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# CHILD SUPPORT ENFORCEMENT PRIVATIZATION

## Challenges in Ensuring Accountability for Program Results

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# Child Support Enforcement Privatization: Challenges in Ensuring Accountability for Program Results

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our work on the benefits and challenges of a growing phenomenon—privatization, or contracting with private sector firms, to provide social services and, in particular, child support enforcement (CSE) services. As political leaders and program managers throughout the nation are responding to calls for improved social services and lower costs, many are rethinking the role government plays in providing billions of dollars in services to millions of children and families and are focusing greater attention on contracting out as a way to meet service needs more cost-effectively. Our work on social service privatization has examined contracting in child care, child welfare, new block grants to assist needy families, and, the focus of this hearing today, CSE.

More specifically, my remarks will address the following questions: (1) Has privatization increased? (2) Has privatization increased efficiency and effectiveness? (3) What are the main challenges stemming from privatization? (4) What role can the federal government play in this critical area?<sup>1</sup> In order to provide a better understanding of these issues, I will use CSE contracting as an example to illustrate broader social service privatization issues we examined in the report entitled Social Service Privatization: Expansion Poses Challenges in Ensuring Accountability for Program Results ([GAO/HEHS-98-6](#), Oct. 20, 1997), which the Subcommittee requested and is releasing today.

In summary, we found that, first, most of the state and local governments we contacted have increased their contracting for social services, as indicated by the number and types of services privatized and the percentage of their program budgets paid to private contractors since 1990. Second, the few empirical studies that examine whether privatization has reduced program costs or improved services show mixed results to date. Third, the challenges that state and local governments encounter include developing clear contract specifications and implementing effective methods of monitoring contractor performance. Finally, governments at all levels are struggling with the best way to hold service providers accountable for results. In this changing environment, we believe that HHS can be more helpful by increasing its focus on developing and implementing methods of assessing program results.

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<sup>1</sup>To answer these questions, we interviewed officials in the Department of Health and Human Services (HHS), five states and selected local governments, unions, advocacy groups, national associations, and contracting organizations. We also reviewed articles and studies written by acknowledged experts in social service privatization.

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## Background

The CSE program enforces parental responsibility by locating noncustodial parents, establishing paternity and child support orders, and collecting support payments. These services, established under title IV-D of the Social Security Act, are available to both welfare and nonwelfare families. State CSE agencies, in conjunction with other organizations, have responsibility for administering the program at the state and local levels. The federal government pays two-thirds of the states' costs to administer the CSE program. The states can also receive incentive funds on the basis of the cost-effectiveness of CSE agencies in making collections. In 1996, federal funding for program administration and incentives totaled almost \$3 billion.

The most common form of privatization is contracting out, which typically involves efforts to obtain competition among private bidders to perform government activities. Depending on the program, government agencies can contract with other government entities—often through cooperative agreements—and with for-profit and not-for-profit organizations. For CSE, states can privatize particular services, such as locating noncustodial parents, establishing paternity, or collecting support owed, or they may contract with the private sector to provide all local child support services. States may also contract to upgrade automated data systems, which are used to help locate noncustodial parents and monitor child support cases.

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## Social Service Privatization Has Increased

While governments have long used contractors to provide a variety of services, contracting out has grown in recent years. Increasingly, states and local governments have contracted with for-profit and not-for-profit organizations to provide social services and related support activities, such as information resource management. A national study completed by the Council of State Governments in 1993 found that almost 80 percent of state social service departments surveyed in the study had expanded the privatization of social services in the preceding 5 years. In our own review, most of the 20 state and local governments we contacted said contracting for services had increased since 1990, as measured by the number and type of services privatized and the percentage of social service budgets paid to private contractors. For CSE, it was not uncommon before 1991 for states to contract out for limited activities, such as collecting support payments, but only in rare instances had states contracted with a for-profit organization to provide all the activities of a local CSE office, commonly known as full-service privatization. In contrast, by 1996, 15 states had turned to full-service privatization in selected local offices. This form of

contracting out includes a broader array of services, such as interviewing clients and establishing paternity.

