ANALYZING THE ADMINISTRATIVE EXPENSES OF PUBLIC-ASSISTANCE AGENCIES

JOEL GORDON *

The volume of public-assistance and relief expenditures has been, for almost a decade, at a level which classifies relief agencies in the category of big business. Unfortunately, as the volume of these expenditures has increased, budgetary and fiscal methods for planning and controlling them have not been sufficiently improved. As a result, administrators of huge public-assistance programs in many States lack not only devices for directing the expenditures of their agencies but also the essential financial data on which to base present policies and future plans.

Administrators are likely to feel the lack of financial data most keenly when they are called upon by the legislature to defend their estimates in requesting appropriations. They also must have these data in order to give a proper accounting of their stewardship to legislators, superior officers, and to the public, and to gauge the effects of current and proposed policies. New policies cannot be established on any rational basis or old ones revised unless adequate information is available.

One group of relief expenditures, commonly referred to as "administrative expenses," has been singled out almost invariably by legislators for special attention. This group of expenses is not only severely criticized but also misunderstood and misinterpreted. It is the purpose of this article to indicate the importance of analyses of administrative expenses in clearing away current misconceptions and guiding the day-to-day administration of public-assistance programs.

Analysis of Administrative Expenses by Program

Much of the misinterpretation and misuse of data on "administrative expenses" results from failure to define the term. Most public-assistance and relief agencies distinguish between payments for assistance to persons in need and expenditures for all other purposes. The first group of expenses is relatively easy to identify and measure. All other expenses of the agency are then usually assumed to be expenses involved in "administering" assistance payments.

However, if so-called "administrative expenses" are analyzed, more often than not they are found to include expenses for a variety of purposes, among them expenses of certifying eligible persons to the Works Progress Administration, to the Civilian Conservation Corps, to the Farm Security Administration for emergency subsistence grants, and to other Federal, State, and local agencies. The certification process usually involves field investigation and preparation of records and forms—no small amount of additional work. It is incorrect to classify such expenses as a cost of furnishing the types of assistance directly administered by the agency. Similarly, sponsors' contributions paid from the administrative funds of a general relief agency for a WPA project are costs of project operation and should not be included in the cost of general relief "administration."

Moreover, 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 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. It seems illogical to include, as a cost of administering assistance to needy persons, expenditures for materials and supplies for work-relief projects which result in permanent improvements, in production of commodities, or in services.


Social Security
This practice of lumping expenses other than assistance payments as "administrative" expenses would not of itself be so serious if it were not for the fact that legislators, in appropriating funds, commonly relate administrative expenses to the amount of assistance payments to be granted to persons in need. On the assumption that these two types of expenditures are closely related, they have often limited administrative expenses to a specified percentage of assistance payments and have failed to recognize that relief agencies must often finance from administrative funds the costs of performing many functions in addition to the "administration" of relief. It is important to identify the expenses of each of these programs or services in order to answer unjustifiable charges that administrative expenses are excessive in the light of their ratio to assistance payments.

It is highly important also for the administrator to know the expenses of administering each program in order to plan, control, and evaluate expenses for these activities. Most public-assistance agencies submit budgets to the legislature which do not indicate the amounts required to administer each individual program. In doing this, they lend encouragement to legislators who compare the total amount estimated for administration with the amount estimated for assistance payments. It is not urged that separate appropriations should be made for administering each of the many related programs which the agency administers. It is extremely important, however, that the total estimate of administrative expenses be built up from estimates of the expenses of administering individual programs and that these underlying data be available to support the total amount requested. It is of equal importance that actual expenditures be analyzed currently by program to make certain that the apportionment of available funds among the several programs is being made as intended by the administrator.

Many erroneous comparisons of administrative expenses have been made because of failure to take into account the fact that the combination of programs administered by public-assistance agencies differs from one fiscal period to another and that agencies in different States and local agencies within a single State administer different combinations of programs. If administrative expenses are analyzed by program, these variations do not present a problem. With due consideration for many other factors (some of which will be mentioned later), the administrator may compare administrative expenses for each program during the current period with expenses for prior periods and with the expenses of agencies in other States. Similarly, the administrative expenses of local districts or political subdivisions may be compared with one another. While considerable caution must be employed in drawing conclusions from such comparisons, their usefulness is obvious.

**Analysis by “Object”**

Administrative expenses are most commonly analyzed by public-assistance agencies according to "objects," such as personal services, travel, office supplies, equipment, communications, rent. The classifications vary greatly from State to State, both as to objects and to detail. There are distinct administrative uses for analyses of administrative expenses by objects. The amounts expendable for each object are often specified in State or local appropriation acts; where this is done, expenditures are accounted for in accordance with the object classes specified in the appropriation acts.

