

COMPARATIVE COSTS OF ADMINISTERING PUBLIC ASSISTANCE

An Analysis of the Administrative Expenses of 28 Public- Assistance Agencies During 1938-39

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STATE AND LOCAL LEGISLATORS have recently been displaying unusual interest in the administrative costs of public-assistance and relief programs. Their concern with channeling the largest possible share of the relief dollar into the hands of the needy has led them to scrutinize closely administrative costs and, in many instances, to limit such costs by law to a fixed percentage of total assistance payments or total costs. Administrators of public-assistance agencies have been requested to supply comparisons of their own costs with those of agencies in other States. Considering the lack of comparable data in this area, it is not difficult to understand why most of the comparisons have been of questionable validity.

To meet the need for comparable data, the Division of Public Assistance Research of the Social Security Board undertook to collect data on so-called administrative costs for the fiscal year 1938-39. The States cooperating in this experimental project were requested to report their expenses in accordance with a uniform expense classification, which was developed with the advice of the Joint Committee on Relief Statistics of the American Public Welfare Association and American Statistical Association. The results of this project are summarized here to determine how effective the reporting system has been in producing reasonably comparable data. Progress toward this objective is measured by the extent to which the reporting system has been successful in eliminating or minimizing the influence of variable factors which have vitiated earlier comparisons.

Different Definitions of Public-Assistance Program

The most serious difficulty encountered in comparing the costs of administering public assistance and relief in the several States arises from the fact that public-assistance agencies also administer a

wide variety of related programs. Table 2 shows the various related programs administered by the 28 State agencies submitting reports for 1938-39.¹ Most of the agencies certify persons to the Work Projects Administration, Civilian Conservation Corps, and Farm Security Administration; distribute surplus commodities; and furnish child-welfare services and foster care. Several agencies incur expenses for sponsor's contributions to WPA projects, for materials and supplies on State and local work-relief projects, for transient and institutional relief programs, for services to crippled children and the blind, and for other miscellaneous activities.

Although expenditures for these supplemental activities cannot properly be charged to the assistance programs, many public-assistance agencies include such expenses in the cost of administering public assistance and relief. The administrative expenses of these agencies obviously cannot be compared with the expenses of other agencies which are not responsible for these additional functions or which exclude their cost from administrative expenses of the assistance programs.

By segregating expenses of the various related programs,² the reporting system of the Division of Public Assistance Research has yielded data on the costs of administering public assistance which are far more comparable than any data previously available. The data reported for the fiscal year 1938-39 reveal that, in a number of States, expenses for related programs constitute a significant part of the total expenditures of the public-

¹ In this and other tables, State agencies participating in the reporting project have been designated by letters.

² The reporting system of the Division of Public Assistance Research excludes the following activities and programs from costs of administering the assistance programs: (1) certifications: (a) to the U. S. Work Projects Administration, (b) to the Farm Security Administration, (c) to the Civilian Conservation Corps, (d) for surplus commodities; (2) transient relief programs; (3) institutional relief programs; (4) the operation of commissaries; (5) the distribution of surplus commodities; (6) costs of local work-relief projects (excluding wages and earnings of relief workers); (7) contributions from relief funds to Federal Works Program; (8) child-welfare services; and (9) other welfare programs, such as foster care, crippled children's services, and rehabilitation of the blind.

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assistance agency.¹ Table 1 shows that expenses for related programs accounted for more than a third of the total expenses of State agency BB and for 10 to 15 percent of the total expenses of State agencies E, J, L, R, T, U, Y, and Z. All but three of these agencies spent more for administering these related activities than for administering the public-assistance programs.

¹ A small number of public-assistance agencies can segregate expenses for related programs from those of the public-assistance program, since different units of the agency administer each group. However, in most agencies expenses are incurred jointly for all programs.

Table 1.—Total expenses of State and local public-assistance agencies classified by program and purpose, by agency, fiscal year 1938-39¹

[Corrected to Dec. 1, 1939]

