

Designing evaluations to measure economy and efficiency

Presentation to Veterans Affairs Canada – Evaluation Directorate

Part 2 – Collecting and analysing data to support conclusions on program economy and efficiency

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View Notes Pages



Presentation Outline – February 20

- 1. Quantitative approaches to CI5
 - a. Cost-effectiveness analysis/cost-benefit analysis
 - b. Defining and collecting human resource costs Activity based costing
- 2. Qualitative measures to support cost analysis
 - a. Management interviews to support the measurement of economy and efficiency
 - b. Effective evaluation matrices to support economy and efficiency



Quantitative approaches to CI5 CEA/CBA

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CEA, CUA, and CBA compared



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CBA, CEA, and CUA compared

	СВА	CEA	CUA
Scope	Global – multiple outcomes valued	Local – single output/outcome	Local – single output/outcome
Unit of measure for outcome	Money equivalent	Natural	Utility or perceived value of outcome
Timeframe	Extended	Immediate/short term	Immediate/short term
Primary decision purpose	Prospective	Retrospective	Retrospective
Application	Outcomes or impacts only	Activities- outputs-outcomes	Adjusted cost- effectiveness
Reference	No reference needed	At least one alternative	At least one alternative



CEA, CUA, and CBA

- **CEA** is a specific calculation of the costs needed to produce a unit change in one measurable indicator (input, output, or outcome).
- CUA is an extension of CEA, and places a subjective valuation on the measured outcome indicator. This is the quality adjusted life year (QALY).
- CBA measures the net change of all outcomes for all stakeholders by using a ratio of social benefits to social costs. The term "social" encompasses all private costs to all economic agents as well as the external benefits and costs associated with that activity.



Cost-effectiveness analysis outputs and outcomes must be strategic (and valid and reliable)

• Outputs and outcomes should reflect the core goals of the program:

- An output/outcome selected for CEA should be selected to reflect the activity of a program. For this reason, outputs often replace outcomes in CEA because they are easier to measure.
- Outputs and outcomes must be strategic:
 - A single output/outcome, if used alone, must represent a central goal of the program.
- Variation in a strategic outcome should correlate with other results:
 - Increases in that output/outcome should also be correlated with other outcomes.



Components approach to costing

This can work for projects that have well-identified and localized costs:

- "Identified costs" means that no costs are unaccounted.
- "Localized costs" means that there are no charges pending, general overheads, or management costs that cannot be totally attributed to the program.

Steps:

- Become familiar with each intervention and how it operates
- Describe each intervention in terms of the resources needed.
- Include only those costs that are relevant for the intervention to succeed
- Define outputs or immediate outcomes that are tangible
- Develop a marginal cost.
- Collect contextual data to



Example of cost-effectiveness analysis: programs to reduce truancy

Example – programs to reduce dropout rates							
Intervention	Total cost	Dropouts	Dropout prevented	Cost per dropout prevented	Teacher opinion		
A	\$13,500	18	17	\$794	-		
В	\$12,750	20	15	\$850	+++		
С	\$7,500	28	7	\$1,071	+		
Control	0	35	0	-			
Adapted from Levin & McEwan (2001)							



Tracking public sector resource use

- Public programs combine raw resources, infrastructure, and personnel to plan and deliver outputs.
- Wide variation exists in the types of inputs and activities used by public programs:
 - some are personnel intensive
 - others are capital intensive
 - some involve flow through transfers
 - some initiatives require coordination of many players and much of the resources are consumed in the process
- Standard financial statements of expenditure often offer little insight into the costs of individual processes and products.



Cost-effectiveness analysis example – vaccination programs for at-risk groups

- Alternative delivery approaches may include common inputs.
- **Outputs** include the creation of vaccination sites or alternative delivery (e.g.,pharmacies, places of work, physician offices, shopping malls).
- **Outcomes** include:
 - the numbers vaccinated
 - reduction in sick days
 - avoided deaths
- Within a delivery approach the supplier of lowest cost inputs is the most **economical**.
- The delivery approach with the lowest cost of organizing per potential vaccination delivered is the most *efficient* in terms of *outputs*.
- The delivery approach with the lowest number of sick days per dollar cost is the most *cost-effective* in terms of *outcomes*.

