, p. 6
[39] Submittal to the Board of Supervisors, "County Transformation Project Updates", August 28, 2018, p. 9

In other words, this was a very important part of implementing monitoring, and measuring initiatives of the Project. When the Grand Jury inquired of the EO about the current status of the CPU, we received the following answer was provided.

> *"The CPU initiative was transitioned from the consultant to the Executive Office team. The initiative resulted in over 300 KPIs which was as a result of working closely and collaboratively with all county departments. These KPIs are reflected in the County's Recommended/Adopted budget … It was decided that instead of creating a separate unit called CPU, and hiring additional staffing, that the CPU function be embedded in the job duties of the Executive Office analysts. In addition to review of the data in the Recommended budget, the KPIs are also being reviewed and validated at yearend. This year again, we'll go through the KPI validation process as part of our yearend process to ensure the key performance indicators are still providing the intended outcome and it's aligned with the county, and portfolio objectives."*

So, the CPU, this "*key tenet to achieving reductions in spend and ensuring that county departments continue with transformation initiatives recommended by the consultant"* has been disbanded, and instead of being driven by Assistant CEOs, it has now been reduced to monitoring of data by EO analysts as part of their other job duties. To repeat, the Grand Jury was advised by the EO that "*updates* [to the Board of Supervisors] *were verbal, there are no documents available to provide."*

<u>Reporting the Results to the Board of Supervisors</u>

The EO reported to the Board in the afore-mentioned meeting of June 25, 2019 on progress to date on 2019 KPMG recommendations coming out of the entire Project. The Grand Jury asked the EO for evidence on eight of the recommendations reported as "*Complete*". The Grand Jury found that the evidence of completion provided on two of the recommendations was satisfactory. However, the following six, as described by the EO, are of concern:

(Information Technology)

(IT3) RECOMMENDATION: "*Conduct IT inventory and develop Total Cost of Ownership model"*

REPORTED TO BOARD: *"Complete. On-going process to deal with IT procurement and software and hardware inventory."*

RESPONSE AND EVIDENCE PROVIDED TO GRAND JURY: *"Implemented ServiceNow and are implementing RivcoPro to better manage procurements and inventory"*

CONCERN: The "Total Cost of Ownership model" was not provided. An *"on-going process"* does not indicate completion, nor does "*implementing RivcoPro*".

(IT4) RECOMMENDATION: *"Define IT talent management plan (Hiring, Retention, and Succession Planning)"*
REPORTED TO BOARD: *"Complete. Designed new hiring methodology"*
RESPONSE AND EVIDENCE PROVIDED TO GRAND JURY*: "Implemented use of IT staffing firms to help find hard to recruit employees. They must transfer to County employment within 3 months. This has created flexibility and increased hiring speed."*
CONCERN*:* Use of IT staffing firms is not a new hiring methodology and does not address retention and succession planning.

(Planning)

(PL3) RECOMMENDATION: *"Document key process steps and decision making* (sic) *framework"*
REPORTED TO BOARD: *"Complete. Implemented Case Planner Ownership framework and process…"*
RESPONSE AND EVIDENCE PROVIDED TO GRAND JURY (sent Jan. 9, 2020): *"Working with the Transportation Department and will follow-up with an answer (PENDING*)"
CONCERN*:* Nothing from the Transportation Department or regarding Planning was provided to the Grand Jury.

(PL7) RECOMMENDATION: *"Improve planner workload management (i.e. electronic trackers, PLUS)"*
REPORTED TO BOARD: *"Complete. …Implemented Case Planner Ownership framework and process…"*
RESPONSE AND EVIDENCE PROVIDED TO GRAND JURY (sent Jan. 9, 2020): *"Working with the Transportation Department and will follow-up with an answer (PENDING)*"
CONCERN*:* Nothing from the Transportation Department or regarding Planning was provided to the Grand Jury.

(PL14) RECOMMENDATION: *"encourage more independent decision making that weighs risk and benefits:*
REPORTED TO BOARD: *"Complete. Implemented Case Planner Ownership framework and process…"*
RESPONSE AND EVIDENCE PROVIDED TO GRAND JURY (sent Jan. 9, 2020): *"Working with the Transportation Department and will follow-up with an answer (PENDING)*"
CONCERN*:* Nothing from the Transportation Department or regarding Planning was provided to the Grand Jury.