Agency	Total expenses of agency ¹	Expenses for public-assistance program								Expenses for other programs ¹	
		Assistance payments ²		Other expenses (administration) ⁴						Amount	Percent
		Amount	Percent	Total		Old-age assistance	Aid to dependent children	Aid to the blind	General relief		
				Amount	Percent						
A.....	\$160,648,061	\$136,530,213	85.0	\$19,574,120	12.2	\$2,513,003	\$1,031,000	\$118,003	\$15,900,243	\$4,543,710	2.8
B.....	134,453,845	120,280,141	89.4	12,195,901	9.1	2,609,407	1,080,496	372,568	8,124,340	1,077,803	1.8
C.....	29,743,245	28,341,634	95.3	1,401,611	4.7	1,401,611	(⁵)	(⁵)	(⁵)	278,441	1.1
D.....	24,861,522	23,252,049	93.5	1,331,032	5.4	(⁵)	(⁵)	(⁵)	(⁵)	278,441	1.1
E.....	20,093,125	16,683,426	83.0	1,336,298	6.7	817,867	443,471	74,060	(⁵)	2,073,401	10.8
F.....	19,929,395	18,987,352	95.3	942,043	4.7	942,043	(⁵)	(⁵)	(⁵)	484,970	2.8
G.....	19,416,658	17,897,946	92.2	1,033,733	5.3	640,457	110,416	12,212	261,648	218,925	1.3
H.....	17,649,806	16,557,441	93.8	873,440	5.0	663,708	180,586	23,146	(⁵)	218,925	1.3
I.....	17,192,788	16,364,018	95.2	828,770	4.8	569,418	230,888	28,464	(⁵)	1,320,386	10.0
J.....	13,210,216	10,553,485	79.9	1,336,346	10.1	401,434	103,811	43,634	697,467	1,320,386	10.0
K.....	10,295,823	9,347,626	90.8	786,273	8.4	310,028	349,735	21,520	181,500	85,324	.8
L.....	10,161,479	7,420,525	73.0	1,696,748	16.7	209,367	169,935	22,401	1,205,045	1,044,206	10.8
M.....	7,453,719	6,075,422	81.5	638,105	8.6	(⁵)	636,901	101,204	(⁵)	740,192	9.9
N.....	7,249,105	6,346,917	87.6	1,016,557	8.5	449,085	112,812	39,290	(⁵)	285,031	3.9
O.....	7,097,485	6,419,634	90.4	677,851	9.6	677,851	(⁵)	(⁵)	(⁵)	88,325	1.3
P.....	6,793,618	5,950,167	87.6	755,126	11.1	(⁵)	(⁵)	(⁵)	(⁵)	420,378	6.5
Q.....	6,455,318	5,224,144	80.9	810,796	12.6	514,489	151,365	30,415	114,527	645,510	10.6
R.....	6,066,113	5,089,385	83.9	331,218	5.5	145,467	50,057	8,619	127,075	667,070	14.3
S.....	5,119,494	4,886,666	95.5	232,828	4.5	228,355	(⁵)	4,473	(⁵)	199,654	3.7
T.....	4,681,849	3,593,150	76.7	420,720	9.0	125,437	90,003	4,735	(⁵)	693,555	13.3
U.....	4,449,725	3,592,457	80.8	263,713	5.9	99,307	73,763	6,402	84,191	125,624	2.9
V.....	4,355,896	3,892,240	89.3	338,132	7.8	(⁵)	338,132	(⁵)	(⁵)	143,230	3.7
W.....	3,900,773	3,592,919	92.1	254,624	6.5	130,307	67,038	5,690	50,689	195,063	5.1
X.....	3,839,918	3,252,444	84.7	892,411	10.2	245,742	93,895	13,246	39,528	220,943	12.0
Y.....	1,914,813	1,549,857	80.9	135,013	7.1	46,321	17,586	5,266	65,840	170,604	10.8
Z.....	1,665,842	1,388,558	83.3	97,620	5.9	83,016	8,305	3,551	2,628	100,211	8.8
AA.....	704,176	669,226	95.0	34,950	5.0	34,950	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)
BB.....	272,142	162,373	59.7	9,558	3.5	(⁵)	(⁵)	9,558	(⁵)	(⁵)	(⁵)

¹ Expenses represent net disbursements, except where otherwise indicated (see table 4).

² Include all programs, services, and functions administered by State public-assistance agency which are provided for in the budget or appropriations for such agency, and all programs administered by local agencies under supervision of the State agency. By public-assistance agency is meant the department or bureau responsible for administration or supervision of a public-assistance program; it may be an independent department or a division of a larger department of public welfare or social security. If the public-assistance agency also administers other programs for which it incurs expenses jointly with the public-assistance program, total expenses of the agency include additional programs.

³ Include expenditures for payments directly to or on behalf of needy recipients for the immediate purpose of supplying such recipients with commodities (food, clothing, coal, medical supplies, etc.) and services (rent, electricity, gas, medical care, etc.). Include direct money payments by check or cash directly to recipient (in the case of aid to dependent children, to the mother, father, etc.) and indirect and kind payments furnished to recipients, not in the form of cash or check, but in the form of groceries, clothing, fuel, medical services, etc. These commodities or services may be directly supplied from publicly operated commissaries or by issuance of

Different Combinations of Assistance Programs

Another difficulty in comparing administrative expenses is presented by the different combinations of assistance programs administered by the various public-assistance agencies. The combinations of programs administered by the 28 agencies reporting data on administrative expenses are shown in table 4. One-half of these agencies administer the three special types of public assistance under the Social Security Act and general relief; five administer only the three special types

orders upon private merchants and vendors, to private physicians, etc. Assistance payments also include payments to or on behalf of recipients for medical care (services and supplies), hospitalization, and burials.

⁴ Include all expenses involved in determination of original and continuing eligibility of applicants to receive assistance and in rendering financial assistance to recipients and social service incident to such financial assistance.

⁵ Included here are expenses for programs and activities of the agency which are not an expense of any public-assistance program. See table 2 for a complete list of programs and activities included.

⁶ Expenses limited to 9-month period, Oct. 1, 1938-June 30, 1939.

⁷ Includes expenses for certification to Works Progress Administration, Civilian Conservation Corps, and Federal Surplus Commodities Corporation.