It often may make sense to combine economy and efficiency



Cost-benefit analysis rests on basic ideas in welfare economics

The sub-discipline of economics that analyzes changes in the well-being of individuals/communities arising from an intervention.

CBA is the empirical measurement of changes in society's well-being.

Community or social welfare is the sum of the welfare of individual community members.



The main features of cost-benefit analysis (CBA)

CBA is a decision-making framework to compare the welfare of stakeholders before and after an intervention.

- Sums the benefits and costs arising from an initiative
- Translates any change in individual welfare into a dollar amount; this can include benefits such as:
 - avoided harms (deaths from disease)
 - recovered wages otherwise lost due to inability to work
 - value of time saved (the main benefit of transit)
 - avoided costs of social assistance in training programs



Steps in a cost-benefit analysis

- Enumerate the stakeholders (individual, government, society)
- Estimate the "stream" of costs and benefits
- Value all costs and benefits in terms of financial equivalent
- Compare costs and benefits over time

The essential requirement of a cost-benefit analysis is that all costs and all benefits are valued as a money equivalent



Valuing benefits

- Valuation of life
- Valuation of leisure
- Intrinsic pleasures (art, culture...)

Key principle for valuation rests on consumer sovereignty and willingness to pay.

- **Consumer sovereignty –** people must be free to transact (buy and sell)
- Willingness-to-pay measuring what people are or would be willing to pay is a measure of value.





Valuing quality of life

- A central outcome of many programs is to restore/enhance quality of life and economic potential.
- Examples"
 - The most important benefits (financially) of the measles vaccine is the future lifetime earnings of the small (<.1%) number of children that develop encephalitis and enter a vegetative state. This is a long-term outcome
 - Training social assistance recipients, reduces the financial costs of benefits in the short-term, but also restores earnings capacity in the longer term.
 - Self-esteem arising from making a productive contribution is an intangible benefit, but one that is being measured with increased success.
- What are the long-term benefits of the
 - Veterans Independence Program?
 - Financial Benefits Program?



1. Quantitative approaches to CI5 Activity based costing

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Origins of ABC

- Traditional costing allocates cost by
 - 1. Category (wages, fuel, cleaning supplies, interest...)
 - 2. Bureaucratic budgetary classifications (Vote 1/Vote 10, branch, division....)
- Shared overhead costs (services) mean that the true cost of an individual product/service can not be calculated.
- To identify sources of profit/loss, business needs to measure costs and productivity for discrete service and product lines
- The core idea of ABC is
 - 1. Identify discrete products services as comprising a set of common activities
 - 2. Estimate the costs of the component activities supports the estimation of the cost for individual product/service lines.
- Management determines the number of discrete products/services to be included in the analysis.



Typical Format for Public Accounts

Itom	2009-10	J 9	2007-08	2006-07	2005-06	2004-05	2003-04	TOTAL
itelli				(\$0	000)			
XX financial summary								
Salaries/O&M	\$9,800	\$10,677	\$9,181	\$9,042	\$9,336	\$8,266	\$7,666	\$64,068
Grants and contribution	Gs&Col							
X Program	_,484	\$110,877	\$102,072	\$92,195	\$91,428	\$81,948	\$55,616	\$646,620
Y Program	\$25,888	\$26	\$25,327	\$25,315	\$24,711	\$19,465	\$15,156	\$162,069
Z Program	\$20,687	0	\$9,236	\$19,460	\$17,672	\$21,481	\$25,270	\$128,166
Total Gs&Cs	\$159,059	1 51,444	\$136,635	\$136,970	\$133,811	\$122,894	\$96,042	\$936,855
TOTAL XX	\$15	\$162,121	\$145,816	\$146,012	\$143,147	\$131,160	\$103,708	\$1,000,923
FTEs	114		129	97	- P	Z 88	81	712
YY financial sun								
Salaries/O&M/EBP	\$1,00	\$1,356	\$1,425	\$1,213	\$1,472	\$1,607	\$1,484	\$9,653
Gs&Cs		\$661	\$785	\$809	\$661	2	-	\$3,953
Special funding	J1,080	\$1,134	\$890	\$971	\$949	\$ 9.5	\$1,089	\$7,071
Total recipient funding 🗸	\$1,767	\$1,795	\$1,675	\$1,780	\$1,610	\$1,308	\$1,089	\$11,024
TOTAL YY	\$2,864	\$3,151	\$3,100	\$2,993	\$3,082	\$2,915	73	\$20,677
FTEs	11	12	12	14	15	15		92

