



Highlights of [GAO-06-342](#), a report to congressional committees

# OFFSHORING IN SIX HUMAN SERVICES PROGRAMS

## Offshoring Occurs in Most States, Primarily in Customer Service and Software Development

### Why GAO Did This Study

As states and the federal government have sought to streamline and improve administrative processes and take advantage of technological advances, both have outsourced certain functions to private firms. In some cases, these firms have used offshore resources to perform these functions. As a result, questions have been raised about the prevalence of offshoring in federal human services programs.

In response to widespread congressional interest, we conducted work under the Comptroller General's authority to determine (1) the occurrence and nature of offshoring, (2) the benefits state agencies have achieved through offshoring and problems they have encountered, and (3) the actions, if any, states and the federal government have taken to limit offshoring and why. We examined four federally-funded state-administered programs—Child Support Enforcement, Food Stamp, Temporary Assistance for Needy Families (TANF), and Unemployment Insurance—and two federally-administered programs that provide student financial aid—Pell Grant and Federal Family Education Loan (FFEL).

The Departments of Agriculture, Education, Health and Human Services, and Labor did not have comments on this report.

[www.gao.gov/cgi-bin/getrpt?GAO-06-342](http://www.gao.gov/cgi-bin/getrpt?GAO-06-342).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sigurd Nilsen at (202) 512-7215 or nilsens@gao.gov.

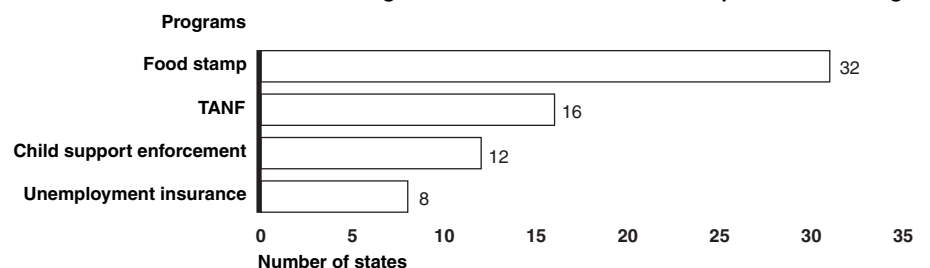
### What GAO Found

Some work is performed offshore in the majority of states for the four state-administered programs we reviewed, but no work is performed offshore for the two federally-administered student aid programs. Offshoring occurred in one or more programs in 43 of 50 states and the District of Columbia, most frequently in the Food Stamp and TANF programs. However, expenditures for services performed offshore in the four state-administered programs appear to be relatively small. The services states most frequently reported as being performed offshore in the Food Stamp and TANF programs were functions related to customer service, such as call centers, and in the Unemployment Insurance and Child Support Enforcement programs functions were related to software development. India was the most prevalent offshore location, followed by Mexico. We did not find any occurrences of offshoring in the Pell Grant and FFEL programs and the Department of Education's U.S. residency requirement for contractors performing high-risk work has the effect of limiting offshoring.

State officials reported that lower costs are a benefit of having services performed offshore and few officials identified problems with offshore service providers in their contracts. Fifteen state program directors reported having performed cost comparisons for their current contracts, based on differences in the location of services, and all reported that they would achieve cost savings if some of the work were performed offshore. On average, these comparisons showed that with some services performed offshore, contract costs would be between 0.3 and 24 percent less than if all the services in the contracts were to be performed in the United States. The few state officials that reported any problems with the quality of services provided by offshore contractors said that they involved difficulties in understanding the English of software programmers or customer service representatives.

While numerous actions have been proposed at the state and federal levels to limit offshoring by government agencies, few restrictions exist with respect to the six programs we reviewed. Two states—New Jersey and Arizona—have prohibited offshoring in state contracts. Some states have also taken other actions, such as requiring state agencies to disclose when state-contracted work is performed offshore or to report on the implications of offshoring. The federal government does not have regulations specifically related to the offshoring of services in the six programs we reviewed.

**Number of States in Which State Program Directors or Contractors Reported Offshoring**



Source: GAO survey.