⁸ Includes expenses for certification to CCC and FBCC.

⁹ Distribution by program not available.

¹⁰ Does not include \$3,338 unexpended balance of Federal grants for administration of old-age assistance.

¹¹ First payments under approved plan for aid to dependent children made for September 1938.

¹² Includes expenses for certification to CCC.

¹³ Includes only State office expense; no assistance payments reported.

of public assistance; and the remaining agencies operate other combinations of programs or a single program.

Unless comparisons of administrative costs are to be restricted to agencies administering the same combination of programs, the costs of the individual component programs must be determined. Available evidence indicates conclusively that administrative costs differ markedly among the individual programs. Under these circumstances, comparisons of the total administrative expenses of agencies operating different combinations of programs are of questionable value. To enable more accurate comparisons to be made, the reporting system of the Division of Public Assistance Research provides for the determination of administrative costs for individual programs. Data for 1938-39 are presented in table 1.

Different Methods of Determining Costs

Most agencies can identify their assistance costs by programs with comparative ease but run into difficulty when they attempt to do this for their administrative costs. Expenditures for such items as salaries of visitors and other employees, travel, material, supplies, and equipment are usually incurred jointly for all programs administered by the agency, including both public-assistance and other welfare programs. The problem of prorating these joint expenses on a reliable basis is the most serious obstacle in the way of obtaining accurate comparative data on administrative costs.

The expenses of operating each of the various assistance and related programs administered by a public-assistance agency can be determined only by the application of sound cost-accounting principles. The procedure generally accepted for this purpose is that of charging to each program all expenses directly identifiable with it and of distributing the remaining joint expenses by the use of apportionment factors which reflect most accurately the share of these expenses fairly or properly chargeable to each program.

The Division of Public Assistance Research has devoted considerable study to the problem of selecting apportionment factors which are most accurate for distributing joint expenses. No single method can be recommended, but all methods should be consistent with certain principles. The Social Security Board has enunciated these principles in setting forth the basis to be

used by the States in submitting their claims for Federal funds for administering aid to dependent children:⁴

1. Charge to a specific program all identifiable expenditures incurred directly for the administration of the program.

2. Distribute expenditures made jointly for two or more programs on the basis of relative volume of work actually performed on each program, such volume of work to be determined according to the method set forth in the State plan as approved by the Board. The method should be based upon the measurement of the proportion of the total working time of employees spent on the aid to dependent children program as evidenced by time records maintained over a reasonable period or records of work performed (i. e., work load) on each program when properly weighted for time factors. Other factors such as case load, person load, or expenditures for assistance payments may be included as measures of the work load on each program only where the State can furnish data which show that these factors consistently reflect from period to period the actual time spent or the work performed on each program.

The importance of using a method of apportioning joint expenses which embodies the principle of "measurement of work performed" is indicated clearly by an analysis of the results obtained when factors inconsistent with this principle are used. Case loads and assistance costs are frequently used to distribute administrative expense by programs, despite the fact that they are unreliable apportionment factors. The data presented in table 3 show that in a number of agencies the distributions of total case load and total expenditures for assistance among the several programs differ markedly from the distribution of total working time. In agency U, for example, 97 percent of the total case load and the same proportion of total expenditures for assistance were related to public-assistance programs, but only 71 percent of the time of the agency was devoted to these programs. Although the case load and expenditures for the old-age assistance program comprised more than one-half the total case load and total expenditures, only one-fourth the time of the agency was spent on this program. In some of the agencies for which this comparison is made, the differences are even greater.

Case loads are unsuitable as an apportionment factor because they reflect potential rather than actual effort expended. Their use for this purpose is based on two erroneous assumptions: that the

⁴ Policy enunciated by the Social Security Board on Apr. 21, 1939.

same amount of effort will be required or will be devoted to the investigation and care of cases under each program; and that the same rate of case-load turn-over exists for each program. Furthermore, since case loads usually include only the numbers actually receiving assistance, they do not reflect work involved in disposing of applica-

tions. This omission can be remedied by combining applications disposed of with case loads in a single apportionment factor; however, differences in the relative amount of time required to investigate an application and to maintain a case under care must be taken into account by weighting. Another important objection to the

Table 2.—Programs other than public assistance for which expenses were incurred by State and local public-assistance agencies, by agency, fiscal year 1938-39