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### **Desire for Cost-Effective Quality and Demands for Service Fuel Growth**

The state and local governments we examined, spurred by strong support from political leaders and top program managers, have contracted for social services for a variety of reasons. These reasons include the belief that private contractors are able to provide high-quality services more cost-effectively because of their management flexibility, an increasing demand for public services, and limited resources for additional in-house hiring. In some instances, governments have chosen to contract out to help compensate for the lack of government expertise in certain service areas, such as the development of automated information systems.

In CSE, as caseloads have grown to as high as 1,000 per worker in some areas and as governments have lacked resources to hire additional workers, political leaders have begun to emphasize the need for government to be more effective in ensuring that parents meet their child support responsibilities. In response, many governments have turned to contractors either to supplement state or local efforts or to replace them with privatized offices, thereby continuing efforts to privatize CSE services that have traditionally been delivered by the public sector. Future trends in child support privatization may also be affected by the new welfare law, which may lead states to contract for additional automated data processing expertise. Under this new law, states must enhance their current statewide systems to interface with other federal and state systems. These enhancements are needed to establish central case registries and new-hire directories. Considering social service privatization more broadly, state and local government officials and other experts told us they expect the growth of contracting out to continue following the recent changes to federal welfare legislation.

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### **Results of Social Service Privatization Are Mixed**

State and local governments have experienced mixed results in their efforts to reduce costs and improve services through social service privatization. While the number of evaluations is limited, studies show that the relative performance of public and private entities has varied among the social service programs we reviewed. Our report last year on full-service privatization in the CSE program found that the privatized offices in the three locations we examined for performance did better than or as well as public CSE programs in locating noncustodial parents,

establishing paternity and support orders, and collecting support owed.<sup>2</sup> In Virginia, the privatized office collected support payments from 41 percent of the cases we reviewed, a rate almost twice that of the similar public office with which we compared it. However, the relative cost-effectiveness of the privatized versus public offices varied in the four locations.<sup>3</sup> In two of the four locations we examined for cost-effectiveness, the public office was as cost-effective as or more cost-effective than its private counterpart. In Tennessee, one public office was 52 percent more cost-effective than the privatized office we reviewed, while the other privatized office we studied in Tennessee was about as cost-effective as its public counterpart.

States more frequently contract for selected CSE activities than for the full range of program services, such as contracting for the collection of child support payments.<sup>4</sup> States most commonly contract with the private sector for the collection of past-due support, especially that considered hard to collect. Under the terms of most collection contracts, states pay contractors only if collections are made, and payments to contractors are often a fixed percentage of collections. Privatizing collections has enabled states to collect support that they would have been unable to collect without hiring additional staff. In fiscal years 1994 and 1995, contractors in nine states collected nearly \$60 million and were paid about \$6 million.

Privatization in the CSE program also involves contracting out to upgrade state and local government automated data systems. As we reported earlier, these systems appear to have improved caseworker productivity by helping track court actions relating to paternity and support orders and amounts of collections and distributions. However, in some cases, contractors have encountered difficulties in meeting state specifications for the upgraded systems, resulting in large cost overruns and delays in implementing the new systems.<sup>5</sup>

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<sup>2</sup>Child Support Enforcement: Early Results on Comparability of Privatized and Public Offices (GAO/HEHS-97-4, Dec. 16, 1996).

<sup>3</sup>Cost-effectiveness was defined as the ratio of each office's administrative costs to collections, expressed as the cost to collect \$1.

<sup>4</sup>Child Support Enforcement: States' Experience With Private Agencies' Collection of Support Payments (GAO/HEHS-97-11, Oct. 23, 1996).

<sup>5</sup>Child Support Enforcement: Strong Leadership Required to Maximize Benefits of Automated Systems (GAO/AIMD-97-72, June 30, 1997).

