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U.S. Department of Housing and  
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Washington, D.C.  

Reference: Operations Review of the South Bend Housing Allowance  
Office  
Attention: Ms. Devine  

The accompanying report contains the results of our operations review of the South Bend Housing Allowance Office (HAO). This report represents the completion of Task II of our contract, H-2510, with the Department of Housing and Urban Development.

The on-site review of the South Bend HAO began August 23, 1976 and was completed October 1, 1976. The initial draft report of the operations review was submitted to HUD on November 5, 1976. In response to the draft report Rand Corp. and the HAO staff prepared comments on our findings and recommendations which are contained in Appendix 3 to this report.

Some of the recommendations contained in this report are in the process of being implemented and others are under active consideration by Rand and the HAO staffs. Examples of already or soon to be implemented recommendations are:

- Increase in the number of daily scheduled interviews per Client Service Specialist;
- Reduction in the scope and effort expended on the Cost Center Report;
- Revision of the management reporting system;
- Review of client payment reconciliation procedures;
- Realignment of quality control reporting efforts from the Client Services to the Certification Section; and
• Reemphasis of demand stimulus objective by HAO management.

This report is to be followed by a report on Task III of our contract. The purpose of Task III is to assess the implications of HAO cost data for analyzing the administrative costs of other on-going housing programs.

If you have any questions, please contact Mr. Jeffry Baldwin or Mr. Thomas Gallagher, at (202) 452-1200.

Very truly yours,

TOUCHE ROSS & CO.
U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

OPERATIONS REVIEW OF THE
SOUTH BEND
HOUSING ALLOWANCE OFFICE

FINAL REPORT

OCTOBER 21, 1976
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I. MANAGEMENT SUMMARY

This report contains the findings and recommendations resulting from our operations review of the South Bend Housing Allowance Office (HAO). This report will be followed by another report which assesses the implications of HAO cost data for analyzing other housing program administrative costs.

The HAO is the administrative agent for the allowance payment program which is part of the Supply Experiment. The Supply Experiment is part of a larger HUD Experimental Housing Allowance Program (EHAP) whose purpose is to determine the general impact and feasibility of supplying housing allowance payments directly to households. The Supply Experiment is primarily concerned with the impact of the program on the suppliers of housing units.

The Supply Experiment is being conducted in South Bend, Indiana, and Green Bay, Wisconsin. In addition to an HAO, each site has a Rand Site Office for monitoring all local program activities and a survey group which conducts periodic surveys of housing supply market reactions to the program.

The South Bend HAO has been open since December, 1974. At the end of September, 1976 the HAO had a staff of approximately 80 people and a recipient level of 3,541 households.

Summary of Findings and Recommendations

The Housing Allowance Program is by definition experimental. Consequently the HAO is a new organization charged with administering a new concept in housing assistance. The HAO has certain research oriented responsibilities and constraints which are beyond the basic responsibilities of administering an allowance payment system. In order to discharge these responsibilities the HAO assembled a staff which has demonstrated an essential concern for accomplishing their research responsibilities while meeting the needs of the eligible population in their area. While the body of this report focuses on opportunities to improve the performance of the HAO it is not intended to detract from what the organization has accomplished.

- Clarifying the Mission and Priorities of the HAO

It appears that management's attention has been somewhat diverted from the primary responsibility of the HAO which is to generate recipients. Original program documentation stresses the importance of a rapid and sizeable market stimulus to be created by large numbers of allowance payment recipients. We have focused on this HAO responsibility for two reasons. First, there are indications that the current recipient level is considerably below the potential recipient level in South Bend.
Second, the HAO has had a large backlog of unprocessed applicants for over six months. While there are several reasons for the relatively low recipient levels and high backlog, we believe an important contributing cause is that the HAO management has become increasingly concerned with other responsibilities. These other responsibilities include addressing questions of general program feasibility, such as the appeal of the housing allowance concept to recipients and administrative effectiveness of an allowance program.

We recommend that HUD, Rand and the HAO management review the responsibilities of the HAO with the intention of identifying all responsibilities and establishing a priority order for their accomplishment. While we do not question the appropriateness of these additional questions, we are concerned that pursuing them at this time may compromise the original mission of the HAO.

**Improving the Performance of Client Services Functions**

We found that while there was a sizeable backlog of unprocessed applicants in the Client Services Section there were few if any backlogs in the other line sections of Certification and Housing Evaluation. To counter this apparent imbalance in workload among the sections we recommend an increase in the analytical and coordination capability at the Division level. This could be accomplished by the transfer of a Specialist II from one of the sections to serve as an assistant to the Division Chief. In addition, we recommend the temporary reallocation of Specialist I's among the various sections in order to adjust to changing workload requirements. To facilitate the reassignment of personnel to meet future backlog problems, we also recommend more extensive cross-training for Certification and Client Services staff.

Because approximately 43 percent of the applicants have historically failed to appear for their enrollment interview, Specialist I productivity is reduced. To increase enrollment productivity we recommend more interview periods per day, some overscheduling of applicants, and added flexibility for using additional interviewers during peak periods.

We also believe that a more extensive prescreening program should be undertaken at least on a trial basis. Counting those interviewees which failed to complete the interview process, 25-30% of all applicants interviewed are found to be ineligible. A systematic prescreening effort might reduce the interview and forms processing requirements associated with these ineligibles.
There is also an opportunity for the use of productivity standards by management to evaluate section output within the Client Services Division. Using productivity standards, management could monitor variances in productivity noting where adjustments are required or at what level the section can operate most efficiently.

To support the use of production standards we are recommending a system of daily and weekly reports which would provide management with necessary productivity data. These reports would hopefully replace some of the reports currently used by the HA0. Illustrative examples of report formats are included in this report.

Present quality control reporting for client services activities was found not to be completely responsive to management's needs. We recommend that quality control for the Client Services Section be focused on the certification process where a 100 percent review of enrollment and recertification forms takes place. To this end, we have developed a suggested format for the manual collection of data on entitlement errors.

Finally, our review of the advantages and disadvantages of client provided documentation as opposed to the use of release forms resulted in a recommendation to stress client provided documentation. This recommendation was based on our judgment that the extensive verification of client income and assets with third parties may increase overall case processing times.

• Improving the HA0 Planning and Budgeting Function

The HA0 budget process would benefit from improvements in the use of the line staff productivity model and increased attention to managerial and support staff costs.

The HA0 staffing and productivity model is, we believe, an appropriate method to determine line personnel needs. There are, however, certain limitations with the present productivity factors used in calculating staff requirements. Specifically, the factors used do not reflect how efficiently an activity can be performed but only how it has been performed over an extended period of time. In the case of sections without backlogs, the productivity factors are probably not reflective of section processing capabilities. To improve the usefulness of the productivity factors, they should be calculated on a periodic basis, bi-weekly or monthly, so that variations and trends may be used in developing more appropriate productivity factors.
This should be done in conjunction with other recommendations for developing backlogs in Certification and Housing Evaluation and the use of productivity standards in monitoring section outputs. The development of standards by periodic review of productivity variances contributes to more efficient standards. These standards can then become inputs to the productivity factors used in the budget analysis.

While we concur in the use of the productivity model for determining the number of line positions, we also observed that the model only accounts for approximately 40 percent of the HAO staff. The remaining 60 percent include managerial and support staff. This cost category does not receive the attention it should in the budget process. We recommend that functions and time requirements be identified for all these positions and that this analysis be included in the annual budget submission, particularly with respect to managerial positions.

- **Cost Effectiveness of Automating the Accounting System**

Automating the accounting system does not appear to be cost-effective at the present time. The primary justification for automating the accounting system is to generate the cost center report which is now prepared manually. However, the cost center report is of limited value to the HAO. We recommend a reduction in scope of the cost center report rather than automating the accounting system at this time.

- **Reconciliation of Allowance Payment Disbursements**

Current procedures for reconciling the allowance payments disbursements do not provide sufficient control over changes to entitlements of recipients. Procedures noted in various manuals, reports and the Handbook do not appear to be in effect. We recommend that actual reconciliation procedures be reviewed for control effectiveness and that a single procedure be developed which specifies duties and provides for comparison of computer reported changes with source documents, on at least a sample basis.

- **Impact of the HAO Computer Systems on HAO Operations**

The HAO computer systems are intended to serve the research requirements of the Supply Experiment. In terms of its limitations for routine operations, the system has large and complex files, requires a large number of input documents and provides a variety of lists and reports that are not currently used by the HAO. In view of the relatively short duration of the experimental period, we do not recommend any fundamental
systems modifications. However, after the experimental phase is completed, we recommend that the current system be replaced with one which is more economical to operate and more responsive to operating requirements.

**Separating Research and Routine Administrative Costs Within the HAO**

Part of our cost analysis included the identification of research costs. Our estimate of research costs is based on the time accounting data for clearly identifiable research activities and the computer charges for processing the Housing Evaluation Form (HEF). The results of this analysis show that identifiable research costs were 11 percent of total direct costs during the period April 1 to July 31, 1976.

We do not believe that the "identifiable research costs" fully account for the impact of research responsibilities on total HAO costs. Three of the reasons for this conclusion are: 1) The HAO was created to serve a research purpose; consequently, research is an inseparable part of many HAO activities. 2) There are no guidelines for how an on-going program would be structured. Without these guidelines the limits of on-going program activities cannot be specified. 3) Similarly, the limits of the HAO's research objectives are not clearly defined.

As previously noted, the objectives of the HAO appear to have been broadened to cover questions of the administrative feasibility of the Housing Allowance Program. Because these broadened objectives have not been clearly stated it is difficult to establish the boundary between research and on-going program activities.

To improve the HAO's ability to separate research and routine operating costs we recommend the centralization of control of research activities within the HAO and the concentration of research activities, to the extent possible, in identified staff positions separate from the line sections. This will permit better budgeting control over research activities and greater focus by line staff on day-to-day production operations.
II. THE EVALUATION PROCESS

This section of the report contains a description of the project objectives and of the approach we used in meeting those objectives.

Objectives of the Project

As stated in Department of Housing and Urban Development Contract H-2510, the objectives of this project are as follows:

- to assess the efficiency of the Housing Allowance Office and determine where cost-savings could be achieved without serious detriment to program effectiveness;
- to determine which administrative costs and procedures are research related;
- to assess the implications of HAO costs and procedures for an on-going housing program; and
- to make recommendations on how HAO costs could be reduced or how greater efficiency could be achieved, particularly with respect to those administrative areas which have implications for an on-going program.

To facilitate the accomplishment of these objectives, we separated the HAO evaluation review from the on-going program analysis. The HAO review is concerned primarily with the short-run objectives of cost-effectiveness and recommendations for greater efficiency. The on-going program analysis looks at the implications of the HAO review findings for the analysis of other on-going housing programs, such as Section 8. In view of this project methodology we developed the following tasks:

- Task I - Develop a detailed and comprehensive evaluation design;
- Task II - Conduct an operations review of the South Bend Housing Allowance Office;
- Task III - Assess the implications of HAO review findings for other housing programs;
- Task IV - Prepare final reports.

The product of Task I was a Review Guide which served as a work program for Task II. The Review Guide contained evaluation criteria and work tasks for the HAO as a whole and for the individual organizational units.
Our approach to the Task II operations review was to perform a general review of all HAO activities in order to identify those areas which warranted in-depth analysis. The purpose of this report is to present the findings and recommendations covering the areas which were identified. This report is intended to serve as a basis for discussion and as a guide for implementation of the action steps required to realize the benefits identified in our review.

The activities undertaken to prepare this report included the following:

- Interviews with all members of the HAO Director's staff, division chiefs, section supervisors, and other selected HAO personnel;
- Review and analysis of client processing procedures and administrative support procedures;
- Review of HAO handbooks, manuals and other documents relating to HAO procedures and policies;
- Observation of client interviews for both initial enrollment and annual recertification;
- Interviews with members of the Rand site office and the Rand FPOG (Field and Program Operations Group) staff in Washington;
- Observation of a housing evaluation and a housing information session;
- Review and analysis of the HAO budget process and financial reports to include the Income and Expense Analysis Report and Cost Center Report;
- Review and analysis of time accounting data from computer reports as well as individual time reports;
- Review and analysis of HAO activity data from the President's Program Reports, various Management Information Reports, Daily Management Reports, quality control reports, section logbooks, individual staff logs, etc.;
- Review of Rand and HUD reports on the Housing Allowance Program and the Supply Experiment;
- Visits to the Green Bay HAO to review procedures, collect data, and interview the management staff.

In order to keep the HAO staff aware of our progress and to elicit their response to our findings we conducted periodic
status meetings. At two of these meetings, on September 24 and October 21, 1976, we provided HAO and Rand personnel with written as well as oral presentations of our preliminary findings and recommendations. The purpose of these meetings was to provide HAO and Rand personnel with the opportunity to review and comment on our results.
III. DESCRIPTION OF THE EXPERIMENTAL HOUSING ALLOWANCE PROGRAM AND THE SUPPLY EXPERIMENT

Experimental Housing Allowance Program (EHAP)

EHAP was established by the U.S. Department of Housing and Urban Development pursuant to Sections 501 and 504 of the 1970 Housing Act.

