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Report to the

North Carolina General Assembly

Commission on the Reorganization of the Department of Human Resources

Executive Summary

A Culture of Collaboration: Reorganizing North Carolina's Department of Human Resources

Final

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Executive Summary
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Prepared by
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Reorganization of the North Carolina
Department of Human Resources

Toward a Culture of Collaboration

The North Carolina Department of Human Resources (DHR)—and the environment in which it operates—has changed dramatically since the 1970s, when it was created. During that time:

- DHR has grown into a $7.1 billion annual budget and over 18,000 employees
- Health and human services have moved into the limelight of the national agenda
- Medicaid has exploded into a billion dollar enterprise
- And welfare reform has transformed the role of human service organizations

Yet despite this profound shift, DHR has not undergone a major reorganization in more than two decades.

That is why the North Carolina General Assembly created the Independent Study Commission on the Reorganization of DHR in 1996, charging it to provide *"a plan for an alternative and improved approach to the organization and delivery of human services to the citizens of North Carolina."* The Commission is made up of 16 public and private leaders and chaired by State Senator Bill Martin and State Representative Charlotte Gardner. Membership of the Commission is detailed in Figure 1.

MEMBER	APPOINTMENT
Senator Bill Martin, Cochair	President Pro Tempore Appointment
Representative Charlotte Gardner, Cochair	Speaker's Appointment
Senator Betsy Cochrane	President Pro Tempore Appointment
Senator J. Richard Conder	President Pro Tempore Appointment
Senator Charlie Smith Dannelly	President Pro Tempore Appointment
Senator Jeanne Hopkins Lucas	President Pro Tempore Appointment
Representative Cherie Berry	Speaker's Appointment
Representative Lyons Gray	Speaker's Appointment
Representative Julia Howard	Speaker's Appointment
Representative Edd Nye	Speaker's Appointment
Mr. Robert Behn	Governor's Appointment
Ms. Janis Dempster	Governor's Appointment
Mr. Sammy Haithcock	Governor's Appointment
Mr. William Kress	Governor's Appointment
Mr. Vernon Malone	Governor's Appointment
Dr. David Bruton	Secretary, Ex Officio
Karen Hamonds-Blanks	Staff

Figure 1: Independent Study Commission on the Reorganization of DHR

To help in this massive undertaking, the Commission asked KPMG Peat Marwick LLP to serve as its management consultant. We have spent the last four months assessing the organization, on paper and in practice. Our journey has taken us from the Adams Building to Burke County; from interviews with employees, to focus groups with constituents; from the analysis of operations here and elsewhere, to the conclusions outlined in the following pages.

The detailed implementation plan we have developed will allow North Carolina to put our recommendations into action and become a model for other states. But it will not be easy. To get where it needs to go, the Department of Human Resources will need to create a new organizational culture—a culture of collaboration—from top to bottom. In the rest of this report, we show how.

A DHR Primer

It's hard to get a handle on the North Carolina Department of Human Resources. As one long-time observer put it, the elephant is so large, most people see only one small part. Some of the things they do not see are:

- The education component at the training schools
- The counseling and therapy at the psychiatric hospitals
- The counseling to disabled people that allows reentry to the workforce
- The advocate assuring public access to deaf and hard of hearing clients
- The case work services for the developmentally disabled client that allows them to lead an independent, productive life

The list goes on and on. In fact, DHR touches the life of most North Carolinian in one way or another, whether it is protecting children and adults from abuse, preparing people with disabilities for work, caring for those addicted to alcohol and drugs, paying for medical services for the indigent, licensing day care centers, providing cash assistance and food stamps to the needy or helping disadvantaged people become self sufficient.

Given the organization's size and complexity, it is important to understand the basic facts about the current organization, and how it came to be organized this way.

Facts and Figures

Like 12 other states, North Carolina operates a *state-supervised, locally-administered* human services program. In other words, the Department generally plays a management role—develops programs, establishes standards, allocates moneys, interacts with the federal government, and licenses facilities—while local agencies actually provide the services. DHR

also delivers direct services in selected areas, including vocational rehabilitation, services for the blind, and services for the deaf and hard of hearing.

Figure 2 on the following page depicts the current DHR organization as of September 1, 1996. DHR has approximately 18,446 positions on state payroll; 76% are employed in institutions, 13% are based in Raleigh, and 11% are employed in field offices. Since FY 1991, DHR has eliminated 741 positions, many from administrative areas. In the same period, approximately 1,005 positions have been added for special program initiatives of the administration and the legislature.

DHR's Central Administration includes the Secretary's Office, four Assistant Secretary's Offices, the Office of Personnel Services, the Office of Public Affairs, the Office of Legal Affairs, the Office of Legislative and External Affairs, the Division of Budget and Analysis, the Office of the Controller, and Division of Information Resource Management.