Agency	Certification services to other agencies ¹				Work-relief program		Transient relief program	Distribution of Federal surplus commodities	Institutional relief program	Child-welfare services	Foster care	Crippled-children services	Blind services	Other miscellaneous activities
	WPA	FSA	CCC	FSCC	State or local work-relief projects ²	Sponsor's contribution to WPA projects								
A.....	X		X	X				X		X	X	X		Miscellaneous activities not specified.
B.....	X		X	X				X						
C.....			X	X		X		X	X	X	X			Supervision of juvenile probation.
D.....			X	X										
E.....									X	X	X	X		Special children's programs: medical care for sick children, burial of dependent children, medical treatment, placement, and court commitment. Supervision of State mental institutions; supervision of State correctional institutions; inspection and investigation of county and State institutions.
F.....														
G.....			X			X		X		X	X			Tuberculosis hospitals; purchase of materials for blankets and mattresses manufactured in prisons for families on relief.
H.....			X							X	X	X		
I.....														Some county welfare departments are also responsible for child-welfare services and certification for Federal Works Program.
J.....	X	X	X	X	X	X		X	X	X			X	Services to veterans, correlated employment service, speech clinic, clinic for deaf, health clinics.
K.....	X		X	X			X	X		X	X			
L.....	X		X	X		X				X	X	X		Infirmity, adult physical rehabilitation, children's camps, State ward service, aid to World War children, commodity salvage, commodity food distribution, tuberculosis sanitarium.
M.....									X	X	X	X		
N.....	X		X	X				X	X	X	X	X		
O.....			X	X				X		X	X			
P.....	X		X	X				X		X	X			Adult services.
Q.....	X	X	X	X				X		X		X		
R.....	X	X	X	X		X	X	X	X	X	X	X		Charities and reform administration.
S.....														
T.....	X	X	X	X		X	X	X	X	X	X	X	X	Transportation not chargeable to cases or administration, social-work training, medical committees, legislative expense.
U.....	X	X	X	X	X	X	X	X	X	X	X	X		County medical reimbursements.
V.....											X			
W.....	X		X	X		X	X	X		X	X	X		Hospital care, expense of Commissioner and State Board.
X.....			X	X				X		X			X	Hospitalization investigation, miscellaneous services not specified.
Y.....	X	X	X	X	X	X	X	X	X		X			Sewing rooms, purchase of materials for blankets and mattresses manufactured in prisons for families on relief, contribution to Board of Health, nursery school, operation of commissary, contract nurses and doctors, group and institutional drugs.
Z.....										X	X		X	Education of deaf, education of blind, aid to persons with tuberculosis, veterans' services, special studies.
AA.....														
BB.....													X	

¹ WPA, Works Progress Administration; FSA, Farm Security Administration; CCC, Civilian Conservation Corps; FSCC, Federal Surplus Commodities Corporation.

² Excludes payments to persons on relief.

³ Included as an expense of administering general relief.

⁴ Included as an expense of administering old-age assistance.

⁵ Included as an expense of administering public-assistance program.

case-load apportionment factor is that no case loads exist for many activities, such as WPA and CCC certifications, and work done on these programs is thus omitted from consideration. This situation explains why, as is shown in table 3, the percentages of total case load are low or non-existent for programs other than public assistance despite the large proportion of the total working time of the agency devoted to them. Agency R, which is an extreme example, spent almost 54 percent of its working time on these other programs, none of which is reflected in case loads or assistance payments.

Similar and even stronger objections may be directed against the use of assistance payments as an apportionment factor. A higher level of individual payments on one program than on another will automatically result in a larger apportionment of joint expense, although the same effort

may be required to make a low monthly payment as a high one.

Effort expended appears to be the only sound basis for distributing joint expenses. It can be measured in one of two ways: (1) in terms of the relative volume of time actually spent on each program, or (2) in terms of the relative volume of work units actually performed on each program. If "time spent" is used, some type of time-recording system is necessary. Therefore, procedures and forms for time recording have been developed and are designated "gross" time studies, since they are designed to determine the proportion of total or over-all time spent on each program. Inasmuch as the emphasis on different programs is likely to vary from period to period, gross time recording does not lend itself to sampling but must be maintained on a continuing basis.

The possibility of using work units performed

Table 3.—Percentages of total man-hours, case load, and assistance expenditures for each program, by agency

Agency	Period	Apportionment factors ¹	Percentages for each program yielded by specified apportionment factors						
			All programs	Public-assistance programs					All other programs
				All assistance programs	Old-age assistance	Aid to dependent children	Aid to the blind	General relief	
L.....	July 1-December 31, 1938.....	Man-hours..... Case load..... Assistance expenditures.....	100.0 100.0 100.0	71.1 100.0 42.7	11.0 11.6 42.7	5.7 3.7 21.3	0.8 .5 2.2	53.6 84.2 33.8	28.9
N.....	July 1-December 31, 1938.....	Man-hours..... Case load..... Assistance expenditures.....	100.0 100.0 100.0	63.3 100.0 100.0	50.6 72.1 80.2	7.9 3.2 3.8	4.8 4.5 5.2	20.2 10.8	36.7
Q.....	July 1-December 31, 1938.....	Man-hours..... Case load..... Assistance expenditures.....	100.0 100.0 100.0	61.0 100.0 100.0	38.7 73.2 66.9	11.2 9.4 20.6	2.3 2.5 2.8	8.8 14.9 9.7	39.0
R.....	January 1939.....	Man-hours..... Case load..... Assistance expenditures.....	100.0 100.0 100.0	46.1 100.0 100.0	20.5 61.2 63.5	6.8 10.1 14.5	1.4 .4 .4	17.4 28.3 21.6	53.9
S.....	October 31-November 29, 1938.....	Man-hours..... Case load..... Assistance expenditures.....	100.0 100.0 100.0	100.0 100.0 100.0	96.1 99.3 99.3	3.9 .7 .7
U.....	January 1939.....	Man-hours..... Case load..... Assistance expenditures.....	100.0 100.0 100.0	71.2 97.0 97.0	24.6 53.3 57.9	19.4 16.8 21.3	1.7 2.4 2.4	25.5 24.5 16.4	28.8 3.0 3.0
X.....	July 1-December 31, 1938.....	Man-hours..... Case load..... Assistance expenditures.....	100.0 100.0 100.0	68.5 100.0 100.0	44.0 74.5 63.0	15.2 12.8 21.1	2.2 2.8 3.1	7.1 9.9 12.8	31.5
Z.....	November 1938.....	Man-hours..... Case load..... Assistance expenditures.....	100.0 100.0 100.0	57.7 66.9 100.0	49.7 57.5 82.5	4.8 5.0 11.6	1.9 4.4 5.9	1.3	42.3 33.1
CC.....	October 1938.....	Man-hours..... Case load..... Assistance expenditures.....	100.0 100.0 100.0	30.8 54.2 71.1	36.8 54.2 71.1	63.2 45.8 28.9
DD.....	August 1938.....	Man-hours..... Case load..... Assistance expenditures.....	100.0 100.0 100.0	64.2 100.0 100.0	25.5 64.1 67.5	13.9 13.7 17.4	.6 1.0 1.1	24.2 21.2 14.0	35.8
EE.....	October 1938.....	Man-hours..... Case load..... Assistance expenditures.....	100.0 100.0 100.0	62.1 100.0 100.0	29.1 61.5 65.6	8.1 9.7 13.4	1.4 1.7 2.6	23.5 27.1 18.4	37.9

