State of South Carolina
Office of the Inspector General

Memorandum

February 18, 2014

To: Honorable Nikki R. Haley, Governor
Honorable Richard Eckstrom, Comptroller
Honorable Curtis M. Loftis, Treasurer
Honorable Hugh K. Leatherman, Chairman Senate Finance Committee
Honorable W. Brian White, Chairman House of Representative's Ways & Means Committee
Director Marcia S. Adams, Budget Control Board

From: State Inspector General Patrick J. Maley

RE: South Carolina State Government Waste

The purpose of this memorandum is to share my observations on state government waste developed from my 17 months of having the privilege to serve as the State Inspector General (SIG). This position provides me unique access to a cross section of very smart, experienced state employees in the legislative and executive branches, ranging from leadership to front line employees. Although my observations may not be surprising, there is benefit to weaving together fundamental ideas, which when combined, clarify the problem and encourage action. My goal with this letter is to stimulate interest in taking a systems approach to improve the effectiveness of state government.

The famous book "Reinventing Government," described waste as, *"waste in government does not come tied up in neat packages. It is marbled throughout our bureaucracies. It is embedded in the very way we do business. It is employees on idle, working at half speed—or barely working at all. It is people working hard at tasks that aren't even worth doing, following regulations that should never have been written...waste in government is staggering, but we cannot get at it by wading through budgets and cutting line items. As one observer put it, our governments are like people who must lose weight. They need to eat less and exercise more; instead, when money is tight they cut off a few fingers and toes."*

From a statewide organizational perspective, I see three areas to put a dent into waste on a systematic, statewide basis: performance management; employee engagement; and structure. State government agencies are like most endeavors—performance ranges on a bell curve from excellence to unsatisfactory. To really get after waste in state government, we need to push the bell curve up which will take a top down commitment to provide 8000 executive branch managers enhanced tools and clear expectations to facilitate their efforts in performance management and personnel leadership. There will be costs, but minimal

compared to creating the environment in a $23 billion enterprise for enhanced management focus on proactive strategy, execution, and personnel management, with less time on reactive management. We have to translate the conceptual term of addressing waste in government by doing the hard work of getting after it through enhanced fundamental management and leadership so finite resources can be directed to priority needs.

Performance Management System

The area with the greatest potential to gain ground on waste in government is to reinvigorate the state's performance management system. In 2004, South Carolina state government had the foresight to forge ahead in the difficult and challenging endeavor of a statewide agency performance management system. The system required each agency to produce an Annual Accountability Report (AAR). The AAR provided a quality framework and guidance, albeit a bit cumbersome by current standards, using criteria for organizational excellence established by the Malcolm Baldrige National Quality Award Standards. The criteria focused Agency Heads on developing organizational objectives, metrics for success, and itemizing results, along with other leadership activities supportive of organizational excellence. Unfortunately, this noteworthy initiative to ensure agencies are effectively using tax dollars to accomplish their legislative mandates, has turned into a low utility performance management system.

The SIG's inquiry with legislative and executive branch leaders and front line budget analysts over the past year paints a picture the AAR has low utility. It is likely considered more a perfunctory exercise or marketing tool than a valuable organizational performance tool providing rigorous data to be useful in the budget process to discern performance and resource allocations. The SIG has looked at two agencies' AAR in some depth, and both did not reflect reality in providing balanced, accurate data demonstrating accountability for taxpayer value. I don't blame the agencies. The idiom, "you get what you accept," represents the AAR's current value. I suggest the direction toward increased effectiveness to improve agency data for oversight and budget decisions should be, "you get what you inspect."

The SIG discerned great interest by legislative and executive branch oversight in enhancing their ability to carry out their duties. Certainly enhancing audit capacity plays a role, but the SIG asserts the core issue is the lack of a rigorous, reliable performance management system requiring and motivating the 8000 executive branch managers to provide better data to oversight. The direction for improvement is to demand better information up front focusing on results and issues to improve upon, then use audit to test this data to provide reasonable assurance of being provided valid data. The audit function also serves as the organizational motivator for accurate information gathering because, sooner or later, the data provided to oversight and the public will be verified through audit.

A statewide performance management program can operate much like the current AAR, although preferably in a more streamlined report, with the addition of an audit function to ensure agencies have an improvement feedback mechanism and provide assurance to the budget process of robust and valid data upon which to operate. The SIG would volunteer to coordinate annual audits of a sample of agencies' submissions by coordinating a cadre of existing internal auditors into teams deployed for a month each Fall to other agencies under the direction of the SIG to ensure independence and objectivity. These audits would have no additional cost. Rather, it would use existing agency resources in a higher utility manner with unique developmental benefits as a bi-product, which will benefit the auditors and their respective home agencies. The audits would be developmental for a number of years while all agencies develop and refine their capabilities in this

challenging field of establishing and measuring strategic objectives, as well as collaborate with oversight on the selection of mission related objectives.

Renewed emphasis on the management fundamentals of focusing on outcomes/results should not be viewed as a burden or additional cost. The SIG ran across a state agency taking a new systematic approach to build an evidence/data driven performance management system. It started two years ago with a training initiative in process management (six sigma), currently totaling over 100 managers. As a result, the agency has built internal strategic objectives with measurables, a common language to discuss business issues, posts results agency-wide as motivation, and, most importantly, moved managers' thinking to proactively identify and prevent process problems, bottlenecks, and backlogs rather than reactively chase after once manifested. There are other examples of excellence with leadership self-initiating proactive introspection of the status quo leading to improvements, but agencies' improvements gains should not be a function of selecting the right leader. Rather, developing a continuous improvement environment with robust performance management systems should be the direction for long-term improvement.