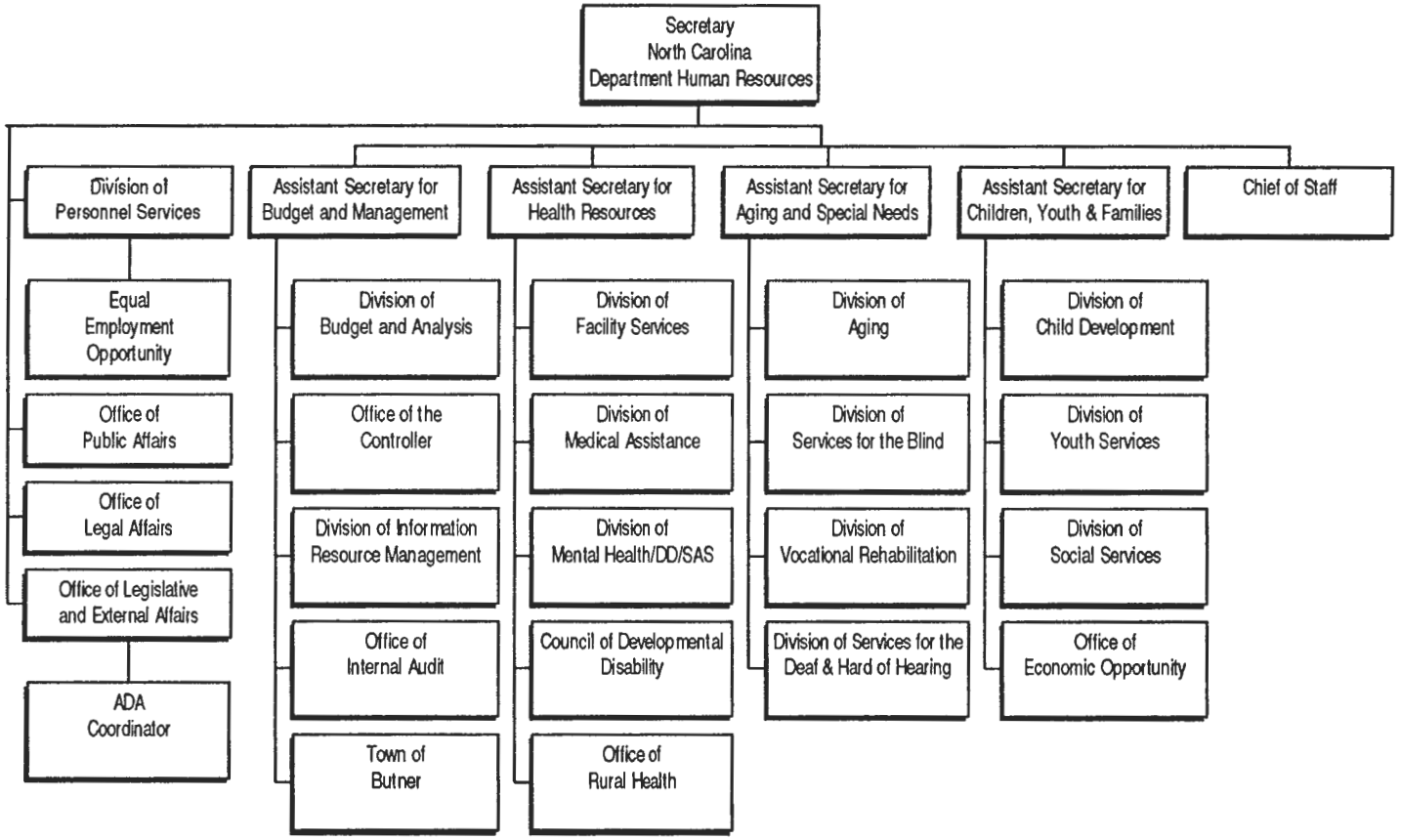
DHR is organized into divisions serving particular program areas:

- Aging
- Child Development
- Services for the Deaf and Hard of Hearing
- Facility Services
- Services for the Blind
- Social Services
- Vocational Rehabilitation Services
- Youth Services
- Medical Assistance
- Mental Health, Developmental Disabilities and Substance Abuse Services

The other units are program related: Council on Developmental Disabilities, Office of Rural Health, and Office of Economic Opportunity. Several statewide boards and commissions are involved in setting policy for these programs.

This complex web of services plays out at the local level, where citizens receive direct services. In every county except Mecklenburg and Wake, which were granted exclusions, the board of county commissioners and the state Social Services Board establishes a county social services board to oversee county social service delivery. Likewise, 45 Area Mental Health Boards may serve a single county or multi-county districts.

"As Is" DHR Organization Chart



DHR's total budget was $7.1 billion for fiscal year 1997, 42% of the state's total. Where does all this money go? Most of the Department's budget—nearly 60 percent—goes to pay for Medicaid obligations. Of the remainder, a large chunk goes to operate the state's mental health and other institutions. Figure 3 depicts DHR's overall budget.