(Note that all three Planning recommendations (PL3, PL7, and PL14) cited the same evidence of completion - "Case Planning Ownership and Process", which was promised and never received.

(Animal Services)

(AS6) RECOMMENDATION: *"Continue to enhance mobile technology capabilities to facilitate activities and develop a supporting Chameleon training strategy to ensure consistent staff proficiency"*

REPORTED TO BOARD: *"Complete. New technologies have been purchased and deployed…"*

RESPONSE AND EVIDENCE PROVIDED TO GRAND JURY*: "The department has deployed I-pads with each Field Officer. Training has been delivered on proper use/input of information into WEB Chameleon. All Field staff should be inputting information for each activity into the WEB Chameleon System at this time. SOP's have been developed and pushed out to end users in the training.*

Mobile credit card machines are being purchased from Elavon (Ingenico Link 2500). The initial purchase will be for eight (8) machines and delivery is expected by the end of January. These will be distributed to our primary users, with training on how to use them. SOP's will be developed, and training provided once the machines arrive.

A specific policy and procedure for monetary transactions by the licensing and animal control officers has been written and provided to these employees."

CONCERN*:* While the Grand Jury acknowledges the deployment of iPads, the implication regarding mobile credit card machines is that deployment was the result of the KPMG recommendation. KPMG, in its Countywide Strategic Review dated July 2017, made no mention of field payments or mobile credit card machines when it published Recommendations AS6. In fact, the 2018-2019 Riverside County Civil Grand Jury wrote a report entitled "**Riverside County Department of Animal Services Improved Efficiency for County Animal Control Officers".**[40] The Grand Jury found:

- *"Lack of Policy for Handling Payment of Fees in the Field", and*
- *Cumbersome and Unsafe Procedures for Processing Fee Payments".*

The report recommended

- *The Riverside County Department of Animal Services should have a policy and procedure regarding the acceptance of payments in the field for services by animal control officers",* and
- *County animal control officers should be issued a tablet with a credit card reader to process payments made in the field. Supplying this tool would reduce the County's legal and safety liability exposure of*

[40] https://countyofriverside.us/Portals/0/GrandJury/GrandJury2018-2019/Riverside_County_Dept_of_Animal_Services.pdf?ver=2019-06-12-132609-057, viewed 5/26/20

its field staff. This will be an inexpensive solution that eliminates cash handling and improves the efficiency, convenience and safety of ACO's."

The Grand Jury finds it misleading to credit the Project and KPMG recommendations for addressing this issue.

Obstacles and Complicating Factors

Appointed Versus Elected County Officials

As a General Law County under the California Constitution, Riverside County has five elected officials in addition to the elected Board of Supervisors:

- The Assessor-Clerk-Recorder
- The Auditor-Controller
- The District Attorney
- The Sheriff, Coroner and Public Administrator
- The Treasurer and Tax Collector

Because these officials are elected by the voters, they are, essentially, answerable to the voters and not to the Board of Supervisors or the County Executive Officer. The exception is that the Board sets the discretionary budget for each of these officials' departments, meaning the budget for funds controlled by the Board and not coming from outside agencies, such as the State or Federal Government. Note that the total discretionary budget for the County (dubbed NCC or Net County Cost), is about $700 million each year out of a total County budget of around $6 billion, most of which is designated for specific purposes by outside agencies.

The result is that the Board, and thus the Executive Office, has only limited authority to tell agencies and departments run by elected officials what to do. So, in this Project, the Board and EO could ask these agencies and departments to cooperate with KPMG's investigation and to follow their recommendations, but could only use their budget authority and not direct supervisory authority to make that happen. That, of course, limited their ability to effect Change Management in these agencies and departments, as opposed to the rest of County departments where there is ultimate authority over hiring and firing as well as budgets.

High Turnover and a Highly Charged Political Atmosphere

The period following KPMG's initial recommendations for Criminal Justice in March 2016 and especially following their recommendations in July 2017 was one of significant political turmoil in Riverside County. The Fourth District Supervisor died unexpectedly in December 2016, and his replacement was appointed in May 2017 to fill the position. The County Executive Officer retired in August of 2017 and was replaced by the chief assistant. The First and Second District Supervisors both announced they would not run for reelection and would retire in January of 2019. Both were primary driving forces behind the KPMG County Transformation Project. The Sheriff with whom the Project began was succeeded by a new Sheriff in 2019. The heads of key agencies and departments have left and been replaced since the Project began, including HR, DPSS, and the EDA. There has also been significant turnover of middle management and staff in key departments, such as HR.