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## **States and Localities Face Several Challenges in Privatizing Social Services**

Officials from state and local governments, unions, national associations, advocacy groups, and contracting organizations cited several major challenges governments face when privatizing social services: (1) obtaining a sufficient number of qualified bidders, (2) developing contracts with clear specifications, and (3) assessing contractor performance. Even when services are provided by contractors, the government entity remains responsible for the use of public resources and the quality of services provided. Unless the entity meets these challenges, it may be difficult for state and local governments to reduce program costs and improve services.

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## **Competitive Markets for Social Services Are Sometimes Lacking**

Several experts in social service privatization and state and local government officials believe that without a sufficient number of qualified bidders, the likelihood of reducing costs and improving service quality through privatization declines. While many state and local social service program officials we interviewed reported that they were generally satisfied with the number of qualified bidders in their state or locality, they expressed concern about the limited number of qualified bidders in certain situations. Several state and local government officials said they had occasionally encountered the problem of an insufficient number of qualified bidders, especially in rural areas and when the service for which they contracted required technical skills in such areas as information resource management. In the case of CSE, when states contract out activities that are similar to those commonly performed in the private sector, such as collection services that debt-collection agencies perform, state officials and contractors told us that there may be many qualified bidders. However, when states move to broaden the scope of the contract to full-service privatization of child support activities, the prevalence of qualified contractors may decrease sharply. Generally, the requirement to provide a wider array of social services could discourage some contractors from bidding because they might have to hire additional experts and face higher start-up costs.

In social service programs other than CSE, state and local governments are experimenting with alternative approaches in order to benefit from competition. For example, in Wisconsin, public employees are competing against nongovernment entities to provide welfare-to-work services in the Wisconsin Works program. Governments may also award a contract to a private provider to serve part of the caseload and allow the public agency to serve the rest. In California, officials concluded that when public and

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private agencies worked side by side in welfare-to-work programs, both sets of personnel were motivated to improve their performance.

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## Developing Contracts Poses Challenges

Successful contracting out requires devoting adequate attention and resources to both contract development and monitoring. State and local governments have to develop clearly specified program goals and performance measures to ensure that they are getting what they asked for and contractors achieve intended program results. Although some program officials told us they had ample staff who were experienced with these tasks, others said they had an insufficient number of staff with the necessary skills to prepare and negotiate contracts. When contract requirements are vague, contractor performance cannot be easily evaluated.

Once contracts are in place, contract monitoring should assess a contractor's compliance with statutes, regulations, and the terms of the agreement, as well as evaluate the contractor's performance in delivering services and achieving desired program goals. In this and previous reviews of privatization efforts, we found that monitoring contractors' performance was the weakest link in the privatization process.<sup>6</sup>

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## Privatization and Accountability for Results

The increase in privatization comes at a time when governments at all levels are trying to hold service providers accountable for results, amid pressures to demonstrate improved performance while cutting costs. Privatization actually enhances the importance of focusing on program results, so that governments can know what they are buying and assess whether services are being provided effectively and efficiently.

We have found that, depending on the program and the entity's experience with performance measurement, setting clear goals and measuring performance can be difficult.<sup>7</sup> For example, programs may face competing or conflicting goals. In child welfare, program managers and workers must reconcile the competing goals of ensuring the safety of a child, which may argue for removing a child from his or her home, with the goal of preserving the family. As a result, measuring success may be difficult in some cases. In contrast with other social service programs, the goals of

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<sup>6</sup>Privatization: Lessons Learned by State and Local Governments (GAO/GGD-97-48, Mar. 14, 1997).

<sup>7</sup>The Government Performance and Results Act: 1997 Governmentwide Implementation Will Be Uneven (GAO/GGD-97-109, June 2, 1997).



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the CSE program—establishing paternity, obtaining support orders, and collecting child support payments—can be more easily quantified.

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## **HHS Has a Key Role**

Concurrent with the growth in privatization, recent federal initiatives, such as the Government Performance and Results Act of 1993, have attempted to improve program management throughout the government by focusing on the intended results of federal programs rather than on program inputs and processes, such as staffing levels and number of tasks completed. The act's stated purpose is to improve program effectiveness and service delivery, among other objectives. Implementing the Government Performance and Results Act will require the Department of Health and Human Services (HHS) and other federal agencies to move from a focus on compliance to a focus on developing and implementing methods of assessing program results.