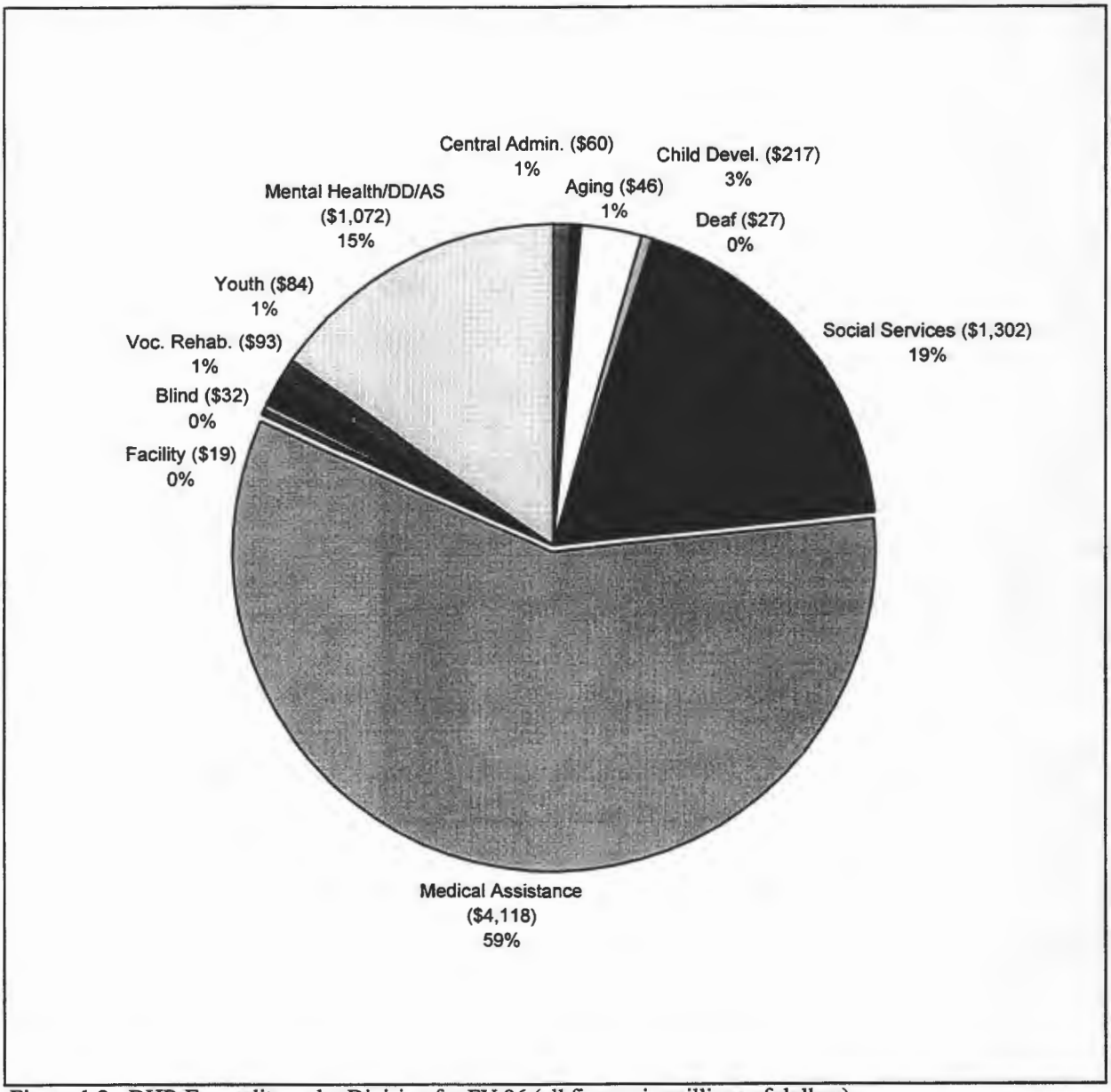


Figure 1.2: DHR Expenditures by Division for FY 96 (all figures in millions of dollars)

A Brief History

DHR was created by the Reorganization Act of 1971 and the Organization Act of 1973, which brought disparate, independent agencies under a management authority appointed by the Governor. The idea was to reduce the number of boards, commissions and agencies; to assure collaboration and coordination; and to focus executive authority.

The creation of a single Department of Human Resources represented a major shift in human service delivery, taking away the commissions' responsibility for managing programs and making the directors executive employees, accountable to the Secretary. However, the division directors frequently maintained their ties to advocacy networks, rule-making bodies, and the General Assembly.

The difficulty of putting an executive stamp on the new Department's activities quickly became apparent. While the programs were now housed in an umbrella organization and were obviously related, they had all come about at different times, for different purposes. Each represented different communities, which saw the world very differently.

From the beginning, the Secretary's Office tried to reconcile these priorities and reduce the centrifugal force created by various divisions, groups, and interests spinning in different directions. One result was that each administration added staff and layers of control to the Secretary's Office. Over the years, line functions were centralized, budgets became ironclad, levels of approval were required for minor changes—and the divisions looked for new ways to get around them.

The current structure of DHR is also the result of special interest advocacy rather than a strategic vision for the entire Department. The result is inherent tensions throughout the system, not only between management and the divisions, but between the Department's roles as a provider and a payer, between the desire to provide quality services and the desire to cut costs, and among the individual advocacy groups.

Change is easier said than done in this environment.

National Perspective

DHR is dealing with the same challenges as other health and human services organizations across the country:

- Budget constraints on the one hand, with growing service demands on the other
- Shift in responsibility from Washington to state and local governments

- Philosophical repositioning from "entitlement"—in which people are entitled to public assistance as long as they meet the criteria—to "personal responsibility," in which temporary assistance helps people become self sufficient
- High visibility in the nation's political debate, placing human services under the media's spotlight
- Technological advances, which make new strategies possible but require significant investments

What we are talking about is a whole new ball game, with different rules, objectives and targets. The players—state and local governments—are having to "make it up" as they go. And most are finding that the sudden shift to a new approach is an extremely complex and difficult thing to do, for the organization itself, as well as its clients.

An Opportunity to Reorganize for the Future

- Why is DHR an umbrella organization?
- Is there a shared mission and vision?
- What is the system's capacity to intervene and improve people's lives?
- Are local providers held accountable for results?
- Is there a way to measure progress toward the state's objectives?
- Are the incentives in place to do things better, faster, cheaper?

Questions like these led the North Carolina General Assembly to create the Independent Study Commission on the Reorganization of DHR in 1996. The Commission is made up of five members of the North Carolina Senate, five members of the North Carolina House of Representatives, five citizens appointed by the Governor, and DHR Secretary Dr. David Bruton, who serves as a non-voting member. The Commission is chaired by Senator Bill Martin and Representative Charlotte Gardner.

In the enabling legislation, the Commission was directed to present the General Assembly with "a plan for an alternative and improved approach to the organization and delivery of human services to the citizens of North Carolina, one which challenges traditional organizational assumptions and offers innovative approaches." Specifically, the Commission was asked to consider ways to achieve family-centered services, identify gaps in services across special needs groups, improve access to programs and services, reduce fragmentation, enhance accountability and provide leadership at the state level.