¹ Data on case loads and assistance expenditures from monthly statistical reports submitted to the Social Security Board; data on man-hours from sum-

maries of time studies prepared by State agencies or from semiannual statistical reports of expenses submitted to the Social Security Board.

rather than time as a measure of effort expended was also explored, in the belief that work units could be measured continuously more readily and accurately than time. Work units in terms of which activity could be measured had to be developed for this purpose. The Division of Public Assistance Research defined a series of basic work units for measuring activity and has developed a system for recording and reporting such units.⁵ Work units, such as home visits and intake interviews, which measure the basic operations of "productive" workers (i. e., visitors), were selected on the assumption that these work units would serve as a sensitive index to the total volume of work of the agency.

Table 4.—Variable factors affecting comparability of expenses other than assistance payments (administration) reported in table 1

Agency	Combination of public-assistance programs administered by agency ¹	Reporting basis ²		Methods of prorating major portion of joint expenses			
		Net disbursements	Obligations incurred	No prorating—direct charges	Time recording		Case load
					Continuous	Limited period	
A.....	A B C G	X		X			
B.....	A B C G		X				X
C.....	A	X		X			
D.....	A C G		X		(0)	(0)	
E.....	A B C	X			X		
F.....	A	X		X			
G.....	A B C G	X					X
H.....	A B C	X				X	
I.....	A B C	X					X
J.....	A B C G	X				X	
K.....	A B C G		X				X
L.....	A B C G	X			X		
M.....	A B C	X			(0)	(0)	
N.....	A B C	X		X			
O.....	A	X					
P.....	A B C	X			X		
Q.....	A B C G	X			X		
R.....	A B C G	X			X		
S.....	A B	X				X	
T.....	A B C G		X	X			
U.....	A B C G		X			X	
V.....	C	X					X
W.....	A B C G	X			X		
X.....	A B C G		X		X		
Y.....	A B C G	X			X		
Z.....	A B C G	X				X	
AA.....	A	X		X			
BB.....	B	X		X			

¹ A, old-age assistance; B, aid to the blind; C, aid to dependent children; G, general relief.
² Net disbursements represent all amounts paid out during the period less amounts refunded. Obligations incurred represent liabilities incurred during period, which may or may not be paid during same period, less obligations canceled during period.
³ Weighted.
⁴ No analysis by program.
⁵ Children load instead of case load used for program for aid to dependent children.
⁶ 2 months.
⁷ 1 month.
⁸ Data not available.
⁹ Person load instead of case load.

¹⁰ Terminology and instructions adapted from Hurlin, Ralph G., *Statistics of Family Case Work Operations*, New York, October 1939.

It seemed likely that the individual work units selected might require varying amounts of effort and that time factors giving proper weight to each work unit would have to be determined. Two different time-study techniques have been developed for the purpose of measuring the average time required per work unit to be used as a weighting factor: (1) *individual employee* time recording, and (2) *unit* time recording. Under the first method, each employee maintains a time record on which he enters, in chronological order during the day, time spent on each operation performed under each program. The amounts of time spent on a given work unit are then drawn from the records of different workers, and the average time for a given unit on each program is determined. In a *unit* time recording study, a time record is kept for each unit of work, such as an investigation of an application for old-age assistance. All workers performing any work on a given application enter on the "job" or unit sheet a record of time spent; the completed job sheet thus indicates all the operations performed on the application and the time spent on each operation. In contrast to gross time studies, work-unit time studies lend themselves to sampling.