Thus, initiatives coming out of KPMG's recommendations were to be led and managed by new people who may not have had the background or made commitments to these initiatives. They would not have gone through the process of development of the recommendations and initiatives, including the information gathering and discussion process and all the thought processes of their development. Also, certainly, leaders in new positions want to put their own stamp on their organizations. This would, naturally, have led to delays and, possibly, changes in direction in implementing recommendations and initiative from the Project.

Conflicting Incentives

In looking at projects like this one involving major change, there can be conflicting incentives for management and staff to accept and implement the recommendations of outside consultants. On the one hand if senior leadership is pressing for large budget reductions and greater efficiencies, then major changes to accomplish these must be considered and accepted to preserve one's job. On the other hand, embracing major changes can imply that one was deficient in one's job for not initiating these changes in the first place. The Grand Jury was informed that in some cases department heads agreed to publicly announce only some of the savings and efficiencies achieved from the Project.

In addition, it is well known, particularly in government, that acknowledging savings can have the negative result of having one's budget cut in succeeding budget cycles. This can result in losing funding for other initiatives that a department or agency might want or losing staff.

For these reasons, there may be benefits and cost savings from the Project that County management and staff are unwilling to acknowledge or wish to take credit for themselves rather than attributing them to the KPMG County Transformation Project.

Going Forward

The Grand Jury makes a number of recommendations in this report for the future regarding

- How to assure competitive bidding on large contracts with outside service providers
- Ensuring commitment to follow-through on major operational changes before incurring large financial obligations, such as for software projects
- Specifying measurable deliverables from outside contractors
- Publishing achievement levels in departments of KPIs
- Establishing an independent agency to report on the achievement of objectives for major projects in the County
- Re-constituting the County Performance Unit to continue with its original mission

In the Board of Supervisors meeting of June 25th, 2019, during KPMG's final presentation, participants were very outspoken in emphasizing the importance of following up on the Project after KPMG's departure.[41] One Supervisor said *"…unless we follow recommendations then we won't realize potential savings or efficiencies."* The County CEO said *"It's up to us… to make sure … departments are following up and implementing some of the better practices that we have identified."* The Board Chair, in wrapping up the presentation said

> *"The next step is the follow-up… We cannot let the items* [that you have found] *die. It's going to fall on the five of us and our CEO to make sure that those items stay front and center …and that all the money we have spent on your firm… we get even more out of it."*

Five months after this Board meeting, the Grand Jury asked a high ranking official in the EO what reports or actions have been provided to the Board of Supervisors or requested to follow-up and track the progress of the Project. The reply was "*none*". When the Grand Jury asked why, the response was "*because the Board has not asked".*

Most importantly, the County in its actions should not treat the KPMG County Transformation Project as if it were over and done. It is highly likely there are still benefits to be achieved and money to be saved from the Project in areas that the Grand Jury was unable to investigate. The current COVID-19 crisis will certainly delay many major initiatives until the situation stabilizes to a "new normal". However, it would seem particularly urgent now to look for cost savings considering the budget pressures being caused by the COVID-19 crisis. By continuing to implement, monitor, and track the recommendations from the Project through a re-constituted CPU and with strong support from the Board and the EO, the County can still avoid the Project being permanently labeled as wasteful.

[41] BOS mtg, June 25, 2019, starting about 30 minutes into video

FINDINGS

1. Some limited cost savings from the KPMG County Transformation Project were substantiated by documentation provided to the Grand Jury, e.g., in Purchasing and Fleet Services. Other areas where savings may have occurred, such as in the Sheriff's Department, have not been demonstrated. Moreover, assertions by the EO to the Board of Supervisors of greater savings exceeding the cost of the Project have not been supported and are questionable.

2. The implementation process for Workday did not secure a commitment by users to change business practices to accommodate the system. This contributed to its failure and has cost the County more than $8 million. Additional costs may result from possible litigation.