Toward this end, the Commission began its work by establishing "Guiding Principles" for the study. These principles set clear objectives that shaped the way the study was conducted, as well as the conclusions that were reached.

Guiding Principles

Facilitation of an integrated approach to the delivery of human services and programs, which focuses on an entire individual or family unit.

Delivery of programs and services which are coordinated, planned and evaluated on the basis of client needs and desired outcomes.

Management of public resources which achieves appropriate administrative costs; maximizes revenue; develops cost-effective services; administers services which are streamlined; combines duplicative programs; and utilizes existing family and local community supports and resources, including privatization, whenever appropriate and possible.

Maintenance and further development of a workforce consisting of competent, valued and committed employees who are encouraged and rewarded for being innovative and creative in developing programs and designing solutions.

Provision of leadership and support to facilitate optimum performance and quality outcomes at the state and local levels.

Planning in support of automated systems at the state and local levels, which will enhance work processes, eliminate duplicative approval and decision-making levels and improve client services.

Figure 4: The Guiding Principles

The Commission selected KPMG as its management consultant and partner in conducting the study. A team of KPMG professionals with experience and expertise in the human services arena spent four months investigating the state.

Our Approach to the Project: Scope and Methodology

Taking our lead from the Commission's "Guiding Principles," we have focused our efforts on designing a more integrated, client-focused approach to human service delivery. Our report represents:

- A comprehensive plan to reorganize DHR to improve service delivery *not* a downsizing exercise
- A high level review of state and local service delivery operations, *not* a detailed study of state-operated facilities or technology systems
- An independent effort to do what is best for the state, *not* a concession to what is politically expedient
- A bold, long-range strategy, *not* a quick fix
- A plan for implementing that strategy

In conducting this project, KPMG carried out a workplan that allowed us to develop in-depth knowledge about the North Carolina human services delivery system. The workplan followed the four major "tracks" which were consistent with the tasks the Commission requested us to execute in its Request for Proposal (RFP). The four project tracks were:

Understanding the DHR organization through interviews, functional reviews, document reviews, walkthroughs, site visits, and process mapping.

Understanding local service delivery through site visits to five counties to view their operations, interviews with their staff, and client interviews.

Understanding the perspective of various stakeholders in the North Carolina Human Services system by conducting stakeholder focus groups, meeting with representatives of various associations, groups, and concerned citizens.

Understanding the DHR employee perspective by surveying employees, establishing an employee comment line, and conducting employee focus groups.

Specifically the things we did were:

- Interviewed more than 150 state leaders, public employees and customers of DHR
- Held focus groups in particular service areas
- Gathered employee feedback through surveys, focus groups and an employee comment line
- Conducted three employee focus groups
- Maintained an employee comment line on which received over 250 calls.
- Made site visits to Burke, Durham, Duplin, Halifax and Rockingham Counties
- Reviewed plans, budgets and other documentation
- Evaluated information technology systems
- Benchmarked the Department against peer states
- Prepared "as is" and "to be" models for service delivery

- Developed recommendations and an implementation plan
- Held two internal presentations for the Commission

Findings: DHR As It Is Today

Among its peers, North Carolina is seen as a progressive state and an innovator in human service delivery. Its achievements are particularly noteworthy for a state supervised, locally-administered system, which is generally more difficult to manage. In fact, the Department of Human Resources' efforts have contributed to creating a climate considered one of the best in the nation to live.

To maintain its progressive status into the next decade, however, DHR will have to employ different strategies. The state's leaders deserve credit for recognizing this challenge before many other states, and for responding with foresight. KPMG believes that accomplishing the goals of this ambitious project—to provide truly integrated, customer-oriented services—will represent a national milestone in human service delivery. At the same time, we caution public officials, employees, advocates, and citizens to recognize that there are no established models for such an approach.

With this perspective, then, we observed the following about the Department as it functions today.

There is a lack of clarity about the business that DHR is in.

Does DHR exist merely to serve the indigent, as many people think? To intervene on behalf of people at risk, as others assert? To provide services to people who are vulnerable because of physical or emotional circumstances? To assure deliver of medical services in North Carolina? To pay for services? Provide services? Protect particular groups?

It's hard to say. The current mission statement is very generic, and neither inspires nor informs DHR's employees, customers, or the public at large about the business that DHR is in.

Does this make a difference? The mission statement is especially important in an organization like DHR, where individual divisions inevitably make hundreds of decisions each day. If the people making these decisions have a clear understanding of DHR's mission, they will have a rational framework for determining what to do. Without this understanding, they will make decisions based on narrower perspectives—such as that of an individual division within the organization, which tends to be more clearly focused.

The current mission statement and the primary goals supporting it are more a reflection of what DHR is—a group of services that operate largely independently—rather than a system of services that deals with North Carolinians in need. This gap is particularly apparent when the mission and goals are compared to the Commission's Guiding Principles, which call for services that are client-focused, coordinated, innovative, and cost effective.

From a business perspective, the bottom line is that the mission statement does not help determine what functions rightly belong in the Department or how they relate to each other. Turning this around, by clarifying the mission and promoting widespread buy-in, DHR can create a strong foundation for its future.

DHR's structure promotes fragmentation.

On paper, DHR's organizational structure appears neat, tidy, and well balanced. There are four Assistant Secretaries—for budget and management, health resources, aging and special needs, and children and families—with relatively equal responsibility for divisions and the programs within them.