Most of the agencies reporting administrative expenses by individual programs for 1938-39 employed the principle of charging identifiable expense directly and apportioning joint expenses on the basis of time spent on each program (table 4). A few agencies, however, used factors of questionable validity, such as case loads, for distributing joint expenses.

Different Definitions of Assistance and Administration

Comparisons of the administrative expenses of public-assistance agencies are complicated also by the fact that items included as assistance to recipients by some agencies are charged to administration by others. The following specific problems were referred to in a recent article:⁶

... in some public-assistance agencies, expenditures for certain types of assistance to recipients are paid from administrative funds and consequently are charged to administration. These charges may include salaries of physicians employed directly by public-assistance agencies to

⁶ Gordon, Joel, "Analyzing the Administrative Expenses of Public-Assistance Agencies," *Social Security Bulletin*, Vol. 2, No. 5 (May 1939), pp. 10-14.

furnish medical service to needy recipients. Expenditures for this purpose are obviously a form of assistance to recipients and should be so classified, as is usually the case when similar assistance is furnished by private physicians through the medium of medical relief orders. Expenses of operating public commissaries are usually classified incorrectly as administrative expenses; yet relief orders on private vendors, which necessarily include the cost of retail distribution in the selling price of the commodity, are ordinarily classified as assistance payments.

The reporting system provides for a uniform classification of expenses for assistance and for administration. Assistance payments are defined as "expenses for payment directly to or on behalf of needy recipients for the immediate purpose of supplying such recipients with commodities (food, clothing, coal, medical supplies, etc.) and services (rent, utilities, burials, hospitalization, medical care, etc.)."⁷

Definition of "administrative expenses" was more difficult, since the term, as used in the public-assistance field, differs from its accepted meaning in the accounting field.⁸ The term "administrative expenses" was used in the original report form but was later eliminated in favor of "other" expenses of public-assistance programs. "Other" expenses are defined to include "expenses involved in the determination of the original and continuing eligibility of applicants to receive financial assistance and in rendering financial assistance and social service to recipients." The specific administrative functions involved are itemized, and all expenses connected with performing these functions are defined as costs of achieving the general objectives of the agency.

Different Costs Borne by Agencies

A fact often overlooked in comparing administrative costs is that part of the expense of operating the program is borne not by the public-assistance agency but by other departments. In general, these costs are of two types: (1) those incurred in performing service functions for the public-assistance agency, such as writing assistance checks, auditing assistance payments, and recruiting per-

⁷ During the first 6 months of the fiscal period 1938-39, commissary-operating expense and salaries of physicians were charged to administration for reasons of expediency. In the revised report used in the second half of the period, these expenses were classified as assistance; consequently, the data for the 2 periods are not strictly comparable.

⁸ For a discussion of this point, see Geddes, Anne E., and Gordon, Joel, "The Concept of Administrative Expenses in Accounting for Public-Assistance Expenditures," *Social Security Bulletin*, Vol. 2, No. 7 (July 1939), pp. 27-31.

sonnel; and (2) those incurred for housing the agency and for accompanying items, such as heat, light, water, electricity, telephone, and janitorial service. It would be extremely difficult to determine the proper portion of these expenses chargeable to the public-assistance agency because they are usually incurred jointly for several agencies. The reporting system makes no provision for including these expenses and is limited to amounts expended from appropriations of the public-assistance agency. It will not be feasible to include such expenses until it becomes the general practice to charge them accurately to the public-assistance agency.

Excluding from the reports expenses borne by other agencies does not eliminate the necessity for taking them into account in comparing costs. Data accumulated during the experimental reporting period reveal a variety of "hidden costs"—i. e., expenses not reflected in the amounts expended from appropriations of the public-assistance agency.

Expenses for rental of office space are incurred in relatively minor amounts by most public-assistance agencies, since, at both the State and local levels, space in public buildings is usually furnished "free" to the agency. The practice with respect to payment of rent generally varies among the counties in a single State, and the extent to which expenses are incurred for rent and related items seems to depend largely on the willingness and ability of local authorities to furnish space in public buildings. Since the volume of these expenses is small in relation to total expenses incurred directly by the public-assistance agency, their exclusion from the reports does not greatly affect the validity of cost comparisons.

On the other hand, the exclusion of expenses of performing important functions, such as check-writing, auditing, and recruiting personnel, is a serious omission, since these expenses constitute a substantial part of the total cost of operating the public-assistance programs. In many States, for example, the State or local fiscal officers prepare assistance checks, although it is more common for public-assistance agencies to perform this function and assume the cost. In several States the expenses of conducting examinations for personnel are borne by civil-service commissions, but the Pennsylvania Department of Public Assistance bears the cost of its own special personnel agency.

In Connecticut applications are received and first investigated by local officials, and none of the expense incurred by them is reflected in the expenses of the public-assistance agency.

Different Accounting Bases—Accrual vs. Cash System

The comparability of data on administrative expenses is also affected by the basis on which accounts are maintained. The accrual system of accounting yields data infinitely more valuable for analytical and comparative purposes than the cash system, since the accrual system makes it possible to relate administrative expenses for a given period to work actually performed during that period. Under the accrual system, expenses are charged to the period in which they are incurred instead of to the period in which they happen to be paid. In a cash-accounting system, salaries for work performed in one month frequently are entered on the books as charges during the following month, when they are actually disbursed. However, expense data on a cash basis lend themselves to statistical analysis if disbursements are distributed somewhat evenly over the accounting period. Unfortunately, it is a common practice to pay, during the last month of the fiscal period, a large number of bills which ordinarily would be paid during subsequent months.