Unique aspects of the housing allowance concept are the direct cash payments to household heads and selection of housing units by the recipients subject to unit conformance to pre-established standards.

The experimental nature of the program was focused on certain broad questions concerning the allowance concept. These questions were:

- Who participates in housing allowance programs?
- How do participating households use their allowance payments?
- Does the quality of housing improve for participating households?
- Does a housing allowance program cause participants to move in order to occupy an acceptable unit?
- Are there significant market responses to a housing allowance program?
- What alternatives exist for administering the program?
- What are the likely costs of a nationwide housing allowance program?

To answer these questions, a research design was developed which consisted of three separate experimental programs -- the Demand Experiment, the Administrative Agency Experiment and the Supply Experiment.

- The Demand Experiment

This experiment examines how households use housing allowances. The experiment is testing the effects of 17 different forms of housing allowances on housing choice in two housing markets. Some of the important research areas are:

- participation rates of eligible households;
changes in housing expenditures by participants;
- changes in housing quality;
- changes in mobility and location patterns; and
- participant satisfaction with housing obtained.

- **The Administrative Agency Experiment**

  This experiment is intended to provide information on different administrative methods for conducting a housing allowance program. Different agency operations are analyzed and compared to assess alternative approaches to the administrative functions involved in operating a program.

- **The Supply Experiment**

  This experiment analyzes the response of housing markets to the demand created by a full-scale housing allowance program. Programs have been established in Brown County, Wisconsin (Green Bay), and St. Joseph's County, Indiana (South Bend). The Supply Experiment provides open enrollment to the entire eligible population, including both renters and homeowners. As discussed in more detail below, the design of this experiment has placed particular emphasis upon measuring changes in price and quality of housing and housing-related services brought about by the program.

**The Supply Experiment -- Design and Implementation**

The Supply Experiment was charged with providing answers to four general questions about the effects of a national housing allowance program on the housing market:

- **Supply responsiveness:** How will suppliers of housing services react to increased demand?
- **Behavior of market intermediaries:** How will mortgage lenders, insurance companies, and real estate brokers respond to the program?
- **Residential mobility and neighborhood change:** To meet minimum housing standards will households move or upgrade their original dwelling units?
- **Effects on non-participants:** Will households not receiving housing allowance payments be affected by increases in the price of housing?
The Supply Experiment may be dated from October, 1971, when HUD invited Rand to prepare a design study to complement work done by the Urban Institute on what later became the Demand Experiment. In April, 1972, HUD contracted with Rand for Phase I (the planning phase) of the Supply Experiment. The following eighteen months were spent principally on site selection, elaborating the research design, and planning the experimental housing allowance program.

To achieve the mission of the Supply Experiment, Rand established at each site the following three groups:

- Housing Allowance Office (HAO) - a private, nonprofit organization which administers the housing allowance program in the experimental area.
- Survey Group - an independent contractor which conducts periodic surveys to determine the reaction of households, suppliers and intermediaries to allowance payments.
- Rand Site Office - Rand personnel who monitor the HAO operations, the survey contractor, and community reactions to the allowance program.

**Housing Allowance Office - Mission and Responsibilities**

The mission of the HAO is to administer the allowance program for the Supply Experiment. In defining the responsibilities placed on the HAO in support of that mission, we have relied primarily on the General Design Report, May, 1973, and subsequent updates, and on the HAO Handbook.

The Supply Experiment is directed towards measuring the impact of the allowance program on the housing supply market. Consequently, the responsibility of the HAO in administering the allowance program is primarily to generate sufficient recipients whose additional housing expenditures will impact the market. According to the General Design Report, "...our primary consideration in phasing enrollment and disbursement has been the effects we wish to produce in the housing market."2/

Other HAO responsibilities are contained in Chapter 2 of the HAO Handbook. The Handbook lists these responsibilities as functions which are divided into two categories -- client-related and finance and administration functions. According to the Handbook, the client-related functions are established to implement directly the effective delivery of allowance payments and other services to


eligible households in conformance with program standards. Finance and administration functions are performed to ensure that the allowance program is effectively administered and that fiscal integrity is maintained.

Housing Allowance Office - Chronology

Phase II of the Supply Experiment (the operating phase) started March 5, 1973, when Rand opened its site office in Green Bay. Although test enrollments were conducted as early as March, 1974, the Green Bay HAO did not invite applications from the general public until June 19, 1974. By October, 1974, the South Bend HAO had been organized, and the first household was enrolled in December, 1974. Applications were invited from the general public beginning April, 1975.

Housing Allowance Office - Organization

Initially, the organizational structures of the Green Bay and South Bend HAOs were identical. Staff reductions and functional realignments have since modified the Green Bay organization. Exhibits 1 and 2 show the current organization structures of both HAOs. Procedural differences between the two offices noted during our review are listed in Appendix 1 to this report.

At the South Bend HAO the Client Services Division performs the direct functions of enrollment, certification and housing evaluation. Direct support for client services is also provided by Information Services for computer processing and Financial Management for recipient check processing.

The Finance and Administration Division is primarily responsible for general financial and accounting services, personnel service, office management, and computer services. The Director's staff includes the Public Information Office which is responsible for attracting applicants via various media forms. A more detailed listing of functions by section is contained in Exhibit 3.
EXHIBIT 1
SOUTH BEND HAO ORGANIZATION CHART

EXHIBIT 2
GREEN BAY HAO ORGANIZATION CHART

Exhibit 3

LIST OF FUNCTIONS BY SECTION

Director and Director's Staff
- General administration and management
- Public relations
- Data collection and analysis
- Quality control and management reporting

Public Information Office
- Public Information
- Outreach

Finance and Administration Division
- Administrative support
- Financial control

Personnel Section
- Recruitment
- Training
- Employee records

Financial Management Section
- Budget preparation
- Maintenance of accounts and financial records
- Financial reporting

Administrative Services
- Purchasing and stores
- Facilities management
- Printing

Information Services
- Computer services support
- Client records

Client Services Division
- Enrollment processing
- Recertification
- Providing program guidance to clients and applicants
- Other direct client contact

Housing and Equal Opportunity Information Section
- Housing information sessions
- Equal opportunity support services
- Preliminary Application processing

Client Services Section
- Enrollment interviews
- Annual recertification interviews

Certification Section
- Certification of enrollment and recertification forms
- Verification of selected forms
- Payments processing

Housing Evaluation Section
- Housing evaluations
IV. CREATING THE DEMAND STIMULUS

Primary Responsibility of the HAO

As noted in the previous section, the primary responsibility of the HAO is to deliver the demand stimulus to the local housing market. This responsibility is discharged by enrolling applicants and processing them through to recipient status. The speed with which this demand is to be created is of major importance to the objectives of the Supply Experiment. As stated in an update to the General Design Report, "By rapid enrollment, we can provide the market with clear signals of the change in housing demand attributable to the experimental allowance program, thus prompting, we expect, faster reactions from housing suppliers with respect to both price changes and output changes." 1/

Additional reasons for encouraging rapid enrollment were provided in the General Design Report and included the following:

- The experiment is of limited duration and its extension would be expensive;
- Experimental findings will be less pertinent to policy-making the longer they are delayed; and
- The need for "clear signals" provided by rapid enrollment would help counter the skepticism faced by an experimental program. 2/

Factors Influencing the Delivery of the Demand Stimulus

We have focused on the demand stimulus responsibility of the HAO for two reasons. First, there are indications that the current recipient level is considerably below the estimate of eligible households in South Bend. Second, the South Bend HAO has a large backlog of preliminary applicants waiting for enrollment processing.

The estimates of eligible households in South Bend and Green Bay are reflected in the following table:

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The original General Design Report projected full scale recipient load within one year of open enrollment. Later revisions changed this projection to two years. Green Bay passed the two year point in June of 1976. The South Bend HAO will complete its second year of open enrollment by March 1977. Its 1976 net recipient growth has averaged only 160 recipients per month which indicates that full enrollment will not be reached within two years.

Although the number of new applications appears to be slackening in Green Bay, South Bend has had a large backlog of applicants since March, 1976 (See Exhibit 4). This backlog has approached 900 applicants which is equivalent to a five or six week delay in enrollment processing. The effects of this continuing backlog in South Bend include the following:

- Potential recipients are denied benefits they might otherwise be receiving if the backlog did not exist. Assuming an average of one month's delay in determination of eligibility because of the backlog, the average monthly loss in payment benefits would be approximately $11,000.2/

- The loss of the above funds in recipient payments means that the demand stimulus is reduced by the same amount for each month the backlog continues.

- The large and continuing backlog may be discouraging some potential recipients from applying.

- The slow conversion of applicants into recipients has resulted in increased outreach costs per new recipient. During the period of applicant backlog, advertising or outreach expenditures have continued at a rapid pace.

1/ Rand Handout at August 24, 1976 Meeting.

2/ Average number of new recipients per month X average monthly payment = 160 x $68 = $10,880.
EXHIBIT 4

THE BACKLOG OF UNPROCESSED APPLICANTS HAS BEEN OVER 600 SINCE MARCH...

CLIENT SERVICES BACKLOG:
APPLICANTS TO BE CONTACTED FOR INTERVIEW
As a result, outreach has cost the HAO $66 per net recipient (new recipients less terminations) from April through July, 1976.

There are a number of circumstances which appear to have contributed to the difficulties being encountered by the HAO in achieving the estimated enrollment levels. Those circumstances include the following:

- The HAO was intended to serve all of St. Joseph's County but the various local jurisdictions within the County had to be approached and persuaded individually to participate. It was not until July, 1976 that the program became essentially county-wide.

- With the period of heavy enrollment activity being extended, the HAO staff is faced with an increasing recertification workload which has reduced time available for enrollment processing. Staff responsible for new enrollments also have responsibility for processing semi-annual and annual recertifications.

- Additional requirements have been placed on the HAO staff which are beyond the original responsibilities listed in Section III of this report. These additional responsibilities are discussed in the next paragraph.

It is our belief that the HAO has become increasingly concerned with other responsibilities, particularly those related to general questions of the feasibility of the Housing Allowance Program itself. Several of these feasibility questions were enumerated in the 1976 HUD Report to Congress on housing allowances:

1/ An applicant, once enrolled, must be recertified for eligibility every six months.

Also in the 1976 Report to Congress it was stated that much of the information for answering these questions would come from the two HAOs in the Supply Experiment for the following reasons:

- The two Supply Experiment sites were the only full-scale open enrollment programs;
- The HAOs were the only programs to serve both renters and homeowners; and
- The expected ten-year life of the Supply Experiment and the extended enrollment period "will offer a better picture of how efficient enrollment might become after a program has been in operation for some time." 1/

Thus, it appears that the mission of the HAO, and the Supply Experiment as a whole, has been broadened to encompass questions which were initially beyond the scope of the Supply Experiment. As personnel associated with the Supply Experiment have addressed these broadened responsibilities, we believe the original mission of the HAO has been somewhat impaired. The reasons for our concern in this regard are discussed below:

- The backlog of unprocessed applicants is large and has existed since March.

- Intensive outreach activities have continued in spite of the backlog. While Rand personnel indicated that tests of program recognition through outreach are consistent with the demand stimulus objective, our interviews with HAO personnel suggest that the purpose of the outreach effort has been broadened to include increasing the public's awareness of the program in order to test who will apply for benefits.

- Numerous activities are underway at the HAO which indicate growing concern with client processing procedures, program standards, cost accounting, client reactions, and the computer systems. For example, the following activities were underway during our on-site review:
  
  - Review of Certification procedures by an external consultant;
  - Review of requirements for automating the cost accounting system;
  - Review of computer management reports and listings;
  - Review of verification standards;

1/ Ibid. p. 23.
- Other activities relating to the Handbook, manuals, Policy Clarification Memos, and forms revisions.

**Recommendations**

In summary, our concerns in this area are twofold. First, we believe that management's attention has been somewhat diverted from this primary responsibility of the HAO -- generating new recipients. Second, we question the compatibility of these additional activities with the demand stimulus responsibility. We are not questioning the value of investigating these "feasibility" issues; we are questioning their overall timing and priority relative to the demand stimulus responsibility. We recommend, therefore, that HUD, Rand, and HAO management review the responsibilities of the HAO with the intention of determining what the responsibilities are and what the priority should be in handling them. A workplan of prioritized activities should be developed which assures that the HAO's managerial and staff resources are appropriately matched to the various aspects of the HAO mission. If generating a large number of recipients in the shortest time possible remains the primary objective, then the HAO administration should reflect this in the allocation of resources and management attention. The other responsibilities should be reviewed for importance and perhaps delayed for later in the program life of the HAO.