In practice, however, the Department operates quite differently. What we found was a wide, flat organization—so flat that underneath the management layer, there is a single layer, of divisions that are not grouped for management or reporting purposes. The problem is, there is no mechanism in operation that brings these divisions together into broader service domains. As a result, the organization's structure is fragmented, both from top to bottom and across operations.

Horizontally, the Department is divided into individual "silos" that operate independently to serve the needs of particular groups. This not only makes it difficult to communicate, collaborate, or coordinate among the divisions, but gets in the way of a comprehensive, convenient delivery system for citizens. Support structures also encourage the silo-mentality. While some areas, such as the controller function, have been consolidated, most are fragmented.

Vertically, there is a disconnect between the executive level of the Department and the divisions, and in turn between the divisions and local service providers. In our interviews, employees told us that the divisions view themselves as stand-alone agencies, while the Department is perceived as a regulator that hinders service delivery. The service delivery system is further fragmented between the state program managers and those providing direct services at the local level.

A central challenge, then, is to integrate the various pieces into a single service delivery system, from leadership to service providers, to better serve individuals and families.

The state operates a "patchwork quilt" of service delivery.

When you consider that there are 100 Social Service Boards, 41 Area Mental Health Boards, and 18 Area Agencies on Aging, you begin to get the picture of what service providers and their clients are up against. The fact that the structure is not set up with like entities responsible for the work means that DHR often acts as an impediment to collaboration. And since authority is vested in different places, with responsibility and authority separated, the structure does not establish clear lines of accountability for service delivery.

Unfortunately, DHR's clients are typically not dealing with a single issue. The fact that there is no food in the pantry, for instance, may not be just an issue of economics: it is more likely caused by some combination of issues, including job readiness, education, mental health, substance abuse, family relationships, and transportation. In the present system, however, it's hard to determine whether clients have multiple needs, let alone address them.

DHR does not provide direct services to most people, so it cannot directly impact many services. What it can do is improve the environment to make it easier for North Carolina's social service deliverers to provide quality services. Obviously, improving service delivery will require fundamental change not only at DHR but at the county level as well.

Information technology systems are seriously outdated.

DHR has a good vision of the information technology infrastructure required to build a comprehensive system, and the state has made major investments, but so far the state has not achieved the desired goals. For various reasons, past system implementations have been problematic making decision-makers less likely to allocate the funds necessary to bring the state up to date.

Information technology is relatively new to the human services environment, in North Carolina and in the nation. Even ten years ago, technology would not support the system to system, application to application, program to program, agency to agency communication that is required for the comprehensive service delivery. Although that technology is available today, most states are not yet taking advantage of it to provide a more holistic approach to service delivery.

Part of the problem is that the information technology model is changing. Historically, health and human services organizations have planned, designed, and implemented large, complex systems in a "big bang" approach. Information technology organizations have been forced to project costs—and then are held accountable for meeting them—over three to five

year implementation periods. In the meantime, the state's requirements frequently change and technologies continue to advance.

DHR's technology has been vertically aligned to support different programs, a strategy that results in independent system silos following organizational lines. While such a strategy offers a high level of control for the various groups, it does not promote cooperation or communication.

Performance is not generally assessed in terms of client outcomes.

The current climate is putting pressure on governments to demonstrate *value*—that is, to show the results produced in return for taxpayers' dollars. In this environment, progressive public managers are increasingly focusing on outcomes (results), rather than traditional inputs (what goes into the system) and process (what was done).

It is not a new approach for the human services arena. Nationally, there have been attempts to determine agency objectives and measure results since the early 1970s. But previous experience has indicated that an outcome-oriented approach is particularly challenging for the human services arena, where the expectations for a single group may cover a wide range of potential outcomes.

For example, the goal to move people receiving public assistance toward self-sufficiency can appropriately be measured in terms of people going to work and getting off of public assistance. But it's not that simple. To *stay* employed, the individual may need subsidized day care or transitional Medicaid—services which are expensive to provide.

Health and human services agencies tend to measure processes rather than results; for example, how many cases are processed, how many people get food stamps, and how many beds are utilized rather than how many clients achieve their goals, how many clients become self-sufficient, and how many clients are satisfied with the services they received. In North Carolina, there is additional pressure to measure how long it takes to provide services, based on the consent decree resulting from the *Alexander vs. Flaherty*. The decree requires local boards to operate within specified time frames for income maintenance activities, which has helped reinforce a process-oriented mindset.

Blurred lines of accountability make it even more difficult for local providers to do what is needed to produce the desired results. What we heard from the people on the front lines of service delivery is that they feel micromanaged. They want to be told *what* the state wants them to accomplish, not *how* to do it.

What is needed is a set of expectations that are tied to DHR's mission and program funding, and a set of measures agreed to by both the state and the locals. A number of counties are looking at a promising concept of accrediting counties based on their ability to carry out the program mission and their preparedness to meet program goals. On an experimental level, they have developed a process developed that establishes various levels of accreditation for county Department of Social Service (DSS) boards, tied to various levels of oversight and reporting requirements.

DHR is not well positioned to put the Commission's Guiding Principles into action.

All of these factors add up to an environment that is not conducive to meeting the Guiding Principles of the Commission, unless there is some dramatic change in DHR's structure, approach, and culture. Even with such changes, the Department alone cannot achieve the desired goals; in fact, improved service delivery can happen only in partnership with the counties.

DHR will need to make some breakthrough changes to position itself to do that. The Department must get its own house in order, so it operates in a manner that coordinates services, works cooperatively with local service deliverers, and encourages an integrated approach at the local level.