Limitations

- No allocation of resources to programs
- Unclear whether programs comprise additional service streams
- The complexity of processes used to delivery Gs&Cs not apparent
- The FTEs cannot be attributed to programs or service streams
- Factors in variability of FTEs unclear



Stages to ABC

- Identify the service lines and component activities
- Create business process models
- Create time recording process for staff (who complete weekly reports on time spent in each activity/sub-activity area)
- Calculate total labour cost (time in an activity multiplied by wages) for each resource (staff person)
- Total the cost for each activity to derive an aggregate cost for each service line
- Prorate indirect costs (rent and other overhead) by service line cost totals
- Sum to obtain cost for each service line



Basics of ABC





Example 1 – Advanced Payments Program (APP)

- Advanced Payments Program provides an advance on the crop, allowing farmers increased freedom to time sales to maximum advantage.
- Producers apply through 60 designated producer associations ("administrators") that deliver the program for AAFC.
- AAFC manages the administrating organizations.

Main process elements

- Program support (meetings, design, financial reporting, promotion ...)
- Administrator support
- Client issues (interest payments, defaults, recovery of over-payments

Steps

- 1. Obtain management buy-in
- 2. Define activities
- 3. Create questionnaire
- 4. Distribute and analyze



Example 1 – AAFC Advanced Payments Program



ADVANCE PAYMENTS PROGRAM (APP) ACTIVITY-BASED COSTING QUESTIONNAIRE

This survey is being conducted as part of a program efficiency evaluation of the Advance Payments Program (APP). The purpose of the survey is to assist Agriculture and Agri-Food Canada in determining how staff resources are being used to administer the APP. This is *not* an exercise for analyzing the efficiency or productivity of individuals, and your identity will not be associated with your response.

The survey includes two sections: the first asks for basic information about your role in the APP and the second asks what percentage of your working time is spent on 13 different activities. All information you provide will be strictly confidential between you and PRA.

You may complete the form electronically (click or type the appropriate response) or you may print it out and fill it in using pencil. Please email your completed form to <u>biblk@pra.ca</u> or fax it to 1-800-717-5456.