Many State public-assistance agencies and the overwhelming majority of local agencies maintain their accounts on a cash basis. For this reason, the States were requested to report on a cash basis during the first 6-month period. In order to encourage accrual reporting, the revised report used during the last 6 months of the fiscal period offered States the opportunity of reporting either obligations incurred or disbursements. A limited number of States were able to report all or part of their expenses for the year on an obligations incurred basis, as is indicated in table 4.

A special problem is posed by the fact that while the life of equipment extends over several fiscal periods its entire cost is normally charged to the month in which the bill is paid. According to the reports for 1938-39, however, expenditures for equipment accounted for less than 1 percent of total administrative expenses in 16 agencies, from 1 to 2 percent of the expenses in 5 agencies, from 2 to 3 percent in 5 others, and slightly over 3 percent in another. Therefore,

the failure to exclude these expenses or to spread them over the life of the equipment does not seriously affect cost comparisons.

Differences in Scope and Content of Program

Comparisons of total amounts expended for administration throw little light on relative economy and efficiency of operation. It is impossible to determine how much the differences in total amounts expended reflect mere differences in the magnitude of the programs in the several States instead of in operating efficiency. Two measures that are frequently used to reduce administrative expenses to a common denominator are: The ratio of administrative expense to total assistance payments, and the average cost per case. The fallacies inherent in these measures have been described in a previous article.⁹ It is now possible to substantiate these criticisms with the concrete data presented in table 5, which shows, for individual programs, the ratio of administrative expense to total assistance payments and the average cost per case-month.

The administrative expenses of many agencies are limited by law to a fixed percentage of assistance payments. For such agencies, the ratio of administrative expense to assistance costs may reflect the influence of the legal limitation rather than the amount of funds actually needed to administer the program efficiently. Thus, the administrative expenses of agency F amounted to exactly 5 percent of old-age assistance payments—the proportion permitted under the State law. Agencies G and H are also subject to a 5-percent limitation on all programs combined; their expenditures for administration of old-age assistance were 4.9 and 4.8 percent of assistance, respectively.

Other things being equal, the ratio of administrative expense to assistance payments will automatically be lower for agencies with high average payments for assistance than for agencies with low average payments. Differences in this percentage relationship for two States with the same number of recipients may reflect differences in the level of assistance payments rather than in efficiency of operation. In the old-age assistance program, an unusually high negative correlation exists between these administrative cost ratios and average payments per recipient. For example, in

⁹ *Ibid.*

agencies Q and X, the ratio of administrative expense to assistance costs is relatively high because of the low level of assistance payments, but administrative expense per case is relatively low.

For programs in the early stages of development, both the ratio of administrative expense to assistance payments and the average cost per case-month will be unusually high because of the

small volume of assistance and the small case load. Because agency N only recently established its program for aid to dependent children, its administrative expenses for this program amounted to 41.1 percent of assistance payments and the average cost per case-month was \$10.71.

Administrative cost ratios and average costs per case-month also fail to reflect the considerable volume of work performed in investigating appli-

Table 5.—Ratio of all other expenses of public-assistance program (administration) to assistance payments, average cost per case-month, and ratio of applications disposed of to number of cases receiving assistance, by program, by State agency, fiscal year 1938-39