That will mean changing the culture of the organization. Today, it is:

- A culture based on divisional identification and loyalty, rather than a common vision
- A culture that sees services as individual entities, rather than part of a system designed to meet the needs of people
- A culture that is process oriented, rather than results oriented
- A culture that is regulatory in its approach, rather than collaborative
- A culture that is top-down, rather than bottom-up
- A business that is unsure of who its true client is—DHR management, the Legislature, or the citizens of North Carolina

When all is said and done, however, the principles—treating people holistically, providing services that are needs-driven, using public dollars effectively—will be implemented at the local level. Unfortunately, the split governance structure at the local level between DSS and Area Mental Health boards makes it very difficult to get the right people together to treat people in the manner articulated by the Guiding Principles. And the law mandates this structure for all counties except the largest.

Recommendations: The DHR of Tomorrow

Reorganizing DHR offers an opportunity to change the model of the past and charge into the future. But just moving boxes on an organizational chart will not produce the results North Carolina is looking for. Instead, the state's public officials, managers, employees, advocacy groups and their local counterparts work together to create a new approach to human service delivery. Creating that culture of collaboration will require a major investment in training, team building and the technology to link all the pieces into an integrated whole.

Here is our strategy for getting there.

DHR must fundamentally change its role as a regulatory and program management agency.

If the state is serious about providing human services that adhere to the Guiding Principles outlined by this Commission, DHR will have to dramatically change its role. Instead of acting as a mandatory, enforcer, and sometimes micro-manager of services delivered at the local level, it will have to serve as a strategist, technical assistant, consultant, advisor, and funding broker.

We recognize that the Guiding Principles are all about service delivery, which is provided at the local level. What the Department can—and must—do to further these aims, then, is to facilitate the delivery of those services. That will mean focusing on policy leadership and evaluating results based on outcomes.

To build the partnerships necessary for a successful future, DHR needs to direct its attention to policy (*what* needs to be done), and leave management (*how* to do it) to those actually providing the services. The policy should be developed at the state level to ensure equity for all North Carolinians, coordinated across service domains, and communicated in a coordinated fashion by people who understand the local environment. The management should be based on a partnership between the state and the counties, based on collaboration, partnership, strong feedback mechanisms and, above all, local conditions.

It is essential that the state disseminate policy in a way that makes counties feel they have ownership of the policy and are able to implement it. What that suggests is a partnership with partners that are relatively equal, rather than the current imbalance. In short, it will require a culture of collaboration.

KPMG recognizes that such a major transformation will not be an easy task. If this reorganization is to accomplish more than moving boxes around the page, however, it must rest on a very different foundation from that of the past. We believe the state is facing a

unique window of opportunity to make this leap with welfare reform, a change in DHR leadership, and the framework provided by this study.

Counties should be allowed to fashion a human services delivery structure that meets local needs and conditions.

No one entity can possibly fill all of the needs or required roles in the human services delivery environment. In fact, accomplishing the desired goals will require a high degree of collaboration among the players, especially at the local level, where services are delivered.

There is no one "right" way to collaborate. The strengths and weaknesses of the various players, the political environment, the history, the advocacy environment, the economy, the resources available, the transportation system, and the needs of citizens will all determine to a large degree the way in which collaboration is going to work best.

Therefore, local communities must be given the opportunity to come to terms with all the factors that are unique to their own area and develop the organizational and procedural—and maybe even technological—solutions that work best for them. Over the long haul, that may mean that some counties are going to become very oriented to county government. Others may gravitate to a community-based, not-for-profit focus. Some may not change except to develop dialogue and linkages that allow them to communicate better about individual clients and programs as a whole.

At this point, such collaboration has been carried out only in limited pilots and demonstrations, across the nation and in North Carolina. The experience of the Wake and Mecklenburg County redesigns and the SmartStart program, for example, offer lessons counties can learn from.

However, state law does not allow any except the very largest counties the flexibility to experiment with innovative, collaborative structures and strategies right now. It is time to remove these restrictions to allow counties to do what is necessary to be an equal partner and improve service delivery. KPMG recommends that the North Carolina Legislature rescind the minimum population standard for service delivery redesign to allow all counties to participate.

We recognize that it will take a lot of time and effort to make this happen over 100 counties. But as the adage says, a long journey begins with a single step.

DHR must reorganize itself in ways that promote integrated program policy, partnerships with local service deliverers, and an outcomes-based approach to measuring results.

To create the total human services delivery system envisioned by the Commission, DHR must first get its own house in order. One way it can do that is by reorganizing itself to act in a manner consistent with the Guiding Principles.

The first step should be to integrate program policy within DHR, an approach that can be accomplished in three ways. At the very *top level*, the Department needs to have an executive who is responsible for service delivery and operations. That individual's total focus is to bring all the pieces together and make sure that the pieces are working in concert with one another to fulfill the Department's mission.

Secondly, the Department needs to integrate itself in the *middle of the organization*, where program policy is made. This will mean breaking down the current barriers between silos, orienting the divisions around client issues or service domains and putting in place structures that are going to enable—and force—lateral communication. In this way, DHR will have a vehicle to consider the integration aspects of any particular program policy.

The third—and perhaps most important—area where the Department needs to promote this integration is in *its relationships with the counties*. What is needed is a funnel, which will pull the various state policies together and pass them through a much narrower conduit. This approach will not only force the integration of information presented to the counties, but place the responsibility for resolving conflicts on the state, rather than the county, as has been the case in the past. Ultimately, this will require a new mindset, one in which DHR sees the local service providers as its most important customers and directs its activities to meet their needs.

Finally, the Department must reorganize itself in terms of assessing outcomes (what happens as a result of programs and services) rather than processes (what is done to meet the need). In this respect, we find it noteworthy that an organization as large as DHR has no integrated program evaluation function—that is, no unit specifically charged to assess how well it is doing as a whole. Currently, program evaluation is conducted within the Divisions on a "silo" basis. Such an organizational component must be created to evaluate and monitor state and local progress in meeting common objectives.