1. Final to your carrent fore in and rain in produce encourte entry					
Og1 Director Og2 Assistant director	O ₀₃ Program manager				
Opt Program officer Opt Administrative/clerical					
© 66 Other (please specify)					
When did you first start working in this position?mon	u first start working in this position?month				
In your current position, how many hours per week do you typically spend working on the APP?					
4. Thinking of the past 12 months, has your role in the APP changed?	Thinking of the past 12 months, has your role in the APP changed?)	
SECTION 2: ACTIVITY TIMETRACKING This section asks you to record what percentage of working time you sp 12 months. Please read the entire set of activities listed and think abr	ent on 13 APP out whether you	activities over the ir responsibilities	past week ar fall within the	nd over the la m. Then, for	
 First, thinking of your current position; a) During your last full week at work, what percentage of the week 	k did you spen	d on each activity	R		
b) During the past 12 months, what percentage of your time did y	ou spend on e	ach activity?			
 b) During the past 12 months, what percentage of your time did your time did your time did your, thinking of your previous position (if applicable): a) During your last full week at work, what percentage of the week b) During the past 12 months, what percentage of your time did your	you spend on e ek did you spen you spend on e	ach activity? d on each activity ach activity?	1?		
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 During the past 12 months, what percentage of your time did (2). Next, thinking of your previous position (if applicable): a) During your last full week at work, what percentage of the week b) During the past 12 months, what percentage of your time did (2). Please note that 100% of your time should be allocated to the activities lenter 0%. Activity Meetings (management meetings, meetings with other divisions/departments) Policy and program design issues (background research, ad hoc working groups, working papers) 	vou spend on e vou spend on e listed. If you did Time spent CURRE! % of previous week	ach activity? d on each activity ach activity? I not participate in per activity in T position % of past 12 months	? Time spent PREVIOU % of previous week	sted, please per activity in JS position % of past 12 months	
b) During the past 12 months, what percentage of your time did [Next, thinking of your previous position (if applicable): a) During your last full week at work, what percentage of the wee b) During the past 12 months, what percentage of your time did [Please note that 100% of your time should be allocated to the activities l anter 0%. Activity a. Meetings (management meetings, meetings with other divisions/departments) b. Policy and program design issues (background research, ad hoc working groups, working papers) c. Ministerial documents/ATIP requests (briefing notes, letters from the Minister, "green" dockets)	vou spend on e ek did you spen you spend on e listed. If you did Time spent CURREP % of previous week	ach activity? d on each activity? I not participate in per activity in IT position % of past 12 months	? Time spent PREVIOU % of previous week	sted, please per activity in JS position % of past 1: months	

Goal is to identify the costs of the program

Number of staff = 32

Questionnaire developed with the staff and management

Senior management must communicate intent and value

Third party hosting is essential



Example 2 – Legal Aid Services

- Legal aid services are offered based on an income and asset test (similar to that used in determining social assistance eligibility).
- Accused (federal assistance for legal aid is confined to serious criminal matters) apply either through the courts (usually their first appearance) or through a lawyer that takes legal aid cases.
- Some jurisdictions use staff counsel to deliver service; in other cases, private lawyers handle the case under a tariff schedule; and some jurisdictions use a mixed model.
- Business process models cover all aspects of case management from
 - eligibility determination
 - case management by staff counsel (research, representation....)
 - case management by private counsel (negotiation of fees, payment of fees, etc.)
 - recovery of costs (where clients are responsible for a portion of costs)
 - etc.
- ABC used to:
 - compare staff versus private productivity (cases per dollar expended)
 - costs of different types of cases (serious criminal, minor criminal, family law, poverty law, ...)



Example 2 – Legal Aid Services Client Intake



Example 2 – Legal Aid Services

Table 1: Major areas of activities for LAM					
Activities related to: Service line					
Criminal adult	Criminal youth	Civil			
Criminal adult	Criminal youth	Civil			
Criminal adult	Criminal youth	Civil			
Criminal adult	Criminal youth	Civil			
Criminal adult	Criminal youth	Civil			
Criminal adult	Criminal youth	Civil			
Criminal adult	Criminal youth	Civil			
Criminal	Criminal youth	Civil	All Service Lines		
Criminal adult	Criminal youth	Civil	All Service Lines		
Criminal adult	Criminal youth	Civil	All Service Lines		
Criminal adult	Criminal youth	Civil	All Service Lines		
	Se Criminal adult Criminal adult Criminal adult Criminal adult Criminal adult Criminal adult Criminal adult Criminal adult Criminal adult Criminal adult	Service lineCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youthCriminal adultCriminal youth	Service lineCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivilCriminal adultCriminal youthCivil		

Prairie Research Associates



FAQs

Q: Does everyone involved in the program need to complete the questionnaire? A: Ideally, yes. Sometimes senior management refuses to participate. Interview support staff to create proxy estimates of the senior management time.

Q: When does ABC work best?

A: Programs with a high proportion of staff, relatively few overhead and indirect costs, and well defined, discrete steps in the business processes, will support ABC best.

Q: When does ABC work less well?

A: Simple programs with few discrete steps to create outputs, and high capital/indirect costs, will not support ABC well.