In the following sections of this report, we provide more detailed findings and recommendations concerning the operations of the HAO. The recommendations are intended to improve the performance of the HAO so that its primary responsibility may be accomplished promptly.
V. IMPROVING THE PERFORMANCE OF CLIENT
SERVICE FUNCTIONS

This section presents our findings and recommendations concerning activities which are directly related to servicing applicants and enrollees. These activities support the primary functions of the HAO which are enrollment of eligible households, evaluation of housing units, processing of allowance payments and periodic recertification of household eligibility. The focus in this section is on the short-term opportunities for the HAO to improve client services. The next section discusses longer-term or the budget-oriented processes for improving operations.

As noted in the previous section, we believe that management could devote more attention to the demand stimulus responsibility of the HAO. Specifically, we have identified several findings which point to opportunities for increasing the HAO's capacity to process applicants. These findings are as follows:

Improving Coordination Within the Client Services Division

The activities of the different Client Services sections are not appropriately coordinated to minimize backlogs or slack periods. Exhibit 5 compares the backlogs in the Client Services and Certification Sections. The Client Services backlog has exceeded 600 applicants since March while the Certification backlogs have been minimal. Likewise in the Housing Evaluation Section there has been little if any backlog of housing units to be evaluated. The absence of backlogs in Certification and Housing Evaluation results in these sections operating at less than full capacity. This leads to an underutilization of staff in those sections while a large backlog of work exists in Client Services. The impact of these sections on HAO costs is discussed in Chapter IX.

We believe that a contributing factor to the workload imbalance is the compartmentalized approach taken to the management of the primary functions of enrollment and maintenance.\[1/\] The accountability for the client service functions of enrollment and maintenance is established at the division level; however, no monitoring and analytical support is provided to the Division Chief to help him maintain the necessary control required for that accountability. All staff support in Client Services is at the section level, where discrete activities of the production functions are managed. The result is that only the Division Chief monitors the overall functions of enrollment and maintenance while the attentions of his staff are focused on individual activities within the functions.

\[1/\] Maintenance is defined as all direct client service activities beyond the initial processing to recipient status. These activities include recertifications of income, housing unit reevaluations, and payments processing.
EXHIBIT 5

THE CLIENT SERVICES BACKLOG HAS GROWN SUBSTANTIALLY IN RECENT MONTHS WHILE THE BACKLOGS IN CERTIFICATION ARE AT VERY LOW LEVELS...

CLIENT SERVICES BACKLOG: APPLICANTS TO BE CONTACTED FOR INTERVIEW

CERTIFICATION BACKLOG: ENROLLMENT VERIFICATIONS TO BE COMPLETED.

CERTIFICATION BACKLOG: EAF's TO BE CERTIFIED
Recommendations

To improve the coordination within the Client Services Division we recommend that analytical and monitoring support be added at the division level. This could be accomplished by transferring a Specialist II position from one of the Client Service sections. This position would be responsible to the Division Chief for monitoring of such factors as backlogs and work imbalances. In addition, various activities currently performed at the section level could be transferred to Division level such as research projects, certain quality control responsibilities and weekly and monthly activity report preparation.

For the current workload imbalance and backlog issues, we recommend that personnel be reassigned within the Client Services Division to accommodate the greater requirements in the Client Services Section. To increase management's flexibility in meeting workload imbalance we recommend that a more extensive cross-training program be instituted, especially between the Certification and Client Services Sections, to develop a reservoir of staff to handle both certification and client interview activities.

For six months of the heavy backlog period Client Services specialists were performing Semi-Annual Recertifications, an activity belonging in the Certification Section. The return of the Semi-Annual Recertification processing to Certification was accomplished during our review after additional personnel were added to both sections.

Improving the Productivity of Client Service Specialists

Interview scheduling procedures in effect during our review did not take full advantage of the Client Services Section staff resources. One factor which has limited the interview capacity of the Client Service specialists has been the large no-show rate for scheduled interviews. The average no-show rate for the twelve months ending in July, 1976 was 43 percent, or an average of two out of every five enrollment interviews scheduled (see Exhibit 6). At the time of our review, scheduling procedures called for five interview periods per day. Interviews scheduled for these periods included those for enrollment applicants, as well as annual recertifications, follow-ups and reinstatements. In spite of the five scheduled periods, the specialists averaged between three and four interviews per day.

Recommendations

We have recommended increasing the number of interview periods per day and overscheduling by one applicant for each period relative to the number of specialists available. We understand that the Client Services Section implemented a six interview schedule after the completion of our on-site review.
EXHIBIT 6

THE NO-SHOW RATE FOR ENROLLMENT INTERVIEWS AVERAGES OVER 40% . . .

PERCENT OF INTERVIEWS SCHEDULED

NO-SHOW RATE FOR AUG. '75 THROUGH JULY '76: 43%

SOURCE: LINES E2 AND E2.2 OF THE PRESIDENT'S REPORT
Increasing the Level of Applicant Prescreening

At present, the Housing Information staff does not conduct any screening of applicants beyond informing them of the program's limitations on household composition, income and assets.

An applicant is required to complete a preliminary application before being contacted for an enrollment interview. Most applicants telephone the HAO, where the staff in the Housing and Equal Opportunity Information Section obtain the required information and prepare the Preliminary Applications.

Recommendations

We recommend that the HAO increase its prescreening efforts for applicants on a trial basis. This might reduce the number of persons determined ineligible during the enrollment interviews. Currently, the rate of ineligibles is averaging 15 to 20 percent (including those who failed to complete the interview process -- 25-30 percent). In addition, prescreening might reduce the amount of self-screening by applicants which may be contributing to the large no-show rate for interviews. Reducing the number of ineligibles actually interviewed and the number of no-shows would improve the capacity of Client Services to generate new recipients.

For a prescreening methodology, we recommend that a short questionnaire be developed which would ask the potential applicant questions related to the most frequently found reasons for ineligibility.

Since this prescreening activity involves the application of program standards to specific cases, it may be desirable to assign prescreening responsibility to the Client Services Section in order to insure the consistent application of program standards. Such a transfer of responsibility might require a transfer of personnel from the Housing and Equal Opportunity Information Section which is presently responsible for taking Preliminary Applications.

Establishing Formal Production Standards

The Client Services Division has not developed formal standards for use as measures of daily, weekly or monthly productivity of the major client service activities. Productivity standards are output measures the use of which enables management to identify unfavorable variances in staff productivity and to focus on alternative corrective actions. In addition, standards can be used to project both long-term and short-term personnel requirements for various activities. The use of productivity standards or "productivity factors" in the HAO staffing model for long-term staffing requirements is discussed in the next section. It should be noted that these "productivity factors" have not been used as measurement standards within Client Services.
Recommendations

We recommend that productivity standards be set for each of the major line activities. One methodology for establishing and using these standards would be as follows:

- Periodically examine productivity data based on the time accounting systems and appropriate activity indicators;
- Select a "best case" factor from the bi-weekly data and establish it as an experimental standard for a selected period of time;
- Review procedures to determine ways to help reach the standards, e.g., scheduling procedures in Client Services;
- Review performance to determine feasibility of standard and any constraints which prevent meeting the standard; and
- Revise standards accordingly.

Another productivity standard methodology is described below under "Meeting the Need for Management Information." The above methodology, which uses time accounting data, is more suited to longer-term analysis and productivity monitoring.

To support the development of meaningful productivity standards, management should adjust staffing to develop a modest backlog in each of the three line sections. Without a backlog, a section may not perform at its maximum productivity level. Such has probably been the case in Certification and Housing Evaluation for the past one-half year. In order to support the standard setting process, we are recommending changes to the management reporting system which will be addressed in the next section.

Meeting the Need for Management Information

HAO staff and management prepare numerous daily, weekly and monthly reports; however, these reports as presently formatted do not adequately support the information needs of HAO management.

HAO management relies to a great extent on the monthly President's Program Report for information on activity trends and personnel utilization. However, the President's Program Report serves a wide variety of audiences and purposes. The audiences include the Board of Trustees, Rand - Santa Monica, Rand - Washington, and HUD. As a result the report does not serve as an efficient tool for HAO management. The report is also of limited use to management because it does not focus on key variables,
highlight significant trends or contain productivity data except on a units processed per day basis. In addition, the size of the report makes it very time consuming to prepare and difficult to produce on a timely basis.

The needs for management information are also not adequately met by the computerized weekly Management Information Reports (MIRs). MIR data do not conform to the corresponding items on the manually generated Daily Management Reports. The manual reports in the Client Services Section record actual interviews conducted, forms transferred to the Certification Section, and other activity data. These daily reports are not summarized on a weekly basis in the Client Services or Certification Sections. The weekly MIR data is based on forms/information processed by the computer that week. This limits the MIR as a weekly activity indicator for the Client Services Section since all of its forms are subsequently processed by Certification before being entered into the computer.

There is presently no report which provides a productivity indicator which is subject to trend monitoring on a daily, weekly or monthly basis.

Recommendations

We recommend that management develop a reporting system which highlights production data. These reports should be concise and self-explanatory. The reporting periods should be appropriate for the specific management audience. Based on these criteria, we recommend a reporting system based on daily reports to Supervisors and weekly reports for Division Chiefs and the Director's staff. Exhibits 7 and 8 contain illustrative formats of daily and weekly management reports for Client Services.

The weekly reports should be supplemented by graphs showing weekly fluctuations in actual volumes, backlogs and productivity.

The President's Report should include monthly summaries of the weekly report plus other data required for the specialized research purposes of the HAO.

Improving the Quality Control Function

There are extensive quality control reporting requirements but they are of limited use in providing management with an understanding of trends and significance of errors found.

Current quality control reports are based on very limited review procedures. The Client Services Section quality control report is based primarily on a review of 12 Enrollment Application Forms per month. This represents an approximate sample rate of one out of 50. Based on these sampled reviews a judgment is made
EXHIBIT 7
SOUTH BEND HOUSING ALLOWANCE OFFICE
CLIENT SERVICES DAILY MANAGEMENT REPORT

| Interviews Conducted + No-Show = Scheduled Interviews By Spec II's |
|-------------------|---------------------|---------------------|
| 1. INTERVIEWS     |                    |                     |
| a. Initial        |                     |                     |
| b. Annual         |                     |                     |
| c. Scheduled      |                     |                     |
| Follow-Up         |                     |                     |
| d. Reinstatement  |                     |                     |
| e. Total          |                     |                     |

<table>
<thead>
<tr>
<th>2. SPECIALIST I's AVAILABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Scheduled</td>
</tr>
<tr>
<td>b. On-Duty</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. NUMBER OF INITIAL INTERVIEWS BATCHED TO CERTIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Eligible</td>
</tr>
<tr>
<td>b. Ineligible</td>
</tr>
<tr>
<td>c. Total</td>
</tr>
</tbody>
</table>
# Client Services Weekly Management Report

## SOUTH BEND HOUSING ALLOWANCE OFFICE

### SOUTH BEND HOUSING ALLOWANCE OFFICE

#### CLIENT SERVICES WEEKLY MANAGEMENT REPORT

<table>
<thead>
<tr>
<th>1. INTERVIEWS</th>
<th>Conducted + No-Show</th>
<th>Scheduled</th>
<th>Interviews Conducted by Spec II's</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Initials</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Annuals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Follow-ups</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Reinstatements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Interviews conducted by Specialist II's</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Interviews conducted by Specialist I's (e. less f.)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. SPECIALIST I'S AVAILABLE (Person-Days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Scheduled</td>
</tr>
<tr>
<td>b. On-Duty</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. SPECIALIST I'S UTILIZATION - INTERVIEWS PER PERSON-DAY (l.g. 2.b.)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>4. BACKLOG - INITIALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Clients to be contacted</td>
</tr>
<tr>
<td>b. EAF's to be processed</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5. BACKLOG - ANNUALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Unprocessed ARF's due before first of next month</td>
</tr>
</tbody>
</table>
as to whether there was a major or minor error but no dollar amount of the error is recorded. The limited sample and lack of dollar error accounting reduces the benefit of the reporting effort.

All enrollment application and recertification forms are reviewed by the Certification Section which identifies and notes dollar amount errors. Unfortunately, no summary report of this activity is made. The Certification Section in essence performs a 100 percent quality control review of these forms but management has only limited access to the results of this review.

**Recommendations**

Quality control procedures for enrollment and annual processing should focus on the certification process. We recommend the data required to determine the average dollar error per Enrollment Application Form (EAF) processed be collected. It should be noted that a work flow modification routing the EAF from Client Services to Information Services before Certification will not provide this quality indicator. Without extensive modifications, the data processing edit (i.e., Enrollment Application Processor) cannot determine an error dollar amount for an EAF. We recommend that Client Services stop conducting EAF quality reviews (i.e., certifying). The quality review function should be done by Certification. Exhibit 9 contains a suggested format for a report that a Certification specialist can use to record daily the errors detected in certifying cases. A copy of this daily report would be sent to the Client Services Supervisor. The data could then be summarized weekly and sent to the Client Services Division Chief.