Develop a focused mission that is clearly understood by all players in North Carolina's human services delivery system.

DHR's mission statement, and in particular the goals associated with that mission, are not well aligned with the Guiding Principles. While the Guiding Principles present a system-wide approach to human services delivery, the mission and goals are program based, conveying the impression that the Department is trying to be all things to all people. As a result, it is difficult for the components of DHR to see how they fit into the overall whole—and just as important, how they relate to one another.

KPMG frequently heard employees and other constituents say that they do not have a clear understanding of DHR's mission and how they fit into it. A clear, compelling mission statement is a critical part of any organization's operation, but it is even more so in the state's human services arena, which is such a massive, multi-faceted undertaking. In this environment, there must be a central vision that links the many pieces of the puzzle.

We therefore recommend that DHR revisit its mission statement with the goal of developing one that it is clearly understood by all components of the human services delivery system and that each component understands its own role in fulfilling that mission.

The mission must be paramount and it must be specific enough to mean something. It should be an overarching statement about the helping nature of what the Department does, and include responsibilities that cut across individual programs and activities, such as:

- Protecting individuals at risk
- Assisting people who are economically disadvantaged to become more self-sufficient
- Caring for those who are mentally, physically, or emotionally handicapped
- Carrying out preventive measures and preventing problems before they occur

Coordinate services internally to model an integrated approach to service delivery.

A coordinated human services model should begin at the very top of the organization, by creating an executive team. We propose a structure in which there are only two staff reports and two line reports to the Secretary. The existing Assistant Secretary for Budget and Management position, renamed as the Assistant Secretary for Administration and Finance as the Chief Administrative Officer (CAO). A new Assistant Secretary for Operations as the Chief Operating Officer (COO). This arrangement is designed to create a focused management structure and free the Secretary from actively supervising a large number of direct reports.

In effect, the Department will be divided between *operations*, which includes all of the programs, and *administration*, which includes all the activities that support them. The CAO is in charge of the support activities and the COO is in charge of the operations side. The COO should be responsible for assuring program delivery coordination that allows for client- and family-focused services. This division of responsibility endorses DHR's client-centered philosophy at the highest level. This structure separates DHR employees into "operations" whose clients are the citizens of North Carolina and their local service deliverers; and "administration" whose client is DHR operations.

Most of our recommendations are apparent in terms of this division, with the possible exceptions of information technology and quality improvement. We recommend that the Chief Information Officer (CIO) report to the COO. While a case can be made for putting the information technology piece on either side of the organization, we believe that technology is not only a support, but increasingly a mechanism through which services are delivered. Likewise, some might suggest that Quality Improvement belongs in support services, but we see it as an integral part of service operations since its ultimate clients are the citizens.

What this structure establishes is a core team made up of the Secretary, COO and CAO, bridged by the strategic planning office. This puts in place a structure that encourages coordination up through the department.

Remove program silos by restructuring around functions, rather than programs.

What everyone wants is high quality, cost-effective human services that help the state's most vulnerable citizens. Since DHR is generally not directly responsible for service delivery, it cannot have a direct impact on the quality of that service. What the Department can do, however, is create an environment that will make it easier for counties to act in an integrated fashion—which *will* enhance service delivery.

We are recommending that DHR make this shift by restructuring around functions (such as policy making, service delivery, facilities maintenance, food service and education management), rather than programs (such as AFDC, food stamps, foster care, emergency medical services licensing, or independent living). Specifically, we recommend service delivery functions in five areas:

- ***Division of Services***: To develop program policy, deliver services and coordinate the delivery of services by local providers directly to the citizens of North Carolina.
- ***Division of Regulatory Services***: To provide regulatory guidelines, licensing services, and program integrity assurance.

- ***Division of Institutional Management***: To coordinate the management of DHR institutions, especially with regard to common functions, such as building, maintenance, and food.
- ***Division of Education Services***: To provide program policy and manage the blind and deaf schools and the educational components at the training schools and mental health institutions.
- ***Division of Health Care Financing Services***: To carry out administrative and regulatory tasks associated with the North Carolina Medicaid program.

In addition, we recommend the establishment of two coordination and infrastructure functions:

- ***Information Services***. To develop the information technology infrastructure necessary to support program service delivery.
- ***Performance Services***. To evaluate program performance and identify opportunities for improvement.

Align related services along functional lines through the creation of five divisions.

A single ***Division of Services*** should be established to develop service policy and coordinate delivery, organized around service domains that reflect major areas of client need, as well as the core competencies to meet those needs. The major Service Domains should be

- Economic Services Section
- Health Services Section
- Children's Services Section
- Aging and Adult Services Section
- Special Needs Section (including vocational rehabilitation services, services for the blind, and services for the deaf and hard of hearing)

The ***Division of Regulatory Services*** should focus on fostering an outcomes-based orientation to service delivery. These are the Department's enforcement mechanisms:

- *Fraud and Abuse Section*: To ensure proper use of funds by investigating program fraud and misuse, with referral to appropriate law enforcement agencies.
- *Performance Audit Section*: To ensure local service delivery program compliance, as reflected in attainment of outcomes measures by local service providers.
- *Licensing Section*: To ensure proper North Carolina facilities by carrying out licensing functions for health and human service institutions and programs.

Training schools and institutions should be administered through a ***Division of Institutional Management Services***. This division should focus on the core business functions and economies common to all institutions. Clinical direction should be created through a relationship to the Division of Services.

