United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Human Resources, Committee on Government Reform and Oversight, House of Representatives

October 1997

SOCIAL SERVICE PRIVATIZATION

Expansion Poses Challenges in Ensuring Accountability for Program Results

GAO/HEHS-98-6

GAO

United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and
Human Services Division

B-276630

October 20, 1997

The Honorable Christopher Shays
Chairman, Subcommittee on Human Resources and
Intergovernmental Relations
Committee on Government Reform and Oversight
House of Representatives

Dear Mr. Chairman:

Political leaders and program managers are responding to calls for improved service delivery and reduced costs by rethinking the role government plays in providing services. Even though governments have for decades privatized a broad range of government social services, interest has been renewed in privatization as a means of coping with constraints on public resources. Moreover, recent changes in federal welfare legislation have focused attention on privatizing, or contracting out, social services, in particular. Four social programs affected by this legislation—child care, child welfare, child support enforcement, and new block grants to assist needy families—constitute a large share of the nation's welfare system. Together these programs serve millions of children and families, and in 1996, the federal government provided states with about $20 billion to administer them and to provide a diverse array of services. Debate has focused on whether privatization improves services and increases efficiency and on what the appropriate role of the federal government is. Yet little is known about the extent and policy implications of privatizing these social services.

This report, which responds to your request that we examine issues related to social service privatization, focuses on the following three key questions: (1) What is the recent history of state and local government efforts to privatize federally funded social services? (2) What are the key issues surrounding state and local privatized social services? (3) What are the federal policy implications of state and local social service privatization? To answer these questions, we reviewed and synthesized selected studies and articles on social service privatization. In addition, we interviewed state and local officials in five states that have gained some experience in the privatization of social services (California, Massachusetts, Texas, Virginia, and Wisconsin), as well as officials from the Department of Health and Human Services (HHS), national associations and advocacy groups, unions, and contractors. We focused on the four social service programs mentioned above. HHS establishes policies and

oversees state administration of all four programs. Appendix I contains a more complete discussion of our scope and methodology.

Results in Brief

Since 1990, more than half of the state and local governments we contacted have increased their contracting for services, as indicated by the number and type of services privatized and the percentage of social service budgets paid to private contractors. The Council of State Governments corroborated this trend in a 1993 national study that reported that almost 80 percent of the state social service departments surveyed had expanded privatization of social services in the preceding 5 years. Moreover, many experts we consulted expect privatization to expand further. Our own research found that the recent increases in privatization were most often prompted by political leaders and top program managers, who were responding to an increasing demand for public services and a belief that contractors can provide higher-quality services more cost-effectively than can public agencies. In attempts to provide more cost-effective services, for example, more states are contracting out larger portions of their child support enforcement programs. In addition, state and local governments are turning to contractors to provide some services and support activities in which they lack experience or technical expertise, such as large management information systems or systems to pay program benefits electronically.

State and local governments face several key challenges as they plan and implement strategies to privatize their social services. First is the challenge to obtain sufficient competition to realize the benefits of privatization. While there is some disagreement among experts, some believe that the unique nature of social services may limit the number of contractors able or willing to compete. The results of the few studies that examine this question are inconclusive. Most state and local program officials we contacted reported that they were satisfied with the number of qualified bidders in their state or locality. However, some of these officials expressed concern about an insufficient number of qualified bidders in rural areas or in contracts requiring highly skilled staff. Second, state and local governments often have little experience in developing contracts that specify program results in sufficient detail to effectively hold contractors accountable. Third and finally, it can be particularly difficult for states to monitor performance in some social service programs, whether provided directly by the government or through a contract. Weaknesses in monitoring contractor performance make it difficult to ensure that all intended beneficiaries have access to services and to determine whether

private providers achieve desired program goals and avoid unintended negative consequences.

Increased privatization raises questions about how HHS will fulfill its obligation to ensure that broad program goals are achieved. Assessing program results presents a significant challenge throughout the government, yet it is an important component of an effective system for holding service providers accountable. The difficulties the states have in monitoring privatized social services focus attention on the need to improve accountability for results. Some of the state and local officials we interviewed believe that, to help ensure that privatized social services are effective, HHS should clarify its program goals and develop performance measures states can use to monitor and evaluate contractor efforts. The Government Performance and Results Act of 1993 requires federal agencies like HHS to focus their efforts on achieving better program results. While focusing on results can be complex and challenging for any organization, HHS' practice of holding states accountable primarily for compliance with statutes and regulations may make the transition particularly difficult. However, promising approaches are available within HHS in moving to a program results orientation, such as some recent efforts by the federal Office of Child Support Enforcement.

Background

The four social service programs included in our review—child care, child welfare services, child support enforcement, and the Temporary Assistance for Needy Families (TANF) block grant—provide a broad range of services and benefits for children and families. While each program is administered by HHS' Administration for Children and Families, primary responsibility for operating these programs rests with state governments. Within many states, local governments operate social service programs with considerable autonomy. The major goals, services, and federal funding for the four programs are described below.

Child Care

Federally funded child care services consist primarily of subsidized care for children of low-income families while their parents are working, seeking work, or attending training or education. Other subsidized child care activities include providing information, referrals, and counseling to help families locate and select child care programs and training for child care providers. State child care agencies can provide child care directly, arrange for care with providers through contracts or vouchers, provide

cash or vouchers in advance to families, reimburse families, or use other arrangements. Two settings for which states pay for care are

- family day care, under which care is provided for a small group of children in the caregiver's home, and
- center care, under which establishments care for a group of children in a nonresidential setting, such as nonprofit centers sponsored by schools or religious organizations and for-profit centers that may be independent or members of a chain.