**Emphasizing the Use of Client Provided Documentation**

A prospective client may generally provide proof of income and assets by either furnishing documentation himself (i.e., bank books and copies of checks) or by signing release forms which permit the HAO to verify income and assets. To the extent a client provides documentation, the work required in the Certification Section is reduced since this is the section which performs verifications. Over the past twelve months, the HAO has varied its requirements for client provided documentation in order to adjust the relative workloads in the Certification and Client Services Sections. For example, in February, 1976, when there was a large backlog of verifications, requirements for client provided documentation were increased (See Exhibit 5). This had the effect of reducing the verification workload in Certification. Exhibit 10 illustrates the impact of this decision by showing the change in the percent of enrollment applications requiring verification. Recently, HAO management has been considering a relaxation of documentation requirements to accommodate the backlog in the Client Services Section.
### EXHIBIT 9

#### QUALITY CONTROL

**CERTIFICATION SPECIALIST**

**DATE**

<table>
<thead>
<tr>
<th>ERROR IN MA/HE (1)</th>
<th>ERROR IN ELIGIBILITY (2)</th>
<th>CODING ERRORS (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TYPE</td>
<td>$ AMOUNT</td>
<td>CS</td>
</tr>
<tr>
<td>CASE</td>
<td>CLIENT # (+) (-) SPECIALIST</td>
<td></td>
</tr>
</tbody>
</table>

**NOTES:**

Use - This form is used by the Certification Specialist to record errors detected in certifying initials, SARFS, ARFS (can be more than one error/case).

Columns (1) & (2): Identify the type of case I - Initial, S - SARF, A - ARF; client #; $ amount of error; CS specialist involved.

(3) Use this column simply to record the number of coding errors.
EXHIBIT 10

THE PROPORTION OF ENROLLMENT APPLICATIONS REQUIRING VERIFICATION DROPPED SIGNIFICANTLY WHEN CLIENT DOCUMENTATION REQUIREMENTS WERE INCREASED...
Data from the HAO productivity analysis indicate that the verification activity may require in excess of one hour per case. While data are not available concerning the incremental time required in Client Services to handle an increased volume of client provided documentation, we believe it likely that the use of client provided documentation decreases the overall time required to process a case.

**Recommendations**

We recommend that the HAO stress the requirement for client provided documentation barring any evidence that is significantly affects Client Services. Adjusting backlogs and workloads between Certification and Client Services would be better administered by reassignment of personnel.
VI. IMPROVING THE HAO’S PLANNING AND BUDGETING FUNCTIONS

As part of our site visit we reviewed the planning and budgeting processes used by the HAO. For purposes of our review of the budget process we have divided budget costs into three categories -- salary costs for line personnel, salary costs for management and support staff, and non-salary costs. As developed in the HAO budgeting process, line salaries consist of the salaries of the Specialist I’s in the Client Services, Certification and Housing Evaluation Sections. Managerial and support salary costs cover all other positions within the HAO including the Director’s Staff, Finance and Administration Division, Division Chiefs, Section Supervisors, Specialist II’s, Housing Information Specialist I’s and the technicians in the Client Services Division. The third budget category is non-salary costs which include overhead charges, supplies, services and all other non-salary expenses. Our findings for each of these three types of cost are presented separately.

Line Salary Costs

The HAO uses a staffing and productivity model to budget for line salary costs. The model utilizes historical time accounting data and workload or unit activity figures to develop a productivity factor expressed in hours for each identified activity. To calculate total staffing requirements for a given function, these productivity factors are multiplied by projected workload figures.

We believe the analytical approach to the model is appropriate. However, we have several concerns with the way the model has been used.

Our first concern is that the use of quarterly data in the analysis may overlook certain fluctuations or trends in productivity. An example of this is illustrated in Exhibit 11 which shows the bi-weekly trends in productivity for enrollment and annual recertification interviews. The average productivity factors for enrollment and annual interviews over the period March 28 to August 1 were 2.2 and 1.9, respectively. By examining the bi-weekly data it can be seen that a significant improvement in productivity occurred in June. This improvement was caused by the increase from four to five scheduled interviews per day. The quarterly productivity factors did not take this change into account. The subsequent increase in hours per enrollment interview can be attributed to the discontinuation of overscheduling in July.

We also question whether productivity factors calculated for sections without backlogs give a true indication of the actual time required to perform an activity. As noted previously, the Certification and Housing Evaluation Sections have not experienced significant backlogs for over six months.
EXHIBIT 11

THE AVERAGE NUMBER OF HOURS PER INTERVIEW DROPPED SIGNIFICANTLY DURING JUNE . . .

ENROLLMENT INTERVIEWS

ANNUAL INTERVIEWS

PERIOD ENDING
There has been some lack of consistency between the time accounting data and workload unit measures used in the productivity calculations and the definitions of the productivity factors. For instance, both HAOS use the same productivity factor definitions but have alternative approaches for determining the workload unit measure. In developing staffing requirements, the productivity factors in one case were multiplied by a different workload factor to determine projected staffing hours.

There are two primary difficulties raised by these problems with the productivity factors. First, although both HAOS use the same factor definitions, the difference between the sites in application complicates comparisons between the two. Second, an eventual linkage between the model productivity factors and production standards used by the sections will be hampered if the factors are not clearly defined and consistently used. It should be noted that some of the inconsistencies between the two sites are due to basic processing differences which prevent the application of consistent measures. It should also be noted that the model is itself somewhat experimental and was being modified and improved during our review.

Recommendations

We believe the overall approach to estimating line personnel needs through the model is reasonable and should be continued. We recommend that a consistent definition of workload factors be used for both sites to the maximum extent possible. In addition, the HAO, as previously recommended, should develop production standards for its line functions. These standards should be directly related to the productivity factors used in the budget process.

The recommendations previously made on improvements to productivity in the Client Services Division sections also apply here. The more accurate productivity standards developed by improving procedures and permitting the build-up of modest backlogs should be reflected in the corresponding productivity factors used in the budget model.

Salary Costs for Management and Support Staff

The positions accounted for in the productivity analysis are somewhat less than 40 percent of all the HAO employees. The other 60 percent includes managerial, administrative support and some line personnel salary costs. The staffing and productivity model cannot estimate these positions directly because of the difficulties associated with identifying units of output for such positions. Our primary concern with this category is that the budget procedures provide limited support for these positions although they are a much larger cost component than the line salary positions.
Recommendations

We recommend that future budget preparations include an analysis of the requirements for these positions. Analysis of management and support staff requirements should include the following steps. First, a priority list of research oriented activities to be accomplished in the coming year should be developed. Second, a consolidated list of research and other activities with the estimated time requirements of each should be prepared. And, third, positions and functions should be reviewed for cost savings through position consolidation and elimination of unnecessary activities. In our judgment, a rigorous review of managerial and support positions could lead to reductions in HAO current salary costs. More extensive cost reductions should be possible in future years as the problems of managing the changing levels of enrollment and maintenance are reduced and as research activities are phased out.

Non-Salary Costs

Non-salary costs account for approximately 31 percent of total costs (see Chapter IX). The use of historical trends to determine non-salary costs (i.e., materials, facilities, utilities) appears to us to be appropriate.
VII. IMPROVING FINANCIAL REPORTING AND CONTROL FUNCTIONS

As a part of our operations evaluation we reviewed various aspects of the HAO's financial reporting and control functions. In general, we found the procedures in effect to be satisfactory and appropriate to the nature of the organization. We also reviewed plans for automation of the accounting system in order to form an opinion concerning the need for this capability at the HAO. This section of the report presents our detailed findings and recommendations concerning control over and reporting of financial activity.

Automation of the Accounting System

The primary advantage of a computerized accounting system would be the automated preparation of the cost center report. The cost center report now takes approximately 40 percent of all person-hours spent on the preparation of financial reports or the equivalent of two man-weeks per month. In spite of the time devoted to the report it was found to be of limited use to HAO management. For example, the section supervisors have no control over their largest costs -- salaries -- and there are only a limited number of non-salary accounts which are based on costs directly incurred by the cost center. Only printing, office supplies, postage and special purchases are separable by cost center. Most other costs are allocated, in whole or in part, according to an average of salaries and number of personnel in the cost center.

The two largest transaction accounts -- payroll and allowance payments -- are already automated. Representative numbers of monthly transactions in the other primary accounts are as follows:

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>107</td>
</tr>
<tr>
<td>Accruals journal</td>
<td>48</td>
</tr>
<tr>
<td>General journal</td>
<td>66</td>
</tr>
<tr>
<td>Cash disbursements</td>
<td>54</td>
</tr>
<tr>
<td>Subsidiary ledgers</td>
<td>461</td>
</tr>
<tr>
<td>Payroll accounts</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td><strong>760</strong></td>
</tr>
</tbody>
</table>

These transaction volumes are not sufficient to justify computerization for routine financial reporting. According to estimates obtained by the HAO staff, the monthly operating cost of a batch-type accounting system with a cost center report capability could be in excess of $500. While computerization would reduce the workload in Financial Management it is doubtful there could be a reduction in personnel to compensate for the increased processing costs.

1/ Excludes transactions for manual recipient payments and cost center ledgers.
Recommendations

In our judgment, automating the accounting system cannot be justified on a cost-effectiveness basis. We recommend that the HAO reduce the size of the monthly cost center report to cover only those items which are controllable by the section supervisors. We estimate that this would release over 30 person-hours per month for other activities.

Reconciliation of Allowance Payment Disbursements

There are deficiencies in current allowance payments reconciliation procedures which could permit unauthorized payment adjustments to go undetected. Our concern is not with the initial authorization for payment process but with the changes made in payment status for existing enrollees and the implications for auditing and internal controls.

- There is currently no reconciliation made between actual computer reported changes in allowance payments and original documentation for a change, although the procedure is established in the Handbook.

- Procedures requiring a monthly reconciliation of the Payment Update Registers and the Weekly Change Registers are not being completed because of an error in the computer program.

- A comparison of the Change Register and the Payment Card File is no longer made.

Factors which contribute to the above reconciliation problems include the following:

- Reconciliation responsibilities are distributed among three different HAO units and there is limited coordination among the units regarding reconciliation procedures.

- The payments processing system is complex as evidenced by the large number of input documents which can change a client's payment amount and status.

- Reconciliation instructions contained in various manuals, handbooks, and reports are conflicting with none of them accurately reflecting the current procedures in use.
Recommendations

The entire payments reconciliation process should be reviewed to document current procedures and to make modifications where appropriate.

One comprehensive reconciliation procedure should be prepared incorporating the following points:

- Reconciliations performed by persons not involved with the original system inputs;
- Reconciliation of payment changes with original documentation at least on a sample basis; and
- Identification of reconciliation responsibilities by section.

Manual Recipient Check Processing

Manual check processing consumes a significant amount of staff time in the Financial Management, Certification and Information Services Sections. It is not clear, however, that there is a corresponding benefit obtained for the cost involved.

According to the time accounting data, manual check processing can take up to 20 person-hours per week in Financial Management. While extending the closing date for automated payments from the 16th to the 27th of the month has reduced the number of manually prepared full payments, there still are a large number of pro-rated payments. Since full payments and pro-rated payments were usually combined in one check, there has not been a significant reduction in the total number of manual checks generated.

The average pro-rated payment was $35 during the first seven months of 1976. On the other hand, the costs of manually preparing the pro-rated payments are difficult to quantify. The following list of activities included in the process does provide some indication of the effort involved:

- Calculation of pro-rated amount by Certification;
- Preparation of the manual check by Financial Management;
- Signing of the check by the Chief of Finance and Administration and the Director of the HAO;
- Completion of the manual check register by Financial Management;
- Review and mailing of the check by Certification;
- Keypunching of the check copy by Information Services;
Reconciliation of the manual check register and the computerized manual check register by Financial Management.

The manual recipient allowance check system also increases the complexity of the existing payments reconciliation procedures. (See the previous section.)

Recommendations

We recommend that the requirements for manual preparation of pro-rated payments be reviewed. Without a clearly definable need for such payments, we recommend that they be discontinued.
VIII. COMPUTER SYSTEMS

The present computerized client accounting system is intended primarily to serve the research requirements of the Supply Experiment. In terms of its limitations for routine HAO operations, the system has large and complex files, requires a large number of input documents and provides a variety of lists and reports that are not currently used by the HAO.

Size and Complexity of Systems' Files

Exhibit 12 lists the primary files which feed or are fed by the various system processors. Of the files listed only the Client Master File and Payments History File appear to be essential to routine program operations. Although necessary, the Client Master File is much larger than would be required if no research activities were under way. We estimate that a client file of 400-500 bytes would be sufficient to handle the data requirements once the experimental phase is ended. This is 25 to 30 percent of the current file size.

Input Documents

Exhibit 12 lists the input documents to each of the systems processors. The large number of inputs, primarily to the file maintenance and payments processors, complicates system control procedures. Controls have to be established for each input document and procedures prepared to identify their use. Control problems with the current systems are reflected in the reconciliation procedures discussed in Chapter VII.