Even though it is not required by law, however, there are advantages in classifying administrative expenses by object to prevent over-expenditure for one object class of expenditure at the expense of another. For example, funds expended for equipment in excess of amounts budgeted or in the absence of budgeting by objects may represent funds needed to meet pay rolls. If the percentages of total administrative expenses for salaries, supplies, and other objects are compared for different periods, the administrator may learn whether progressively more or less of the agency's funds is being expended for specified objects. If this analysis reveals a trend contrary to policy, it will indicate the need for watching some groups of expenditures more closely or analyzing them further in order to discover the explanation for the trend. Comparable data as to the relative amounts expended by other agencies for different objects of expense will be valuable to the administrator as a basis for evaluating the reasonableness of his own agency's costs. Similar comparisons for local agencies under the supervision of a State agency will be helpful in establishing standards against which the performance of each local agency may be evaluated.
Analyses by "Organization Units" and by "Functions"

The public-assistance agencies of the larger States and counties find it convenient to departmentalize their work by establishing units to perform certain functions, such as social service, research and statistics, or accounting and auditing. An analysis of expenditures by organization units is essential to determine, for example, whether or not the proportion of the agency's funds expended for a research and statistics division is reasonable and in accordance with the intended distribution of the funds.

It is also important to know the administrative expenses of each unit of the agency for budget purposes. The total budget of a public-assistance agency should represent a consolidation of individual budgets for each organization unit. Unfortunately, the budgets of most public-assistance agencies are determined on an over-all basis, and the parts are permitted to adjust themselves to the whole as best they can. Administrators who rely on such haphazard budgetary methods are unable, frequently, to justify in any concrete manner their claims for funds before legislative bodies. Analysis of administrative expenses by organization units is fundamental to scientific budgeting through which the needs of the individual units are realistically translated into a financial plan; it is, moreover, a device to keep individual organization units from exceeding budget limits without the knowledge and approval of the administrator.

Unfortunately, the value of analyzing expenditures by organization units is seriously limited by the fact that comparisons can be made only among agencies which are organized along identical departmental lines, which is seldom the case. Nor can comparisons be made if the agency is too small to be departmentalized. The use of analysis of expenses by organization units is thus limited largely to internal budgetary control; a further type of analysis is necessary if useful comparisons among agencies are to be made.

A "functional analysis" of administrative expenses is needed for this purpose, i.e., a determination of expenses for each function common to all public-assistance programs. While it is not possible for smaller agencies to establish individual departments, the functions reflected in the organizational units of larger agencies do exist.

The typist who, among other duties, maintains financial records and prepares financial reports in the small rural county agency is no less engaged in performing the finance function than is the finance division in the larger urban county or in the State office. The functions of a public-assistance agency may be broadly classified as operating and executive. The executive function would include not only executive supervision but also service functions, such as research, accounting, and auditing. The operating function may be broken down into its components: application intake, original investigation of eligibility, re-investigation of eligibility, and so forth. Each of these functions, in turn, may be further subclassified: Original investigation of eligibility, for example, includes the functions of investigation of ownership of real property, investigation of insurance policies held by the applicant, or the determination of age, citizenship, and residence. Needless to say, the determination of expenses by functions is a very difficult technical job.

Functional analysis will reveal to the administrator the total expenses of performing each function, not merely the expenses incurred by the unit specifically responsible for it. It may be the means by which the administrator discovers the extent to which organization lines fail to coincide with functional lines. It may indicate considerable underestimation of the expenses of performing specific functions, or unnecessary expenses resulting from duplication and overlapping, and possibilities for improved efficiency by realignment of functions. The chief merit of a functional classification, however, lies in the possibilities it affords of comparing agencies of varying internal organization with one another. If expenses are analyzed in terms of functions necessarily common to all public-assistance agencies, differences in internal organizational structure do not invalidate comparisons. The expense involved in making investigations, for example, can be compared from agency to agency with reasonable safety irrespective of the organizational units incurring such expenses. These data will furnish answers to some basic questions raised by administrators: How much do other agencies spend for accounting? for research? in determining eligibility for and the amount of assistance payments?

Social Security
Unit-Cost Analysis

Analyses of the types previously described do not take into account important differences among agencies. One of the variables obviously vitiating comparisons is the difference in the size of agencies. It should go without saying that the expense of administering an old-age assistance program for 100,000 needy aged individuals cannot be compared with that of a similar program for 10,000 persons. Differences in size of program may be taken into account by restricting comparisons to agencies with approximately equal case loads or by reducing the expenses to a "cost per case" basis. While comparisons on this basis are useful, they may be very misleading, because case load is an index to the volume of work to be performed but does not take into account the work actually performed. An agency with a relatively large case load per worker will automatically have a low cost per case, other things being equal; however, the low cost may arise from the fact that cases are investigated inadequately and visited infrequently.