3. KPMGs recommendations and implementation work has resulted in the County becoming more data driven and performance focused. The County has become more transparent in the achieving these objectives by publishing Key Performance Indicator (KPI) data in annual budget documents. However, achievement levels of KPIs has not been reported in published budget reports for the years after 2017-2018 and does not appear at all in the newly formatted Recommended Budget for 2020-2021.

4. Even though the KPMG contract cost expanded to more than 54 times the size of the original contract, the County sought no additional bids for any of the additional amendments.

5. The County paid KPMG a considerable hourly rate for tens of thousands of hours of work without quantifiable deliverables – just "assistance". This was in conflict with Board Policy A-18 which directs how County departments must contract for professional services. For some of the deliverables specified in the KPMG contract Amendment 1, the EO provided the Grand Jury no evidence that they were actually completed or received by the County. Thus, it appears that the County did not receive what it paid for in these instances.

6. A key initiative to achieving and following up on the objectives and recommendations of the Project, the County Performance Unit (CPU), has been largely abandoned.

7. Evidence provided to the Grand Jury to support reports by the EO to the Board of Supervisors of completion on some of KPMG's recommendations was incomplete, dubious, misleading, or not provided at all. Thus, the veracity of information provided to the Board is questionable.

8. Despite adamant agreement by of the Board of Supervisors in KPMG's Project closeout presentation, to diligently following-up on the Project recommendations, no such follow-up appears to have happened since that meeting.

9. While the Grand Jury found some limited evidence of cost savings and other benefits, no evidence was provided that the KPMG County Transformation project came close to paying for itself. There still may be considerable savings and other benefits to be derived if the County follows up on recommended initiatives from the Project. However, unless and until new savings and benefits are realized, there is more justification to label the Project wasteful rather than beneficial.

RECOMMENDATIONS

The Grand Jury recommends that:

1. Before major financial commitments are made for professional services, including major software projects, the Board of Supervisors and the Executive Office make sure that all of the necessary factors are in place as outlined in Board Policy A-18. Factors should include sustainable commitment by all participants, to ensure the expected results of the project. This should be implemented immediately. (Finding 2)

2. The Board of Supervisors adopt a policy stating that for very large (for example, more than $500,000) contracts including follow-ons to contracts, the County should evaluate breaking them into smaller pieces and always solicit and consider competitive bids, except in cases where such a competitive bidding process would be detrimental to the County, in which case such detrimental effects and their reasons shall be stated and documented publicly. This should be completed by 12/31/2020. (Finding 4)

3. The Board of Supervisors direct the EO to reconstitute the County Performance Unit (CPU) to continue with its original purpose. The CPU should collect and publish the achievement levels of KPI's for all departments in a timely manner, i.e. for the previous fiscal year preceding when the current fiscal year Adopted Budget is published. Reporting of KPI's should be restored to the 2020-2021 Budget and in the future. This should be implemented by 12/31/2020. (Findings 3 and 6)

4. The Board of Supervisors establish an agency that is independent of any department to, among other possible duties, perform financial and operational audits verifying the completion, claimed benefits, and adherence to policy of projects undertaken in the County. Such an agency should choose which projects it will audit, and report its findings publicly to the Board of Supervisors. The agency could be part of the Auditor Controller's Office, or akin to the Internal Audit department in many

California Counties or an Inspector General's Office in many other governmental entities. This should be completed by 6/30/2021. (Findings 5 and 7)

5. The Board of Supervisors and the Executive Office re-examine the initiatives recommended in the KPMG County Transformation project, track and report on those still offering benefits and cost savings to the County, and direct departments and agencies to continue efforts to achieve those benefits and cost savings. The list of departments which should continue implementing KPMG's recommendations should be completed by 3/31/21, and department efforts should continue indefinitely. (Findings 7 and 8)

REQUIRED RESPONSES

Pursuant to Penal Code sections 933 and 933.05, the Grand Jury requests responses as follows:

From the following elected County officials within 60 days:

- Riverside County Board of Supervisors (Findings 4, 8, and 9, and Recommendations 1, 2, 3, 4, 5)
- Riverside County Sheriff (Finding 1)

From the following governing bodies within 90 days:

- The Riverside County Executive Office (Findings 1, 2, 3, 4, 5, 6, 7, 9, and Recommendations 1 and 5)

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