Recommendations

Given the short term duration of the experimental period, we do not recommend any fundamental systems modifications to simplify the existing procedures or reduce the number of input documents. It is, however, worthwhile to assess the usefulness of the various reports and lists generated to determine which can be modified or deleted. This task has already been undertaken by HAO and RAND personnel.

After the experimental phase is completed, the HAO's functions will be limited to administering the allowance program. At that time, we recommend that the current system be replaced with one which is more economical to operate and more responsive to operating requirements. Such a system should incorporate the following changes;
## EXHIBIT 12

**SUMMARY OF HAO COMPUTER PROCESSORS AND FILES**

<table>
<thead>
<tr>
<th>Processor</th>
<th>Inputs</th>
<th>Files</th>
<th>File Size (Bytes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preliminary Applications Processor</td>
<td>Preliminary Applications</td>
<td>Preliminary Applications Master File</td>
<td>300</td>
</tr>
<tr>
<td>Enrollment Applications Processor</td>
<td>Enrollment Applications</td>
<td>Original Applications File</td>
<td>2400</td>
</tr>
<tr>
<td>File Maintenance System</td>
<td>Housing Unit Certification Form</td>
<td>Client Master File</td>
<td>1650</td>
</tr>
<tr>
<td></td>
<td>Recertification Form</td>
<td>Transaction History File</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Termination/Reinstatements Log</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Payment Authorization Revocation/Reinstatement Log</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Due Date Adjustments Log</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gross Pay Adjustments Form</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selective Listings System</td>
<td>Client Master File (Automated)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments System</td>
<td>Manual checks</td>
<td>Payments History File</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Refunds</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Debit/Credit Memos</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Voiding Entries Log</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Adjusting Entries Log</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transaction I.D. Corrections Log</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Evaluation Processor</td>
<td>Housing Evaluation Forms</td>
<td>Housing Evaluation Forms History File</td>
<td>2840</td>
</tr>
</tbody>
</table>
• The PA processor system should be modified or converted to a manual system;

• The Enrollment Application processor should be redesigned to reduce the size of the client master file and to simplify application source documents;

• The maintenance system should be rewritten to operate within a CRT or hard copy "Turnaround Document" environment; and

• The Housing Evaluation Processor should be eliminated.
IX. COST ANALYSIS

The primary objectives of this cost analysis are to identify the largest administrative cost categories which are potentially amenable to cost reduction, to differentiate HAO costs associated with program operations from those considered to be "research" costs, and to determine the approximate total costs for direct functions.

An explanation of our cost analysis methodology is contained in Appendix 2 along with a summary exhibit of cost allocations by function. In general, the cost data used in this analysis were derived from the HAO financial reports, time accounting data summarized from employee worksheets and production activity data for the period April through July, 1976.

The analysis is limited to program administration costs incurred by the HAO which excludes the cost of client housing allowance payments. As is discussed in more detail in Appendix 2, we relied heavily upon the time accounting data in preparing the cost estimates. Time accounting data are subject to errors caused by possible misinterpretation of time codes by employees and approximations made when time reports are prepared at the end of a reporting period. The analysis is also limited to the four-month period April through July, 1976, and may not be identical to other time periods. These limitations should be kept in mind in using the estimates presented in this report.

Cost Analysis Findings

Our approach to this analysis is based on the allocation of costs to various direct and indirect functions of the HAO. The delineation of direct and indirect functions is described below. We have defined as direct those functions which include activities specifically oriented towards servicing clients as well as those supporting the research requirements of the Experimental Housing Allowance Program. The "direct functions" therefore are defined to consist of research and the client related services of outreach, enrollment processing and client maintenance. The latter function includes all activities required to service the existing enrollees such as recertification of eligibility, reevaluation of housing units, and payments processing. Direct costs are those which are specifically identifiable with one of the direct functions.

Indirect functions and related costs include those HAO activities which support the direct functions of the HAO. Examples of indirect costs are salaries for management and administrative support, equipment, office rent and other HAO overhead costs.

Allocating costs to functions requires a methodology for analyzing the financial reports and determining the proportion of costs associated with the direct and indirect functions.
Salaries and fringe benefits constitute the largest costs amounting to 69 percent of the total HAO administrative costs (Exhibit 13). Non-salary costs were divided among 33 different accounts. The largest non-salary item is rent, which accounted for 4 percent of total administrative costs. Because of the significance of salary costs particular care was taken determining the level of direct salary costs by function.

Using data from the HAO time accounting system it was possible to make allocations of some salary costs to direct functions (see Appendix 2). Of total salary costs, 49 percent were associated with direct functions based on time accounting data (Exhibit 14). The remaining indirect salary costs consist of managerial and administrative support, all time-off and vacation charges, and the indirect time of Client Services Division staff charged to indirect activities such as general management, quality control, training, etc.

Non-salary costs associated with direct functions include costs for printing, postage, supplies, data processing, and outreach advertising. Exhibit 15 presents the percentage distribution of direct costs by function. For the period analyzed, enrollment processing accounted for approximately 46 percent of total direct costs. The combination of enrollment and outreach accounted for 61 percent of total direct costs. The large non-salary portion of outreach reflects the cost of advertising. Further detail on direct costs is contained in the next three sections of this chapter which discuss the cost components of the research, enrollment processing and maintenance functions.

Research Costs

Part of our cost analysis included the identification of those costs associated with the research responsibilities of the HAO. The purpose of identifying research costs is to permit the analysis of the HAO routine administrative costs in the context of an on-going housing program.

Our estimate of research costs is based on the time accounting data for research activities and the computer charges for processing the Housing Evaluation Form (HEF).

The time accounting codes for identified research activities are as follows:
EXHIBIT 13

SALARIES AND FRINGE BENEFITS ARE THE LARGEST COST COMPONENTS IN THE HAO BUDGET...

SOURCE: SOUTH BEND HAO FINANCIAL REPORTS FOR THE PERIOD APRIL 1 - JULY 31, 1976
EXHIBIT 14

SALARY COSTS IDENTIFIED WITH DIRECT FUNCTIONS WERE SOMewhat LESS THAN 50 PERCENT OF TOTAL SALARY COSTS . . .

NOTE: DATA RELATE TO THE FOUR MONTH PERIOD, APRIL 1 - JULY 31, 1976. (SEE APPENDIX 2)
EXHIBIT 15

ENROLLMENT PROCESSING ACCOUNTED FOR APPROXIMATELY 46 PERCENT OF ALL DIRECT COSTS...

NOTE: DATA RELATE TO THE FOUR MONTH PERIOD, APRIL 1 - JULY 31, 1976. (SEE APPENDIX 2)
<table>
<thead>
<tr>
<th>Code</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Experimental support activities</td>
</tr>
<tr>
<td>80</td>
<td>Assisting in special studies and reports for Rand/FPOG</td>
</tr>
<tr>
<td>81</td>
<td>Assisting in special studies and reports for Rand/DAG</td>
</tr>
<tr>
<td>82</td>
<td>Preparing other special studies and reports</td>
</tr>
<tr>
<td>27-30</td>
<td>Housing Evaluation Processor, regular processing</td>
</tr>
<tr>
<td>64-23</td>
<td>Site monitoring</td>
</tr>
</tbody>
</table>

The charges to these codes were distributed throughout the HAO organization with the following organizational units charging the largest amounts:

- Director's staff;
- Public Information Office;
- Finance and Administration Division, Chief's Office;
- Personnel Section;
- Information Services Section;
- Client Services Division, Chief;
- Client Services Section; and
- Certification Section.

The research costs in the Director's staff were largely the result of activities performed by the Site Monitor, Program Analyst and the Assistant to the Director. Information Services was responsible for the largest number of hours charged to research, but was less significant in terms of cost since the charges were mostly the result of routine keypunching of the HEF. Most of the charges in the other units were by the chiefs and supervisors with the exceptions of Finance and Administration Division Chief, and the Client Services Section. In the former case, there were charges by a secretary and in the latter case most of the time was charged by the Specialist II's.
The results of the analysis show that identifiable research costs were 11 percent of total direct costs (Exhibit 15). The largest component of this cost was salaries and fringe benefits (97%) with the non-salary costs (3%) consisting of computer charges for processing the Housing Evaluation Forms.

We believe that the 11 percent figure does not fully account for the impact of research responsibilities on HAO costs. During our review it became apparent that the HAO was created to serve a research purpose. Consequently, research is an integral part of the HAO rather than an additional function imposed on an existing organization. The research basis of the HAO is evident in its open enrollment policy, the computer processing systems, the data collection requirements and in the type of special projects undertaken by the staff. The separation of research from routine administrative costs is also constrained by the lack of specific definitions of what constitutes research and routine activities. There are no guidelines as to how an on-going housing allowance program would be structured. Without a defined structure for a non-experimental program, the delineation of research versus routine administrative costs depends on the assumptions made concerning the operation of the on-going program. On the other hand, the limits of the HAO's research responsibilities are not clearly defined. In Chapter IV of this report, we noted that the mission of the HAO has been broadened to encompass questions which appear to be beyond the initial scope of the Supply Experiment. These questions are generally related to the administrative feasibility of the Housing Allowance Program itself. As a result, it is difficult to determine which activities are actually research related and which are directed towards general management concerns of an on-going program.

The identification of additional salary costs as research would require a better delineation of these activities within the HAO. Previously in this report we have made recommendations which would improve the HAO's control and management of its operations. We believe the implementation of those recommendations will also improve the data on the cost of HAO's research functions. Those recommendations included:

- Central coordination of all tasks not directly related to the client service functions of the HAO;
- Prioritization of all such activities, delaying those which may be in conflict with more important responsibilities, such as the demand stimulus objective of the Supply Experiment;
- Concentration of all analysis, report preparation, data collection in staff personnel organizationally separate from the line sections of the HAO to the maximum extent possible; and
Identification of all significant proposed research activities as part of the annual budgeting process.

The purposes of the above recommendations were not to eliminate "research" activities but to identify them for planning purposes so that management can establish better cost controls and respond to various program objectives in order of importance.

## Enrollment Costs

As shown in Exhibit 15, enrollment processing costs were 46 percent of total direct costs. Interviewing applicants and preparing the Enrollment Application Form (EAF) accounted for approximately 35 percent of all enrollment costs (Exhibit 16). The next highest enrollment cost activity was certification followed by housing evaluation. The Certification Section is responsible for certifying and verifying the EAFs and processing the initial payments.

The Housing Evaluation Section inspects the enrollee's housing unit to determine if it is in conformance with program standards. Included in the direct costs for housing evaluations are some research costs for the evaluations of units in which enrollees have no intention of remaining. Based on the limited number of households which actually move, this cost is not believed to be a significant proportion of total housing evaluation costs.

## Maintenance Costs

During the four-month period selected for analysis, those activities classified as maintenance constituted 28 percent of total direct costs (Exhibit 15). Of the four categories of maintenance activities, annual recertification accounted for the largest proportion of maintenance costs - 47 percent (Exhibit 17). Total costs for each maintenance activity are a function of the volume of households processed by activity as well as the per unit cost of processing an individual household. Total annual recertification costs were twice as much as the next category, semi-annual recertification. However, on a per unit basis annual recertification was between three and four times as costly as semi-annual recertification. This comparison is based on the 1,348 semi-annual recertification forms (SARFs) and 843 annual recertification forms (ARFs) processed during the analysis period.

The basic difference between the semi-annual and annual recertification procedures is that the latter requires direct client contact for both the completion of the ARF and the housing unit reevaluation. The costs of the interview process and the housing reevaluation are approximately three-quarters of the total direct costs for annual recertification as shown in Exhibit 18. The semi-annual recertification procedures are limited to mail and occasionally telephone contact with the client.
EXHIBIT 16

THE INTERVIEW PROCESS ACCOUNTED FOR APPROXIMATELY 35 PERCENT OF DIRECT ENROLLMENT COST...

<table>
<thead>
<tr>
<th>TOTAL DIRECT ENROLLMENT COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>INFORMATION SERVICES</td>
</tr>
<tr>
<td>• DATA PROCESSING</td>
</tr>
<tr>
<td>HOUSING INFORMATION SERVICES</td>
</tr>
<tr>
<td>• HOUSING INFORMATION SERVICES</td>
</tr>
<tr>
<td>• PA PROCESSING</td>
</tr>
<tr>
<td>FINANCIAL MANAGEMENT</td>
</tr>
<tr>
<td>• INITIAL PAYMENT PROCESSING</td>
</tr>
<tr>
<td>HOUSING EVALUATION</td>
</tr>
<tr>
<td>CLIENT SERVICES</td>
</tr>
<tr>
<td>• INTERVIEW SCHEDULING</td>
</tr>
<tr>
<td>• INTERVIEW PROCESSING</td>
</tr>
<tr>
<td>CERTIFICATION SECTION</td>
</tr>
<tr>
<td>• CERTIFICATION</td>
</tr>
<tr>
<td>• VERIFICATION</td>
</tr>
<tr>
<td>• INITIAL PAYMENT PROCESSING</td>
</tr>
</tbody>
</table>

NOTE: DATA RELATE TO FOUR MONTH PERIOD, APRIL 1 - JULY 31, 1976.
(SEE APPENDIX 2)
EXHIBIT 17

ANNUAL RECERTIFICATION ACCOUNTED FOR APPROXIMATELY 47 PERCENT OF ALL MAINTENANCE COSTS...