Q: For Gs&Cs does one need to get each of the grantees to complete an ABC? A: Generally no. In these cases, economy and efficiency can be combined into one and the real issues are operational efficiency (quantity of output delivered per dollar allocated) and allocative efficiency (quantity of outcome realized per dollar allocated). The only ABC that is relevant is for the funding unit.

Q: What role does ABC play in performance measurement *A: Regular application of ABC becomes a useful method for tracking resource use as management makes process changes.*



Observations on VIP and FBP

- These programs have extensive processes are designed to deliver services and funding
- The activities are separable into functions such as eligibility, payments, arrangements for services in kind, interfacing and managing with third party contractors, quality assurance
- The evaluations would benefit from more detailed discussion processes and service lines.
- The logic models in Annex 1 are a start
- Some recommendations (e.g., VIP (2011)) to streamline would be more compelling with stronger measures of efficiency and modelling.
- The cost information relies on administrative financials there is no direct resource (time costs).
- Contracted out services do offer a clear statement of "hard" costs whether these are the minimum relies on effective tendering processes.



2. Qualitative approaches to CI5 Management interviews to support the measurement of efficiency and economy



- Qualitative measures serve two key roles in economy and efficiency
 - 1. Confirmation of processes
 - 2. Validation and explanation of quantitative measures
- Most management opinion on economy and efficiency is imprecise, general and designed to minimize local (within respondents' responsibility) indicators of waste
- The exceptions are:
 - 1. Managers that have retired
 - 2. Managers that have been appointed after a change in government
- Questions posed to management and other key informants should share quantitative and documentary data



How to use management interviews

- Never ask directly whether the program is efficient
- Always present evidence or draft material for reaction
- Recent internal (and external) audits can offer a very effective reference point
- Use senior managers to discuss overall strategies used to increase efficiencies and economies
- Management interviews are especially effective at two points in an evaluation
 - At the start to define business processes and to refine the evaluation questions and indicators
 - In reaction to evidence on economy and efficiency to support interpretation and analysis.



Example of Economy – Business Process

- Generic statistical business process model (GSBM)
- A model of data collection, processing and publication processes
- Adopted by Eurostat, UN, and Statistics Canada
- Offers a general framework to understanding the processes used to create and publish information
- Aligning resource use (staff hours) at each step, maps the "economy" of a program
- Once staff understand each activity step, it is possible to record time use (resource use) at each step



Variance analysis: Example of efficiency measures

Administrative costs (operational efficiency) of the Book Publishing Program (Canadian Heritage)

BPIDP administrative costs (\$ '000)						
	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	
Administration	451	505	680	1,058	1,193	
Total contribution	30,684	32,027	34,372	38,862	35,584	
Cost to deliver \$1 of funding	1.5¢	1.6¢	2.0¢	2.7¢	3.4¢	
Source: BPIDP program data, as of	March 22, 2004.					

In comparison, three arts programs delivered by the Department of Canadian Heritage had administrative efficiencies that range from:

- 13¢ per dollar awarded (Canadian Arts and Heritage Sustainability Program),
- 7¢ (Arts Presentation Canada),
- 2¢ (Cultural Spaces Canada)

These data serve as a basis for management dialogue and explanation about operational efficiency – it is important to discuss and analyze and place in context with all factors influencing the program



Management questions

- Example: What specific evidence exists that the program has become more efficient?
- Client opinion (fair to good especially if one probes careful and frames the question by referencing to service time, delayed payment...)
- **Line management opinion** (good, but make sure quantitative evidence on actual performance or client opinion is used as a foil)
- Senior federal and provincial manager opinion (usually limited to second hand representation distilled from high level scanning of audits and evaluations)

Example: Senior federal and provincial managers' opinion on efficiency of outsourcing or "insourcing"

- a. Poor Unspecified key informant interviews with a single guide
- **b.** Better Align interviews into cognate groups [Interview with senior managers (n=3); Interview with line managers at the regional level (n=2); interviews with service providers/contractors (n=13)
- **c.** Even better Align types of key informants to specific questions and create specialized interview guides for each class of key informant