Through HHS' dual responsibilities of providing technical assistance to state and local governments and monitoring their performance, the agency can help states overcome the difficulties of ensuring that contractors achieve intended results. Several state and local government officials told us that HHS could help the states and localities develop methods of assessing program results by clarifying program goals, providing more responsive technical assistance, and sharing best practices in measuring the performance of social service providers.

HHS has traditionally focused more on monitoring compliance with legislation and regulations than on results. However, in CSE, HHS has made progress in integrating the assessment and tracking of program results in its oversight function. Following its designation as a pilot agency to test the implementation of the Government Performance and Results Act, HHS' Office of Child Support Enforcement (OCSE), in conjunction with the states, began to reorient its management of the CSE program. OCSE and its state partners agreed on a 5-year strategic plan containing program goals and objectives and developed performance measures for assessing state performance.<sup>8</sup> In addition to conducting traditional compliance audits, CSE auditors have recently begun to assess the accuracy of state-reported data on program results. Also, OCSE and the states, in accordance with the new welfare law, developed and submitted to the Congress proposed changes in the program's incentive funding structure intended to reorient incentive payments toward rewarding state progress in achieving program goals.

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<sup>8</sup>Child Support Enforcement: Reorienting Management Toward Achieving Better Program Results (GAO/HEHS/GGD-97-14, Oct. 25, 1996) describes how OCSE worked with the states to establish a framework for improving program management.

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These initiatives may serve as models for HHS as it attempts to enhance accountability for results.

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## Conclusions

Our examination of social service privatization suggests that the magnitude of privatized services has grown and is likely to continue to grow. Under the right conditions, contracting for social services may result in improved services and cost savings. Social service privatization is likely to work best at the state and local levels when competition is sufficient and governments develop contract requirements, monitor performance, and track program results over time.

Several concurrent developments—increasing social service privatization, emerging needs for clear performance measures and effective monitoring, and growing federal orientation toward achieving better program results—should facilitate more effective privatized social services. In responding to the requirements of the Government Performance and Results Act, HHS could help states find better ways to manage contracts for results. This could, in turn, help state and local governments ensure that they are holding contractors accountable for the results they are expected to achieve, thus optimizing their gains from privatization.

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Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or Members of the Subcommittee may have.

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# Related GAO Products

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Social Service Privatization: Expansion Poses Challenges in Ensuring Accountability for Program Results ([GAO/HEHS-98-6](#), Oct. 20, 1997).

The Results Act: Observations on the Department of Health and Human Services' April 1997 Draft Strategic Plan ([GAO/HEHS-97-173R](#), July 11, 1997).

Child Support Enforcement: Strong Leadership Required to Maximize Benefits of Automated Systems ([GAO/AIMD-97-72](#), June 30, 1997).

Government Performance and Results Act: 1997 Governmentwide Implementation Will Be Uneven ([GAO/GGD-97-109](#), June 2, 1997).

Managing for Results: Analytic Challenges in Measuring Performance ([GAO/HEHS/GGD-97-138](#), May 30, 1997).

Privatization: Lessons Learned by State and Local Governments ([GAO/GGD-97-48](#), Mar. 14, 1997).

Child Support Enforcement: Early Results on Comparability of Privatized and Public Offices ([GAO/HEHS-97-4](#), Dec. 16, 1996).

Child Support Enforcement: Reorienting Management Toward Achieving Better Program Results ([GAO/HEHS/GGD-97-14](#), Oct. 25, 1996).

Child Support Enforcement: States' Experience With Private Agencies' Collection of Support Payments ([GAO/HEHS-97-11](#), Oct. 23, 1996).

Child Support Enforcement: States and Localities Move to Privatized Services ([GAO/HEHS-96-43FS](#), Nov. 20, 1995).

District of Columbia: City and State Privatization Initiatives and Impediments ([GAO/GGD-95-194](#), June 28, 1995).

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