NOTE: DATA RELATE TO FOUR MONTH PERIOD, APRIL 1 - JULY 31, 1976. (SEE APPENDIX 2)
EXHIBIT 18

THE INTERVIEW PROCESS AND EVALUATING THE HOUSING UNIT ACCOUNT FOR APPROXIMATELY THREE QUARTERS OF THE ANNUAL RECERTIFICATION PROCESS DIRECT COSTS...

TOTAL ANNUAL RECERTIFICATION DIRECT COSTS

NOTE: DATA RELATE TO FOUR MONTH PERIOD, APRIL 1 - JULY 31, 1976 (SEE APPENDIX 2)
The relationship among the total costs of the various maintenance activities will change from period to period as the volume of ARFs, SARFs, etc., processed changes. The same is true of direct maintenance and enrollment costs. In the long term, enrollment costs will drop significantly relative to maintenance as the HAO reaches the maximum recipient level. At that point enrollment will cease or be limited to replacing terminees and maintenance will be at the maximum.
APPENDIX 1
# APPENDIX 1

## PROCEDURAL DIFFERENCES BETWEEN THE SOUTH BEND AND GREEN BAY HAOs

<table>
<thead>
<tr>
<th>Organizational Unit</th>
<th>Green Bay HAO</th>
<th>South Bend HAO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Housing and EO Information</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Section is not involved in the processing of Preliminary Applications.</td>
<td></td>
<td>Section staff prepare Preliminary Applications for prospective clients.</td>
</tr>
<tr>
<td>Section not involved in HUCF processing.</td>
<td></td>
<td>Staff prepares HUCF's based on information provided by applicants or clients.</td>
</tr>
<tr>
<td>Housing information sessions consist primarily of a ten minute presentation to applicants just before enrollment interview.</td>
<td></td>
<td>Housing information sessions conducted on a weekly basis with applicants receiving notice of sessions by mail.</td>
</tr>
<tr>
<td>Supervisor has assumed duties of Public Information Office. There is no PIO at Green Bay.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Client Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applicant and client interviews are conducted at four different sites on a periodic basis.</td>
<td></td>
<td>Interviews conducted at two sites on a full-time basis.</td>
</tr>
<tr>
<td>The HAO is open one night per week for client interviews.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applicants are assigned to specialists who will also be responsible for enrollment interviews as well as annual recertifications, if possible.</td>
<td></td>
<td>Applicants and clients are not assigned to a specialist until the time of the interview when interviews are assigned to specialists on a rotating basis.</td>
</tr>
<tr>
<td>Organizational Unit</td>
<td>Green Bay HAO</td>
<td>South Bend HAO</td>
</tr>
<tr>
<td>---------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Client Services</td>
<td>- Client Services specialists prepare preliminary applications for applicants. Heavy emphasis is placed on the screening out of ineligibles at that point.</td>
<td>- Enrollment Application Forms are sent directly to Certification. After they are certified, the forms are given to Information Services. Edit corrections made by Certification.</td>
</tr>
<tr>
<td>(cont)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Enrollment Application Forms are sent directly to Information Services for processing. The computer edit list is returned to Client Services for corrections by the specialists.</td>
<td>- Client Service technicians telephone applicants to schedule enrollment interviews.</td>
</tr>
<tr>
<td></td>
<td>- Applicants are told by letter to call the HAO to schedule an enrollment interview.</td>
<td></td>
</tr>
<tr>
<td>Certification</td>
<td>- HUCFs are logged in and sent directly to Housing Evaluation.</td>
<td>- After an Enrollment Application Form has been certified the HUCF is sent to Housing Evaluation.</td>
</tr>
<tr>
<td></td>
<td>- Verification procedures include direct use of other agency files to verify applicant income.</td>
<td>- All renters receive expanded evaluation.</td>
</tr>
<tr>
<td>Housing Evaluation</td>
<td>- Only a sample of renters receive expanded evaluation.</td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX 2

COST ANALYSIS

This appendix contains a description of the methodology, assumptions and calculations used for the cost analysis summarized in Chapter IX.

The data developed from this analysis are useful in understanding cost relationships within the HAO and for identifying areas of major cost importance. However, it is necessary to note certain qualifications relative to the precision of the data presented which the reader should understand in reading our findings. First, our analysis covers a four-month period which limits comparability to both historical and future periods. The period used, however, was the most recent four months for which data were available. Second, for the direct salary analysis we relied primarily on time accounting data summarized from individual employee time reports. In our discussions with HAO personnel they noted that time reports are often not filled out until the end of the reporting period. This probably leads to approximations of time among different function categories and between direct and indirect time. We believe, however, that the data available is useable for developing a general understanding of how overall time is spread among functions and for developing estimates of what various unit costs are relative to each other. Third, our analysis required some simplifying assumptions in apportioning costs among functions. These are discussed below.

Methodology and Assumptions

- Direct salary costs were calculated using time accounting data and average salary rates plus fringe benefits during the analysis period. Each employee in the HAO prepares a bi-weekly time sheet which allocates his time among several function codes for his section plus general codes used throughout the HAO. The time accounting direct function codes used in our allocation of direct salary costs are listed in Exhibit A.

In cases where time codes applied to more than one function or activity, the hours were apportioned as follows:

- Data processing - by estimates provided by the Information Services Supervisor of average time required to keypunch individual forms multiplied by volume of forms processed during the analysis period;

- Technician activities in Client Services - according to proportions of initial enrollment to annual recertification interviews conducted during analysis period; and
Housing evaluations - by the number of full evaluations and failed-unit evaluations conducted for enrollment and annual recertification processing.

- Direct non-salary costs were based in part on allocations of printing, postage and office supply charges to sections according to the HAO Cost Center Reports. Allocations of these costs among functions within a section were then made according to distribution of direct salary costs.

- Indirect managerial salary costs were calculated using salary rates and personnel data contained in Table 10 of the President's Program Report. Table 10 lists the days worked by position per month. Managerial staff was defined to include the Division Chiefs and Section Supervisors. Time spent on direct functions by managerial personnel was included with direct salary costs. Secretaries and other Finance and Administrative Division personnel were included under "Other Administrative Support Salaries."

- All other salary costs based on working hours were categorized as "Other Indirect Salaries."

- "Time-Off Salaries" included paid time-off, vacations, and holidays.

- All non-salary costs not included as direct were classified as "Indirect Non-Salary" costs.

- Outreach costs included direct salary based on time charged to outreach (Code 12) and advertising expenses.

- Research costs included computer processing charges for Housing Evaluation Form processing and staff time charged to specific research related time codes (Chapter IX).

- The total indirect costs were allocated to direct functions on the basis of direct salary and fringe benefit costs.

The results of the allocation of direct, indirect and total costs are presented in Exhibit B.
### EXHIBIT A

Direct Function Time Account Codes by Section

<table>
<thead>
<tr>
<th>Section</th>
<th>Codes</th>
<th>Direct Function</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Management (17)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Check processing for enrollees</td>
<td>25</td>
<td>Enrollment</td>
</tr>
<tr>
<td>Check processing for recipients</td>
<td>26</td>
<td>Maintenance</td>
</tr>
<tr>
<td><strong>Information Services (27)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PA processing</td>
<td>25</td>
<td>Enrollment</td>
</tr>
<tr>
<td>EAF processing</td>
<td>26</td>
<td>Enrollment</td>
</tr>
<tr>
<td>File maintenance processor</td>
<td>27</td>
<td>Enrollment/</td>
</tr>
<tr>
<td>Payments processor</td>
<td>29</td>
<td>Maintenance</td>
</tr>
<tr>
<td><strong>Housing Information (34)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing information</td>
<td>25</td>
<td>Enrollment</td>
</tr>
<tr>
<td>Equal Opportunity Support</td>
<td>26</td>
<td>Enrollment</td>
</tr>
<tr>
<td>Response to program inquiries</td>
<td>27</td>
<td>Enrollment</td>
</tr>
<tr>
<td><strong>Client Services (37)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enrollment interview scheduling</td>
<td>25</td>
<td>Enrollment</td>
</tr>
<tr>
<td>Recertification interview</td>
<td>26</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Other direct technician activities</td>
<td>27</td>
<td>Enrollment/</td>
</tr>
<tr>
<td>Enrollment processing</td>
<td>28</td>
<td>Enforcement</td>
</tr>
<tr>
<td>Special recertification processing</td>
<td>29</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Semi-annual recertification</td>
<td>30</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Annual recertification processing</td>
<td>31</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Other HUCF processing</td>
<td>32</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Certification (41)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------</td>
<td>---</td>
<td>----------------</td>
</tr>
<tr>
<td>Enrollment processing</td>
<td>25</td>
<td>Enrollment</td>
</tr>
<tr>
<td>Special recertification</td>
<td>26</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Semi-annual recertification</td>
<td>27</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Annual recertification</td>
<td>28</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Enrollment verification</td>
<td>29</td>
<td>Enrollment</td>
</tr>
<tr>
<td>Special recertification</td>
<td>30</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Semi-annual recertification</td>
<td>31</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Annual recertification</td>
<td>32</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Initial payments processing</td>
<td>33</td>
<td>Enrollment</td>
</tr>
<tr>
<td>Other HUCF processing</td>
<td>34</td>
<td>Maintenance</td>
</tr>
</tbody>
</table>

| Housing Evaluation (44) --   |  |                |
| Housing evaluation technician| 25| Enrollment/    |
| Processing Failed unit       | 26| Enrollment/    |
| Processing all other         | 27| Enrollment/    |
| evaluations                  |   | Maintenance    |
EXHIBIT B

Summary of Direct and Indirect Cost Allocations
(April 1 through July 31, 1976)

<table>
<thead>
<tr>
<th></th>
<th>Salaries and Fringe Benefits</th>
<th>Non-Salary Costs</th>
<th>Total Direct Costs 3/</th>
<th>Indirect Costs Allocated to Direct Functions 4/</th>
<th>Total Costs Per Direct Function</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DIRECT COSTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>$ 24,428</td>
<td>$ 778</td>
<td>$ 25,206</td>
<td>$ 39,967</td>
<td>$ 65,173</td>
</tr>
<tr>
<td>Outreach</td>
<td>2,527</td>
<td>32,626</td>
<td>35,153</td>
<td>4,134</td>
<td>39,287</td>
</tr>
<tr>
<td>Enrollment</td>
<td>91,739</td>
<td>13,411</td>
<td>105,150</td>
<td>150,094</td>
<td>255,244</td>
</tr>
<tr>
<td>Maintenance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SARF Processing</td>
<td>11,452</td>
<td>2,955</td>
<td>14,407</td>
<td>18,737</td>
<td>33,144</td>
</tr>
<tr>
<td>Annual Recertification</td>
<td>16,494</td>
<td>3,744</td>
<td>20,238</td>
<td>26,986</td>
<td>47,224</td>
</tr>
<tr>
<td>Annual Reevaluations</td>
<td>9,767</td>
<td>852</td>
<td>10,619</td>
<td>15,980</td>
<td>26,599</td>
</tr>
<tr>
<td>Payments Processing</td>
<td>5,335</td>
<td>2,454</td>
<td>7,789</td>
<td>8,728</td>
<td>16,517</td>
</tr>
<tr>
<td>Other Maintenance</td>
<td>11,342</td>
<td>1,120</td>
<td>12,462</td>
<td>18,557</td>
<td>31,019</td>
</tr>
<tr>
<td>Total Maintenance</td>
<td>54,390</td>
<td>11,125</td>
<td>65,515</td>
<td>88,988</td>
<td>154,503</td>
</tr>
<tr>
<td>Total</td>
<td>$173,084</td>
<td>$ 57,940</td>
<td>$231,024</td>
<td>$283,183</td>
<td>$514,207</td>
</tr>
</tbody>
</table>

**INDIRECT COSTS**

|                                |                             |                  |                       |                                               |                                 |
|                                | Director's Office           | 25,266           |                       |                                               |                                 |
| Management                    | 52,882                      |                  |                       |                                               |                                 |
| Other Administrative Support  | 35,004                      |                  |                       |                                               |                                 |
| Salaries                     |                             |                  |                       |                                               |                                 |
| Other Indirect Salaries1/     | 36,532                      |                  |                       |                                               |                                 |
| Time-Off Salaries2/           | 30,022                      |                  |                       |                                               |                                 |
| Indirect Non-Salary           |                             | 103,477          |                       |                                               |                                 |
| Total Indirect               | 179,706                     |                   |                       |                                               |                                 |

Total $352,790 $161,417 $514,207

1/ Includes indirect time of Client Service Division personnel
2/ Includes time-off, vacations, and holidays for all employees
3/ Total of "Salaries and Fringe Benefits" and "Non-Salary Costs" columns.
4/ Indirect costs allocated to direct functions on the basis of direct salaries and fringe benefits.