The ***Division of Education Services*** should oversee the Governor Moorehead School and the Schools for the Deaf and Hard of Hearing. The focus should be on the educational mission of the institutions, rather than simply their service delivery components. We recommend that the schools be administered through a DHR school board functioning in the same manner as any other school in the state.

The ***Division of Health Care Financing*** will be responsible for the regulatory and administrative aspects of the Medicaid program. Reorganizing that Medicaid essentially acts as the medical insurer for the economically disadvantaged, this constitutes a distinct functional role to be incorporated in the DHR organization.

Create a local services coordination unit that provides a "single face" of DHR to the state's service providers.

The proposed Local Services Coordination and Delivery Section, a key element of the Division of Services, is the point at which KPMG's recommendations come together. This unit is designed to assure that program policies developed in different domains complement one another and position the state to encourage a holistic orientation at the local level.

How can the state do that? One way is by assuring that there is someone looking to make sure that all the pieces fit together at the local level, where the majority of services are delivered. A second is to establish a single mechanism to disseminate policy. Right now the policy function is so dispersed, there is no context to consider whether the individual pieces make any sense, let alone when they are taken as a whole.

The Local Services Coordination and delivery section fills these vital functions. Its employees will present a single face of DHR to the counties, reducing the need for multiple contacts, eliminating conflicting messages, and improving customer service. We emphasize that their job is not to control program policy at the state level, nor to direct or supervise the counties' activities. Instead, their mission is to provide consultation, technical assistance, and facilitation to enable the local structures to truly be effective service deliverers.

The state will not need to create a new unit to carry out this function. In fact, a sizable part of the workforce is already providing such services in positions scattered through various parts of the organization. The new structure brings these people together and coordinates

their efforts to generate a critical mass that represents a key component of the way the department does business.

We believe that the state should continue to deliver state services for vocational rehabilitation, blind, and deaf and hard of hearing services. Why? The special services and technologies required to serve these populations are too costly to provide at the local level. The state should continue to administer vocational rehabilitation, blind, and deaf and hard of hearing services through regional offices to take advantage of economies of scale and ensure dialogue across counties.

Develop an information technology infrastructure that supports the state's entire human services delivery system.

Information technology is a tool that the state can use both to help local providers deliver client focused services, and to ensure accountability. But to harness the power of this technology, DHR will have to do things differently than it has in the past.

The Division of Information Resource Management (DIRM) can no longer afford to be a part of the silo-mentality of the past. To make the most of the state's resources, technology must bridge the needs and business processes common to all divisions as well as their customers: local services providers and the people they serve.

What we are proposing is a radically new approach to information technology; one that will create a systems infrastructure and application system that support the *entire* human service delivery structure. The system should be based on a comprehensive automation plan oriented to bringing the benefits of automation and shared data to front-line service workers; that is, the point at which the system touches the client.

For this to happen, DHR will have to explore new ways of implementing systems installations. We recommend the adaptive systems approach. This approach breaks huge projects into multiple smaller ones united by a common vision. The adaptive project components should be funded separately, with phased-in funding tied to measurable progress and results.

Create a DHR "to-be" Organizational Model that reflects the principles and structures incorporated in the recommendations in this report.

Our recommendations reflect a new vision for DHR:

- How it organizes itself to develop and coordinate policy
- How it communicates policy to local service deliverers

- How it relates to and interacts with the local service deliverers
- How it delivers services itself
- How it will foster accountability and measure results
- How well it serves the citizens of North Carolina.

This project is all about organization and what the DHR of the future should look like. In order to translate this new vision for DHR into an organization structure we recommend DHR adopt the Organization Table depicted in Figure 5 on the next page.

That organization model brings together the necessary structure, accountability, and reporting relations to allow DHR to create the culture of collaboration needed to implement the Guiding Principles.

Toward a Culture of Collaboration: A Plan of Action

KPMG recommends a transformation of North Carolina's entire human services delivery system. We are convinced that the strategy presented here will make the system meet the goals of legislative and executive leaders, help state employees do their jobs better, improve service delivery at the local level, and better serve the needs of North Carolinians. But it will not be easy.

By their very nature, public organizations tend to resist change, and the Department of Human Resources is no exception. In fact, it may experience more pressure to continue operating in traditional ways as a result of the many constituent groups advocating for separate and special treatment of its organization.

That is why KPMG considers the implementation part of this study as important as all that has come before. After all DHR cannot translate our recommendations into action, this effort will ultimately have been in vain.

The experience of other public institutions indicates that a few critical success factors make all the difference in efforts of this scale. What is needed is commitment from the top, a team of "change agents" working within the organization, and a plan of action that designates responsibilities and time frames.

Our final recommendation, then, is that the state will set up the mechanism to manage change. Specifically, we propose:

- Creation of a high-level ***DHR Reorganization Steering Committee*** to oversee the reorganization effort and ultimately be held accountable for its results. It should include the Secretary of DHR, Assistant Secretary of Administration and Finance, the Assistant Secretary for Operations, and a legislative representative of the General Assembly.
- The formation of a ***DHR Reorganization Task Force*** comprised of eight to ten full time "change agents" to manage the day-to-day process of change.
- A three-phased approach to implementation, following the detailed plans and schedules outlined as part of this study.
- The establishment of two pilot projects: one to implement a regional center and local liaison team, which will test the state's new role; and one to allow three selected counties to develop their own service delivery models.

When all is said and done, it is not what is printed in these pages, but what happens as a result that will make the difference in North Carolina. We believe the state can create a culture of collaboration that will have a meaningful, positive impact on the delivery of client focused services in North Carolina, foster accountability through the use of outcome measures, and establish a model for the nation. And now it is time to begin.