State government budget decisions will continue to be made in a political context as it should, yet by incorporating performance management tools, these value judgments can be enhanced with better, more objective data. The end product of a performance management system is actually a communication tool using a common framework and terminology to permit all involved, primarily legislators and agency executives, to focus on what government wants done and measures progress using an agreed upon "apples to apples" metric from year-to-year. The management principle, *"what gets measured, gets done,"* is irrefutable. The tool to start and **continually stimulate** progress towards higher level of efficiencies and effectiveness is a commitment to a robust performance management system to shift the focus to audited outcomes and results.

Leadership & Employee Engagement

The 2013 Gallup survey of American workers' engagement revealed that 30% were engaged (passion and profound connection to the company driving innovation and moving the organization forward); 52% were not engaged (putting in time—but not energy or passion); and 18% were actively disengaged (unhappy and act out unhappiness by undermining what their engaged coworkers accomplish). The SIG frequently queries leaders at all levels in state government about employees' engagement and morale, and there is no reason to think state employees are any higher than the 2013 Gallup poll results.

A recurring theme as the SIG moves throughout state government is the difficulty in addressing poor performance. This tends to be every organization's, private or public, most difficult challenge. In real terms, addressing and confronting problems actually goes against human nature, and absence cultural proactive leadership expectations, it is the minority of leaders who will seek engagement on difficult issues. To illustrate this anecdotally, the SIG conducted two administrative reviews in two separate agencies involving misconduct allegations against first line supervisors. The misconduct was less than alleged, but both supervisor's passive leadership manufactured work unit conflict, mediocrity, and slippage in workplace rules, which are the brew to stimulate these types of complaints in the first place. Despite their leadership shortcomings, both supervisors were in their respective positions for over ten years. Sadly, the employees most distressed with unit conditions were new employees who were astonished at the low energy level and conduct within the units.

The tool to start and **continually stimulate** leadership development and employee engagement is a commitment to an annual or biennial leadership/climate survey. Such a program does not need an exotic

management developed training program which would be difficult to coordinate with the 100 agencies, universities, and commissions. Baseline training in measured leadership skills provides a common operating framework and terminology for agency leadership, as well as statewide. This training also facilitates management interpreting survey results, such as a heat map (green, yellow, and red) to develop managers on the job and understand indicators of employee engagement. Surveys create the expectation agency executive management will engage issues to explore and resolve earlier, which often don't register outside a work unit or become visible until a crisis condition. The long-term commitment to annual surveys will also create the conditions for weak managers to improve, self-select themselves to other positions, or, if supported by sufficient day-to-day performance data, administratively address ineffective managers.

Leadership/climate surveys may appear "risky" to many involved, so piloting this concept may be the direction. I have had the good fortune to live through such a change initiative and have seen first-hand the transformative benefits. We need to eliminate the self-reported leadership accolades agencies put in their AARs, and move back to the basics of, "what gets measured, gets done" with leadership/climate surveys.

Structure

The state's 2003 Management, Accountability, and Performance (MAP) Report noted, *"in the past 80-odd years, for example, the State of South Carolina has conducted 14 major reorganization studies. These studies have consistently found that state government in South Carolina has too many governmental units, making it fragmented, unwieldy, and unaccountable. These reorganization studies have argued — unsurprisingly — for fewer state agencies and departments, increased coordination, better management systems, and an improved chain of command with clearer lines of authority and responsibility."* Today, state government leadership seems well focused on this issue as evidenced by the Department of Administration legislation and other legislative proposals in this area. We all recognize state government has requirements beyond a typical Fortune 500 company's clean pyramid chain of command, such as the need for citizen participation, responsiveness to citizens, and accountability to citizens. Nevertheless, given the state's chief executive, Governor Haley, directly leads less than half of the state budget and personnel, there is ample room to consider additional improvement in focusing authority, responsibility, and accountability in executing state government's mission.

The perspectives on combining like functions under common leadership to add efficiencies and effectiveness will vary based on very smart people's unique experiences and prior efforts in state government. However, there is no denying the better a structure focuses responsibility, authority, and accountability, the better it will operate; continued momentum in this area is in the right direction.

Summary

The private sector has a single metric that can drive management action---profit or loss. This single barometer continually stimulates introspection on an organization's hardware (objectives, strategies, processes, and results) and software (leadership and employee engagement). Most importantly, lower profits serves as the catalyst for action. In South Carolina state government, and likely most governmental entities, there is no mechanism to **continually stimulate** agency introspection on performance results and leadership/employee engagement. In reality, introspection in government often comes as a result of a single mistake or controversy bringing unwelcomed public media or legislative involvement, which actually creates rationale conditions for agencies to maintain the status quo to avoid mistakes or new initiatives ruffling some constituency's feathers.

No doubt, defining state agency objectives and corresponding metrics are much more difficult without the private sector's single metric of profit or loss. Despite being more difficult, the path to improving state government's efficiency and effectiveness is simple and direct—heightened emphasis on plain old fashion fundamental management and leadership with the modern day tools used by other large organizations.

My hope is to raise awareness of these issues and stimulate interest from the state's leadership on further exploring ways to address waste in state government. With the establishment of the Department of Administration, which I understand will contain a performance management component, and the legislature's interest on increasing its oversight of executive branch agencies, it may be an opportune time to consider some of these suggestions or other ways to provide enhanced data to facilitate legislative oversight.

Thanks in advance for taking the time for my observations given the other pressing matters of your positions.