It is of utmost importance for purposes of comparison that administrative expenses be related to performance. To measure the quantity of work performed is no easy task; to measure in a similar way the quality of work performed presents difficulties probably insuperable for some time to come. Despite these limitations and the technical difficulties of the problem, unit-cost data for administrative expenses are by far the most useful type of data for the public-assistance administrator. Expenses of agencies administering programs of varying magnitude can be compared. Administrative expenses of different agencies can be compared in some relation to performance. Many of the variable factors interfering with inter-agency comparisons will have been eliminated or minimized.

With unit-cost data at hand, budgeting may be removed from the realm of guesswork. The volume of work to be performed during the fiscal period may be estimated in terms of physical units — original investigations, reinvestigations, and so forth; the average number of interviews of different types, client and collateral, in the field and in the office, involved in making original investigations and reinvestigations may also be estimated. The need for these interviews in terms of the legal requirements of eligibility could be made clear. The cost of performing the estimated work can then be determined roughly on the basis of unit costs for the preceding period. Without unit-cost data, the budget estimates tend to be mere projections of past expenditures and are not based on any fundamental analysis of the amount of work to be done and the known cost of doing such work. Legislators are coming more and more to demand unit-cost data in support of appropriation requests. The administrator who has such data not only will budget administrative expenses more accurately but will be in a position to support his budget estimates with factual data instead of opinion.

In common with the other types of analyses, unit-cost data are of greatest value in the day-to-day administration of the public-assistance program. If budgets are based on unit-cost data representing average costs for the preceding period, a "norm" or "standard" is established against which actual expenditures may be measured. Comparisons of current expenditures with the norm give the administrator the answers to such questions as: Are costs per unit higher or lower than anticipated? Does the estimated volume of work to be performed, for which funds are made available in the budget, need to be revised upward? Will sufficient funds be available to finance the present volume of work?

Most administrators feel the need of a guide or standard other than the past experience of their own agencies. They may find this need met by unit-cost comparisons with other agencies and by comparing the unit costs of their own agency with average unit costs of all agencies combined. Relatively high or relatively low unit costs may equally be the subject of further inquiry. Low unit costs may raise a question as to the thoroughness of the quality of work performed and the extent to which they reflect a sacrifice of quality for quantity. Similar comparisons among local administrative units — administrative districts of the State or local political subdivisions — constitute a valuable instrument of control and supervision for the State agency.

Analysis by Source of Funds

It is customary for public-assistance agencies to account for administrative expenditures by means of fund accounting. These fund accounts are frequently maintained for each public-assistance agency.
program; separate accounts for assistance as distinguished from administrative funds are common. Unfortunately, fund accounts do not always show the relative amounts of Federal, State, and local funds used to finance the public-assistance program. Although receipts are usually recorded by source, expenditures are not so classified. Upon receipt, Federal, State, and local funds are often merged, and thereafter no attempt is made to charge a proper proportion of expenditures to each source. When State or Federal funds are furnished on a straight matching basis, amounts expended from each source can be determined easily. This is not the case when Federal and State funds are made available on the basis of factors not directly related to the amounts actually expended, such as population or financial ability. In those circumstances it is impossible to analyze expenditures by source of funds unless a definite policy is established for currently charging a fixed proportion of expenditures to each source.

It is important to analyze expenditures as well as receipts by sources of funds, if for no other reason than to determine balances of available Federal, State, and local funds. Unless proper charges to each source are determined and the accounts are maintained on this basis, the administrator will not know the balances of Federal, State, and local funds, respectively, but only the total combined balance of these funds. As a result, he may expend funds which have not been “earned” and which will have to be returned or deducted from future receipts.

The administrator needs data on sources of funds, not only for control purposes but also, more importantly, for determining basic policies in financing the public-assistance program. Will the anticipated Federal, State, and local funds be sufficient to meet estimated expenditures? Will relatively more State funds be necessary? What proportion of expenditures in other States is financed from Federal, State, and local funds, respectively? How are administrative expenses financed in other States? assistance payments? As the agency responsible for supervising local public-assistance agencies, the State public-assistance agency will want to determine the extent to which each political subdivision has shared in financing the program and whether each has assumed a financial burden consistent with its financial ability and relief needs.

Uniform Reporting—the Basis for Comparison and Evaluation

It should be apparent that public-assistance expenditures cannot be evaluated unless expenditures are uniformly classified for comparative purposes. Comparative data require precise definition of each expense classification and a uniform reporting system in accordance with definitions thus established. The Division of Public Assistance Research of the Social Security Board has undertaken to develop experimentally a program for uniform reporting of administrative expenses broken down into a number of significant classifications. It is hoped that this experimental reporting program, in which considerably more than one-half of the States are now cooperating, will make available comparative statistics on administrative expense and that these data will provide administrators with an essential tool for the direction of public-assistance programs.