Agency	"All other" expenses as a percentage of assistance payments	Average cost per case-month ¹	Applications disposed of as a percentage of recipients ²	Agency	"All other" expenses as a percentage of assistance payments	Average cost per case-month ¹	Applications disposed of as a percentage of recipients ²
Old-age assistance				Aid to dependent children			
Q.....	14.0	\$1.20	3.9	N.....	41.1	\$10.71	32.8
B.....	12.1	2.61	2.8	T.....	14.7	4.84	9.2
X.....	11.7	.88	5.6	Q.....	13.6	2.86	5.1
O.....	10.6	2.00	4.2	B.....	13.2	4.63	13.8
A.....	10.3	2.54	3.1	X.....	13.2	1.91	16.0
L.....	10.1	1.39	3.5	K.....	12.2	3.81	6.4
K.....	8.4	1.49	3.1	J.....	11.1	3.22	7.4
J.....	8.0	1.60	4.3	L.....	10.7	2.28	6.9
N.....	7.9	1.10	4.7	M.....	10.4	4.14	3.1
T.....	7.6	1.33	2.5	U.....	8.9	2.88	7.8
E.....	7.4	1.20	6.3	E.....	8.8	2.40	5.3
Z.....	7.3	1.72	4.3	V.....	8.7	2.54	2.9
W.....	5.9	1.25	2.4	W.....	8.1	2.14	4.5
Y.....	5.9	1.27	2.2	Q.....	7.8	2.35	6.7
I.....	5.2	1.08	2.8	Y.....	7.7	2.36	4.8
AA.....	5.2	1.39	2.7	H.....	7.5	1.02	5.4
P.....	5.0	.69	1.9	R.....	7.3	1.98	5.4
R.....	5.0	.98	2.2	A.....	6.7	3.24	4.9
C.....	4.9	.92	2.6	Z.....	5.0	1.96	11.8
G.....	4.9	1.41	1.8	I.....	4.8	1.78	4.0
H.....	4.8	.85	1.0	Aid to the blind			
S.....	4.7	1.25	2.1	R.....	29.4	\$6.71	14.6
V.....	4.6	1.22	3.4	A.....	20.4	5.01	4.4
General relief				Q.....	20.1	2.17	3.4
L.....	44.3	\$4.85	35.2	J.....	18.5	3.71	7.9
Q.....	22.5	(¹)	(¹)	T.....	17.3	3.46	4.5
J.....	19.6	3.00	28.0	L.....	14.4	2.47	3.1
A.....	16.5	5.65	15.8	S.....	13.8	3.49	13.3
U.....	10.4	2.23	52.8	K.....	13.5	2.85	3.3
T.....	15.3	2.93	91.6	X.....	13.0	1.28	5.7
Y.....	13.8	2.75	48.0	E.....	12.5	2.53	2.8
W.....	13.1	1.77	57.8	M.....	10.9	2.15	2.6
X.....	11.4	1.17	20.9	N.....	10.5	1.52	7.3
B.....	9.4	2.07	17.4	Y.....	9.7	2.78	1.3
R.....	8.6	1.61	35.6	B.....	8.6	2.58	3.0
G.....	8.2	(¹)	(¹)	W.....	7.4	1.63	2.7
K.....	6.9	1.52	36.0	U.....	7.2	1.79	3.9
				H.....	6.0	.96	3.0
				G.....	5.9	1.67	3.0
				BB.....	5.9	1.32	2.5
				I.....	5.4	1.21	2.2
				Z.....	4.4	.97	2.4

¹ Average cost per case-month determined by dividing total administrative expense for the public-assistance program by total number of recipient-months of assistance; recipient-months obtained by adding the number of recipients during each month of the fiscal year.

² Ratio determined by dividing total number of applications disposed of by total number of recipient-months of assistance.

³ Administrative expense includes expense for certification to CCC.

⁴ Data limited to 9-month period, Oct. 1, 1938-June 30, 1939.

⁵ Administrative expense does not include \$8,338 unexpended balance of Federal grants.

⁶ Administrative expense includes expense of certification to Works Progress Administration, Civilian Conservation Corps, and Federal Surplus Commodities Corporation.

⁷ Data not available on applications disposed of and cases receiving assistance.

⁸ Data include applications for and cases receiving assistance under special programs.

⁹ First payments under approved plan made for September 1938.

cations. There are sizable differences among the agencies in the proportion of time spent in disposing of applications as compared with the time devoted to maintaining cases under care; these differences are reflected in the ratios of applications disposed of to cases under care (table 5). The higher ratios on the general relief program reflect the more rapid turn-over of the general relief case load and may partially explain the generally higher ratios of administrative expense for this program.

It is clear that administrative expenses have been related to assistance payments and to case loads because of the lack of a more satisfactory common denominator. However, the ultimate test of the reasonableness of these expenses should not be how much they amount to in total or in relation to assistance payments or recipients but rather *how much was spent in relation to value received*. Costs are significant only in relation to performance. Unfortunately, it is difficult to measure the performance of public-assistance agencies.

The problem of measuring comparative costs is therefore closely tied up with the development of measurements of comparative performance. The work units developed by the Division of Public Assistance Research for prorating joint expenses should be valuable as crude measures of performance to which administrative expenses may be related. They are not, however, a final solution to the problem. Quantitative measurements of activity will need to be extended in order to minimize qualitative factors. For example, the classification of interviews according to office and field eliminates qualitative differences resulting from lumping these interviews together; qualitative differences are reduced

further by also grouping office and field interviews into client and collateral interviews and into interviews on applications and on cases under care. Needless to say, qualitative factors will not be fully taken into account in this way, and additional refinements will be necessary. Furthermore, we must look forward to devising in the future units which measure output or end results rather than activities.

Evolving measurements of performance should be a joint responsibility of administrators and statisticians. Actual measurement must be preceded by definition and classification. Public-assistance programs must be defined clearly, they must be delimited from other welfare programs, and their objectives must be stated precisely. The basic functions involved in administering public assistance so as to achieve these objectives must be itemized and classified. Qualitative factors significant in evaluating performance must be identified and expressed in concrete terms.

Control of performance and of costs of administering public assistance is the basic job of the administrator. Actual performance and actual costs will bear a haphazard relation to administrative plans unless administrators recognize the urgent need for (1) thoroughly analyzing the content of the public-assistance job, (2) determining the unit of work for each function involved in performing this job, (3) establishing cost and performance standards for each work unit, and (4) measuring actual performance and costs against planned performance and budgeted costs. Statisticians cannot solve the problems of measurement inherent in these administrative processes until administrators are prepared to participate in the basic process of defining and classifying the public-assistance job.