NOTE: These cost data were derived from unaudited financial statements provided to us by the HAO.
January 5, 1977

Thomas Gallagher
TOUCHE-ROSS & COMPANY
1900 M Street, N. W.
Washington, D. C. 20037

Dear Tom:

The attached paper contains our comments on your report on the Operations Review of the South Bend Housing Allowance Office. It is a joint HAO-Rand response prepared on the basis of reviews by HAO, Site Office and FPOG staff.

You mentioned that you would like to include our comments as an appendix to your report and would like to know about actions which the HAO has taken recently to deal with the issues you have raised. Accordingly, this paper contains a description of such actions, as well as comments on the report itself. Therefore, this paper should serve as a status report to HUD and we hope it will be useful in our planning sessions with them in the coming months.

We have enjoyed working with you and your staff and hope you will be able to maintain contact with our organization in the future.

Sincerely,

Charles F. Lennon, Jr.
Director, Housing Allowance Office, Inc.

CC: Deborah Devine
Martin Levine
Kenneth J. Alles

Attachment
Introduction

This paper provides our comments on your report. Below we give some general comments on the Operations Review. The remainder of the paper then deals with individual topics discussed in the following order:

A. Priority for the Demand Stimulus Objective
B. Strengthening Division Control of Process Management
C. Cross-Training
D. Overscheduling
E. Intensify Pre-Screening
F. Management Reporting
G. Setting Production Targets and Standards
H. Documentation vs. Verification
I. Modify Quality Control
J. Improve Planning/Budgeting: Productivity Model
K. Improve Planning/Budgeting: Management and Support Staff
L. Cost Accounting and Cost Control
M. Improve Payment Reconciliation Procedures
N. Reducing the Number of Manual Payments
O. Computer System Changes
P. Cost Analysis Reporting

General Comments on the Evaluation and the Report

1. We were generally impressed by the way you went about the evaluation. All too often, third-party evaluations have negative results. The contractor may produce a report that sounds impressive, but the process has yielded so much resistance to change that the purpose of the effort—improvement of the organization—is frustrated. You avoided these pitfalls successfully. You told us that you would discuss all tentative findings with us at an early stage. You did so and also showed genuine concern for making our organization better.

2. Your basic approach to the work also seemed sensible to us. The charter for the evaluation as stated in the RFP was very broad. Your first step was to undertake a comprehensive review of all the items listed for consideration in your proposal. Then, on the basis of this review, you selected a few topic areas where you judged there were priority needs for improvement. You spent most of your time in more detailed study in these areas and did not go back to write up conclusions about areas where you did not discover any problems. The report is devoted solely to the selected topics. We do not suggest that you needed to write up all of your positive findings, but we do think your report would have been stronger if you had said more about the above process and listed the other topics you considered in the initial review.

3. We have strong disagreements with a number of your specific findings and conclusions. We identify these and state our positions on them in the sections to follow. One is important enough to be mentioned here—your treatment of the recent enrollment backlog in relation to the HAO’s demand stimulus
objective. We believe you overstate the importance of the backlog, understate the attention we gave to it, and misunderstand what prevented us from correcting it more quickly. (See discussion in Section A below.)

4. By and large, the topics you selected as priorities for improvement conform to our own views about what should be given priority attention in the short run. As you read the remainder of this paper you will find that most of the changes you discuss in the report (except for areas of disagreement) have either been implemented or are seriously under study.

5. Our strongest criticism of your report is that you say almost nothing about the contributions that were made by HAO and Rand management and staff in thinking through and taking action on the priorities. Most of the items on your list were explicitly identified in our work programs and clear progress toward improvement had been made before you arrived on the scene. We are secure that many of the corrective actions you discuss would have been taken anyway.

6. This is not to say that your involvement did not also make a contribution. It generally sharpened our understanding of many issues and heightened our concern for action. It helped us to sort through priorities effectively. One of the most important benefits in our view was the emphasis you gave to better reporting and targeting in day-to-day management.

7. There are two other areas where we have special problems—not because we disagree with what you say but because we are concerned that others could misinterpret it. The first is your discussion of the gap between the total population of eligibles and the number that have enrolled so far. Your readers might infer that because this gap exists, the program has somehow performed less well than had been expected. This is clearly not the case. No one expected that all of the eligible households in the County would join the program. The eligibles include homeowners and others who have never been eligible for this type of public benefit payments before. It was anticipated that a large number of households would not join because of "welfare image" problems, that others would not join because they would be just on the borderline of eligibility and their payments would be very small, and that no matter how effectively we designed our outreach campaigns, some households in need would not get the message.

A major purpose of the experiment was to learn how many and what kinds of households would choose to join an open enrollment program. Our field objective was and is to ensure that those who are eligible know about the program and have a genuine opportunity to enroll.

Still, the question of whether our participation rate is higher or lower than should have been expected is a relevant one. There are no unambiguous answers to it as yet. Data on participation rates in other programs are weak and do not provide useful approximations as to what we should have expected in the allowance program. We believe that HASE, with good survey data to support accurate estimates of eligibility, may be the first authoritative source of information on this topic.
There is much anecdotal information to suggest that our program has attracted many families who have avoided participation in benefit programs before. However, we will be unable to assess program status on this issue adequately until further analysis of HASE survey files is complete.

8. The second problem is our concern that the results of your cost analysis could be misapplied. You point out that 11% of all HAO costs during the period of your study were identifiable as "research" costs, but that there were other activities which belong in the research category as well which you were unable to sort out from the direct processing functions. This means that your direct processing costs are overstated. The true costs of direct processing would undoubtedly be lower. Therefore, we think your readers should be cautioned against trying to use the data in Appendix B to characterize the administrative cost of a non-experimental program.

A. Priority for the Demand Stimulus Objective

1. We certainly agree that the demand stimulus objective—the rapid enrollment of eligible households—is the HAO's primary responsibility. It is identified as such in the HAO's charter as specified in the controlling documents for the Supply Experiment. Obviously, this objective cannot be emphasized to the exclusion of all others. We would not be fulfilling our mission if we enrolled many households but failed to maintain reasonable standards in the accuracy of eligibility, allowance payment, and housing evaluation determinations, or were unable to deliver payments or meet recertification commitments on a timely basis. Nonetheless, your point is well taken. Within these constraints, the demand stimulus objective deserves the highest priority, and initiatives that divert management's attention away from it unnecessarily should be avoided.

2. Our backlog of unprocessed applications did grow considerably between March and May of 1976. In line with our commitment to the demand stimulus objective, we have regarded this as our biggest problem. The way you describe it, however, we think you make it sound more serious than it really was. In 1976, the HAO completed final processing for 8,185 enrollment cases (this includes applicants that dropped out before the interview as well as those who were interviewed). Had we reduced the backlog to a reasonable level at an earlier stage—assume a reduction of 600 applications—this would have increased the total cases processed during the year by only 68%. It would have represented an increase of only 4.1% over the 14,759 enrollment cases ever processed. While we are disturbed that processing for these cases had to be delayed, neither Rand or the HAO believes this represents a serious impairment to the demand stimulus objective.

3. Nonetheless, we did regard the backlog as our central priority soon after it began to build. From May through July, considerable attention was devoted to looking for new solutions to the no-show problem, testing approaches to overscheduling, and developing means for making a solid case for additional enrollment staff that would be acceptable to HUD. In August, staff members were shifted from the SARF team back to initial enrollments to increase capacity on the front end. Good evidence of our sense of priority for this issue is
provided in our staffing request to HUD (letter from C. Lennon to K. Alles dated August 12) as well as by the actions we have since taken (to be discussed below).

4. Given our concern for the problem, why didn't we fix it faster? You suggest that new responsibilities for special studies beyond the HAO's original mission were major contributors to the delay. We agree that these played a role, but hardly a major one. Aside from day-to-day management tasks, the largest consumers of management time during the Spring and Summer of 1976 were: (a) handling negotiations to extend the program area boundaries into Mishawaka and the rest of St. Joseph County; (b) designing and implementing the program's first adjustment to the Standard Cost of Adequate Housing, R*; (c) preparing the HAO's 1977 Budget Submission; and (d) holding discussions with Touche-Ross staff. None of these activities could have been postponed. The first two were more important to the demand stimulus objective than an earlier correction of the backlog would have been.

5. We believe you misunderstand the special studies you list on page 20 of your report. Their central purpose, like the additional ones your report recommends we undertake now, was not the preparation of a research report—although this might at some time be a by-product. An examination of their work statements would show that they were primarily attempts to improve internal procedures. For example, the review of payment reconciliation procedures you suggest is a part of the scope for the Certification Study.

6. From May through August, special activities were a particular burden for our Chief of Client Services who had to take on responsibility for many of them in the absence of a Deputy Director. As you know, we recruited for a new Deputy during the Spring and Summer and the position was filled in September. The Deputy now has the explicit responsibility for coordinating special studies, preparing for R* adjustments and a host of other activities. Had the Deputy been on board during the Summer, the overall management team would have had the capacity it needed to clean up the backlog problem more quickly. We now believe the HAO has the capacity to meet more of HUD's interests in administrative analysis without diverting from the primacy of the demand stimulus objective.

7. Still, we have postponed new special study initiatives and relaxed the timetable for other study efforts for the time being, to assure top priority for enrollment processing.

8. We believe the backlog problems you note in your report are now permanently behind us. Since August, new staff has been hired and trained, the Deputy Director has started work and an overscheduling plan and a new management reporting system have been implemented. The enrollment backlog, which your Exhibit 4 shows was over 800 at the end of August, was down to 484 by the end of November, and to 344 by the end of December. During the first two weeks of November the HAO conducted 29.4 enrollment interviews per day in contrast to our low point of 15.5 per day in August (when the most working time was lost due to vacations, implementing the R* adjustment, and hosting the Touche-Ross evaluation).
9. We do not understand your comments about outreach and "testing the appeal of the program". The primary reason for analyzing outreach results is to make outreach work better. The old media approaches are not working as well as they once did. We need to understand the changes so we can modify our approach and attract more people into the program. We cannot think of any work effort in this area over the past year that was not primarily focused on the demand stimulus objective.

10. You state that outreach was continued at a high rate during a period of substantial backlogs. You fail to note, however, that while expenditures for outreach advertising were high in March and April (averaging $9,881 per month), they were cut back thereafter. The average for May through July was $6,380, 35.4% below the March–April average.

B. Strengthening Division Control of Process Management

1. In our last meeting with you, we discussed the role of the Chief of Client Services in process management. We agreed, for example, that the enrollment "process" requires careful judgments and actions related to workload balancing, day-to-day, that cannot be handled effectively by negotiations between Section Supervisors alone. These have always been recognized as an important job of the Division Chief.

2. Since your departure we have taken additional steps to emphasize this role. In internal management discussions we have given clear recognition to the fact that our incoming workloads will never be smooth and that backlog pressures will shift from operation to operation during each week. We have stated that to handle this we have to emphasize flexibility. This means more cross-training. It also means that the Division Chief has the power and the responsibility to shift resources between Sections as necessary to balance work pressures effectively.

3. Shifting resources in this manner is a tough job under any circumstances. There are no simple formulas. We need better management tools than we have had in the past--reports which will identify where the backlogs are and how they are changing during the week and standard conventions as to how and when resource adjustments will be made. The Chief of Client Services has taken the lead in working on new tools for this purpose over the last few weeks, with assistance from the Deputy Director and other staff members. More work is necessary, but we are encouraged by progress so far.

4. Your report suggests that one of our Specialist II's be transferred full-time to the Division Chief to assist him in process management. We presently doubt that this organizational transfer is needed. The Chief will need more assistance, but he should be able to get it through part-time technical support from Section staff, the Deputy Director and the Operations Analyst. We think that this assistance will amount to less than half an FTE in the aggregate and that the Specialist II's are needed more to fulfill managerial assistance and direct workload processing functions in the Sections. We will keep your recommendation in mind, however, as we evaluate operations in the future.
C. Cross-Training

1. As noted above, we support additional cross-training in the Client Services Division. You mention cross-training Certification Specialists so that they can handle enrollment interviews. We expect to go further. As the enrollment backlog in Client Services diminishes, backlogs will grow in other sections. We think we need to have some Housing Evaluators who can do enrollment interviews. We think we also need Client Services staff who can do work in Certification and Housing Evaluation.

2. You failed to mention two relevant points about our action on this. First, all Client Services Division staff members do receive some cross-training at the start of their employment. They are generally familiar with the activities of other sections in the Division so the amount of additional training required to enable them to perform duties in the other sections is not formidable. Second, we have undertaken specific cross-training related to other transfers in the past. Last February when backlogs were higher in Certification, Client Services and Housing Evaluation Specialists were transferred to that section.