2. Qualitative approaches to CI5 Evaluation matrix development for economy and efficiency



From logic model to matrix

- Management shapes the purpose of evaluation by selecting the questions of interest
- The evaluation matrix guides the integration of data collection and analysis
- The matrix determines the success of the evaluation
- It shapes the direction and depth of analysis



D	Issue #5: Efficiency and Economy							
Prairie Re:	1.	Were Program	 Comparison of planned 	Administrative data review:				
		resources used as planned? What	versus actual spending for components of VDP	 e.g., planned versus actual spending, SAP data, financial 				
		overruns or lower	and explanations for variances	derivation reports, management variance				
		than planned		reports (if available)				
		expenditures?		Key informant interviews				
				(internal)				
	1.	Are there lower- cost approaches	 Extent to which existing resources could be used 	Key informant interviews (internal)				
		to producing	to produce outputs at	Document review				
		Program outputs?	lower cost					
			 Availability/accessibility of other, lower cost 					
			resources to produce outputs					
	1.	Are there	 Approaches used in other 	Literature review				
		alternate ways to	jurisdictions and their	Key informant interviews				
		achieve similar	costs	(internal and external)				
		results at lower	 Internal and external 	Stakeholder consultations				
		cost?	stakeholder assessment	Case studies				
			of other options	-7				



Principles of evaluation matrix design (1)

- **Issues** need to align with the mission/goal of the program
 - High-level language is ok for the TB issues, but concrete and "grounded" plain language specifications are preferred for the evaluation plan
 - Concrete language and focus on processes and outputs supports measurement
 - Ensure that the service lines (program pillars) emerge at the issues level
- Do not replicate the TB structure ... it is too general
- Parsimony (a few focused issues) is preferred to many detailed questions

Frameworks that reproduce the TB issues/questions reflect lazy work that sabotages measurement and construction suggestions for change





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Principles of evaluation matrix design (2)

- Questions should be "operational" and specific to the program and service lines
 - Use the results chain and logic model to identify key delivery points/times/processes for creating *outputs*
 - It is often useful to combine economy and efficiency when
 - The choice of processes do not exist
 - Internal audits have validated the appropriateness of the costs of acquiring inputs
 - Processes have remained stable since the last (and presumably good evaluation)
 - Focus on immediate outcomes, linked to a strong theory of change
- Questions must tightly align with indicators and data collection
- Rank questions within an importance level (H,M,L) to direct the allocation of evaluation resources.



Principles of evaluation matrix design (3)

- Indicators describe the information needed to answer the question
- **Detailed data source descriptions** support reliable and valid data collection
- Align indicators with sources based on expected information content and quality
 - Do not interview low value key informants just to get statistical significance
 - Think outside the box
 - Meeting minutes with records of decisions often serve as excellent data sources for tracking service delivery
 - Budget revisions signal variances and sources of insight on economy



Concluding thoughts

- Planning for any evaluation starts with the program logic model
- It has two key dimensions
 - Service lines are the discrete flows of processes and outputs that support the realization of immediate outcomes (columns)
 - The transition from outputs to outcomes reflects the theory of change (rows)
- The evaluation matrix flows from general to specific
- Core issues must be parsed into specific questions reflecting the information needs of management and accountability for public sources
- The more specific the data sources, the more successful the evaluation
- Challenge the data



Instructions for afternoon

1:30pm – 2:30pm

- Define the matrix of issues, questions and indicators for the program
- Create the key questions for
 - Economy (cost of resources)
 - Efficiency
- What are the key data sources and the associated challenges in data collection?

2:45pm – 4:15pm

- What methods will be used to
 - Determine program costs?
 - Measure quality, quantity and cost of inputs?
 - Measure quality, quantity and cost of outputs?
- Do opportunities exist to measure immediate outcomes such as
 - Client satisfaction?
 - Reduction in institutional costs?
 - Maintenance of function within the home (older and injured veterans)?
 - Successful return to work (younger veterans)?
- 15 minute presentation