3. Our immediate cross-training efforts are concentrating on preparing two additional Certification Specialists and two Housing Evaluation Specialists to handle assignments in Client Services.

D. Overscheduling

1. The new overscheduling plan was implemented on October 21. Since then, we have been scheduling 6.6 interviews per Client Services Specialist per day. We will be evaluating the impacts of this level and testing the potential for further adjustments regularly in the future.

E. Intensify Pre-Screening

1. We are presently reviewing our pre-screening phone scenario and believe we can make improvements that will enable us to screen out more ineligibles at this early stage. We hope to have changes implemented in a month or so—but they may not be the kind of changes you have had in mind. Analysis we have done since your departure indicates that this topic is much more complicated than it appears on the surface.

2. On the surface, directions seem clear. Brown County does more intensive screening in initial phone calls than South Bend—probing income, assets and deductions. Brown County yields more enrollees per enrollment interview than South Bend. It would appear that South Bend should do screening like Brown County does.

3. Other facts are relevant, however. Brown County’s yield in applications per contact call was always much lower than South Bend’s, even before it started intensive screening. In fact with more intensive screening Brown County’s yield has increased and without it, South Bend’s yield has gone down. (In the second quarter of operations, Brown County got 0.43 applications per
call and South Bend got 0.74 per call. From July through September 1976, Brown County yielded 0.54 applications per call and South Bend 0.66. We don't fully understand why this has happened as yet, but we think the differences may have more to do with characteristics of the population in the two communities than what the HAOs do in the initial call. Brown County admits their additional probing of deductions quite often reverses the expected result: i.e., someone who thinks he is ineligible after the income questions changes his mind after he learns more about the impact of deductions on eligibility.

4. The main reason South Bend yields a somewhat lower number of enrollees per interview is not the eligibility determination. Cumulative data through June show that 18.2% of South Bend interviewees are found to be ineligible as compared to 18.3% in Brown County. In South Bend the number that start the interview but fail to complete it represents 5.7% of all interviews in comparison with 4.6% in Brown County. The only major difference is in the number who are found to be eligible, but decline to sign the participation agreement—7.8% in South Bend vs. 3.0% in Brown County. We will not attempt to explain the reason for this difference here. The relevant point is that these households would not have been affected by eligibility screening in the initial call no matter how intensive.

5. This leads us to question whether more intensive screening—detailed probing, longer phone calls, requirements for additional staff training—would have much impact or be cost effective. Could a briefer, more sharply focused and less costly, phone scenario work just as well? We believe we need to examine the options further before an action plan can be specified.

F. Management Reporting

1. It comes as no surprise to us that our computer-generated statistical reports and the monthly President's Report tables are not ideally structured for use by managers, even though we think most of the data they contain remain necessary, both for internal and external purposes. We have thought for some time about the need to develop additional management-oriented summaries which would contain charts highlighting key indicators of achievements and problems in relation to organizational objectives (see the Key Indicators Task in our May-July Work Program). We began experimenting with charting and other techniques last Spring, but only formalized them into a reporting system in November. The new system is very much consistent with concepts you have discussed with us.

2. A new daily/weekly production report for the Client Services Section was implemented on November 5. This report uses manually-generated data on interviews scheduled and conducted, no-shows, and staffing. Similar reports on other topics will be developed over the next few months.

3. New monthly management reports (charts of key indicators, etc.) will also be prepared regularly. The first such report was completed for October 1976. Whereas management interactions between Section Supervisors and Division Chiefs will rely on the daily/weekly reports, the new monthly report is to serve primarily in reviews at the Chief-Director level.
4. Software was completed in November to produce weekly and monthly totals from our time-accounting system. We will build these into the new management reports as soon as possible.

5. To provide more time for the new reports, the old reporting structure has been cut back. The old financial and statistical tables are still being produced each month, but the longer narrative reviews are now prepared only quarterly.

G. Setting Production Targets and Standards

1. We think you give us too little credit for our efforts at setting standards and targets in the past with the tools that were available. We agree, however, that the existence of the new reporting system will provide a basis for a much more effective approach to target setting at all management levels and we intend to use it that way.

2. We are beginning by setting production targets, then as soon as time-accounting data are prepared regularly, we will work on productivity standards. The approach you outline on page 27 of your report sounds reasonable to us. We hope to be able to add some "quality" targets and/or constraints as well, over the coming months.

3. We recognize the need to be selective in this however. Targets cannot be set for all available indicators. Management needs to select a few key variables which relate most closely to the HAO's central objectives and focus on them.

H. Documentation vs. Verification

1. We began stressing documentation last February, and believe this approach has worked reasonably well. From March through September, we have been able to allocate 85% of all cases to verification category A, and, given our sampling rules, this has permitted a reduction in the number of third-party verifications we have had to perform. Also, error rates have not increased---significant discrepancies were discovered in 4.1% of all verifications before March, but only in 3.0% since then.

2. In your recommendation, you suggest that we keep on doing what we have been doing; we have no plans to change this approach.

I. Modify Quality Control

1. We have spent time recently analyzing and testing various approaches to checking the quality of enrollment and recertification data. While you were on site, the Client Services Supervisor was performing quality control reviews. We agree that this is not the place to do it---these activities were dropped in November.

2. We agree that error detection and measurement should be done primarily in the Certification process. The form you suggest—which would tell us only about the number and dollar value of all errors detected—has advantages. However,
the purpose of reporting on errors is to support management feedback that will reduce error rates in the future. We are not convinced that your report would do enough along these lines. We are now testing an alternative form that identifies the nature and source of errors as well as their dollar amounts. This would take more time to prepare but it would also provide much better information for management feedback. The results of the test are not in, but we think we may wind up using a simpler form like yours to record all of the errors detected, and also use the more complete form for a sample of the errors.

3. Manual corrections by Certification Specialists are only a part of the overall process. Errors are also detected by the computer as the data pass through the edit programs. The present error reports are not formatted as effectively as they should be for use in the correction process. Also there are as yet no summary reports on error volumes by type for use in management feedback. We think improvements in this area are also important to our objectives and are working on them at present.

J. Improve Planning and Budgeting: Productivity Model

1. Your report says very little about the history of our work on the productivity model and without a better understanding of this context a number of your remarks seems misleading. We developed the productivity model in 1975 using crude productivity estimates based on a limited sample study in Brown County. In recognition of the need for better data on this topic, we implemented the staff-time accounting system in March 1976. This summer we got our first useable data from the system and had to do a rough analysis quickly to support staffing requests and budget submissions.

2. Obviously we would have liked sufficient time to analyze the data more completely and refine the system more before we had to make these submissions. But it was our intention to make the necessary improvements as soon as we had the capacity to do so. These improvements are now well underway. As noted, we will be preparing and analyzing productivity reports on a weekly and monthly basis—it was never our expectation that quarterly reviews would be sufficient. More discussions have been held on workload measurement definitions and both the Brown County and South Bend HAOS will be using precisely the same definitions for all major productivity accounts from now on.

3. You have indicated in discussions in South Bend that you consider the productivity factors used in our recent budget submissions to be reasonably good approximations of our current performance. We, of course recognize the difference in concept between these measures and the system's optimum productivity. We look forward to using new management reports and more rigorous target setting to move toward the optimum.

K. Improve Planning and Budgeting: Management and Support Staff

1. We think your suggestion about formal position-by-position reviews for management and support staff in the budget process is a good one. However, you should not leave the impression that there was no review of these
positions at all in the preparation of our recent budget. Although our examination was not so clearly structured, we did conduct reviews in an attempt to find opportunities for 1977 staff reductions in these areas.

2. We expect that future productivity improvements in direct processing functions will enable us to reduce staffing for those functions and believe we should be attentive to opportunities for cutting back in support activities as well. However, we don't expect much change over the next few months. During your evaluation, we asked you informally whether you felt we were overstaffed in Finance and Administration at present--more specifically, were there people sitting around without enough work to do or working on tasks that were not useful in relation to our mission. With the exception of the work on the monthly cost analysis report, your answers were in the negative. We point this out here because we think your report could be misinterpreted on the subject.

3. Your discussion of the 60%-40% support-line relationship is somewhat misleading. The 40% includes only those staff members for whom productivity indicators have been developed so far. There are others in the 60%—Technicians, Housing Information Specialists and those members of the Financial Management staff who handle payments—that do direct work on organizational end-products and, logically, belong in the "line component".

L. Cost Accounting and Cost Control

1. As you know, the detailed cost-center expenditure report was initiated last February in response to a work program task on improving cost control procedures. We have considered it to be experimental. In our recent discussions about it we have come to conclusions that are similar to, but not exactly the same as, yours.

2. We dropped the preparation of the complete cost center report in November. We do think there is considerable benefit, however, in continuing to report cost-center level expenditures in accounts where Section Supervisors are able to influence spending. We will therefore continue to do the cost-center allocations for accounts such as office supplies, postage, copying, and printing.

3. We have also added a new central cost control report to be prepared each month, beginning in November. The report shows last month's expenditures for each account for the agency as a whole in relation to the budget, actual year-to-date expenditures, last month's target and a new target for next month. A "by-exception" narrative, explaining differences from targets and noting important cost control opportunities, accompanies the tables. The report is reviewed formally by top management and appropriate instructions to staff are being issued each month.

4. Except for continuing work on time-accounting reports, we have no present plans to automate the remainder of our accounting system. This decision will be reviewed again, however, as we work on longer-range options for computer systems transition later in 1977.
M. Improve Payment Reconciliation Procedures

1. The error in the computer programs for the payment registers was corrected in early November. Financial Management will perform reconciliations using these registers on schedule from now on.

2. Your statement to the effect that there is no reconciliation between payment changes and original documentation could be misinterpreted. We follow detailed rules in preparing documentation before a payments change is implemented and for each type of change someone other than the person who initiated the documents checks them before computer payment records are changed. What you are saying is that we don't check the documentation again after the computer change. In that, you are correct.

3. While we don't think our present system is open to abuse, we agree with your recommendation that we should review it to tighten procedures and eliminate any unnecessary complications. The language in our manuals relating to reconciliation procedures is out of date and should be cleaned up.

4. Although you don't suggest this explicitly in your draft, you have discussed the idea of having Financial Management go back to check original documentation on a sample basis after payment changes have been made in addition to their regular responsibility to reconcile the amounts. We think this is an interesting idea and will explore it in our review.

N. Reduce the Number of Manual Payments

1. As you know, this has already been the topic of much discussion in the HAO. We took steps last Spring to eliminate several categories of manual payments by cleaning up the processes relating to suspensions and terminations after recertification. However, we agree with your recommendation that it be studied further.

2. To eliminate all pro-rated payments, whether generated manually, or by computer, would be to reduce aggregate program benefit levels. This would be a serious step and we doubt that it would be consistent with experimental objectives.

3. Shifting to computer generation of all pro-rated payments would also have serious implications. A front-end delay in the receipt of the first payment averaging 15 days for all enrollees would not be an insignificant delay in demand stimulus. It must also be understood that the shift would not result in a clear savings. It also costs money to prepare and process the debit/credit memos that initiate computer-generated payments. Nonetheless, we will examine the cost-benefit trade-offs involved more closely.

O. Computer System Changes

1. The approach of cutting back HAO computer processing requirements at the end of the Experimental Period is one which we have favored for some time. Planning for the change is already underway in Brown County and we expect to go through a similar planning process for South Bend later in 1977.
P. Cost Analysis Reporting

1. In accord with our earlier plans, the HAO's new Deputy Director assumed central responsibility for all research activities as soon as he began work in mid-September. We agree that we should try to separate research activities from line operations as far as is practical, and to budget for them more clearly ahead of time where we can. However, it would be neither desirable nor feasible to plan so tightly that we cannot adjust to meet new research interests that HUD or we may identify during the year. If the Deputy does his work well, we do not think there will be any further coordination difficulties in these areas.

2. Your Cost Analysis seems reasonable overall. The structure is very similar to the one we developed in our "Preliminary Analysis of HASE Allowance Program Administrative Costs," May 1976 and to those being used by HUD in reviewing the AAE experience.

3. The major limitation we see in your analysis is the one you have noted: you have not been able to separately identify and estimate all of the activities that should be allocated to research and experimental support rather than direct processing. Some of the activities not yet sorted out include:

- Extra time in interviews and data checking spent on questions which have been included purely for research purposes.
- Extra time spent in housing evaluations on items which have been included purely for Rand research purposes and the Urban Institute's Comparability Panel analysis.
- Time spent conducting housing evaluations of client's present unit, when the client plans to move to a new unit.
- Time spent in developing computer programs for special analysis runs.
- Extra functions in normal computer processing routines required for experimental functions.

The fact that such items have not been separated out from direct processing costs means that your data cannot be used for estimating the costs of a non-experimental program. To do so would be to project administrative costs substantially in excess of real operating requirements. In our continuing research agenda, we hope to work with HUD to sort out more of the experimental support components and to develop analyses that will be more useful in projecting costs of alternate forms of program implementation.