The primary federal child care subsidy program is the Child Care Development Block Grant (CCDBG).[1] In fiscal year 1996, about $2 billion was distributed to states to assist low-income families obtain child care so they could work or attend training or education. Under CCDBG, states are not required to provide state funds to match federal funding.

Child Welfare Services

Child welfare services aim to (1) improve the conditions of children and their families and (2) improve—or provide substitutes for—functions that parents have difficulty performing. Whether administered by a state or county government, the child welfare system is generally composed of the following service components:

- child protective services that entail responding to and investigating reports of child abuse and neglect, identifying services for the family, and determining whether to remove a child from the family's home;
- family preservation and family support services that are designed to strengthen and support families who are at risk of abusing or neglecting their children or losing their children to foster care and that include family counseling, respite care for parents and caregivers, and services to improve parenting skills and support child development;
- foster care services that provide food and housing to meet the physical needs of children who are removed from their homes and placed with a foster family or in a group home or residential care facility until their family can be reunited, the child is adopted, or some other permanent placement is arranged;
- adoption services that include recruiting potential adoptive parents, placing children in adoptive homes, providing financial assistance to

[1]The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 expanded the CCDBG to include child care services that were previously authorized under title IV-A of the Social Security Act and the Omnibus Budget Reconciliation Act of 1990. These services include Aid to Families With Dependent Children (AFDC) Child Care, Transitional Child Care for former AFDC recipients, and At-Risk Child Care for low-income working families.

adoptive parents to assist in the support of special needs children, and initiating proceedings to relinquish or terminate parental rights for the care and custody of their children; and

- independent living services that are activities for older foster children—generally age 16 and older—to help them make the transition from foster care to living independently.

Almost all states are also operating or developing an automated foster care and adoption data collection system. Federal funding for child welfare services totaled about $4 billion in fiscal year 1996. Nearly 75 percent of these funds were for foster care services.[2] Depending on the source, the federal match of states' program costs can range from 50 to 78 percent.

Child Support Enforcement

The child support enforcement program enforces parental child support obligations 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. In addition, states are operating or developing automated management information systems to help locate noncustodial parents and monitor child support cases. The federal government pays two-thirds of the states' costs to administer the child support enforcement program. The states can also receive incentive funds based on the cost-effectiveness of child support enforcement agencies in making collections. In 1996, federal funding for program administration and incentives totaled almost $3 billion.

TANF Block Grant

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 made major changes to the nation's welfare system. In place of AFDC and the Job Opportunities and Basic Skills Training (JOBS) programs, the 1996 law created a block grant for states, or TANF, that has more stringent requirements than AFDC for welfare parents to obtain jobs in return for their benefits.[3] In 1996, the federal government spent about $11 billion on AFDC benefit payments, and JOBS provided almost $1 billion to help families on welfare obtain education, training, and work experience to become

[2]Primary federal funding sources for child welfare services are from the following titles of the Social Security Act: title IV-B, Part 1 Child Welfare Services; title IV-B, part 2 Family Preservation and Family Support Services; title IV-E Foster Care; title IV-E Adoption Assistance; and title IV-E Independent Living.

[3]The TANF block grant also replaced AFDC Administration and the Emergency Assistance Program. The latter provided emergency aid to families to avoid destitution of a child or to provide living arrangements in a home for the child.

self-sufficient. TANF provides states flexibility in, among other things, providing assistance to needy families and promoting job preparation and work. Federal spending through the TANF block grant is currently funded at $16.4 billion per year. States are not required to match federal funds but must maintain specified historic levels of state spending on behalf of families eligible for TANF.

Social Service Privatization Has Expanded in Recent Years

The federal, state, and local governments have for decades privatized a broad range of government activities in both nonsocial and social service programs. This trend is continuing. Since 1990, more than half of the state and local governments we contacted have increased their contracting for services, as indicated by the number and type of services privatized and the percentage of social service budgets paid to private contractors. Spurred by political leaders and top program managers, states and localities privatized social services in an attempt to reduce program costs and improve services by using the technology and management flexibility they believe private contractors offer. In addition, studies we examined and federal, state, and local government officials we interviewed expect privatization to increase with the enactment of recent federal welfare legislation and anticipated managed care initiatives in child welfare. State and local officials also anticipated increased contracting for services in the child care and child support enforcement programs.

Privatization Is Not a New Tool

Privatization is commonly defined as any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector. Privatization can take various forms, including divestiture, contracting out, vouchers, and public-private partnerships. Most common is contracting, which typically entails efforts to obtain competition among private bidders to perform government activities. With contracting, the government remains the financier and is responsible for managing and setting policies on the type and quality of services to be provided. Depending on the program, government agencies can contract with other government entities—often through cooperative agreements—and with for-profit and nonprofit agencies.

Using a variety of strategies, the federal, state, and local governments have for decades relied on private entities to provide a wide range of services and program activities. Programs as diverse as corrections, transportation, health services, and information resource management have been privatized to varying degrees. As all levels of government attempt to meet

existing or growing workloads with fewer resources, privatization has more frequently been considered a viable means of service delivery.

Child care, child welfare, child support enforcement, and welfare-to-work programs have long used contractors to provide certain services. For example, most states and local governments have relied on an existing network of private day care centers to provide certain child care services. Foster care services in child welfare have also traditionally been provided by private providers. Finally, state and local governments have also generally relied on contractors to provide certain automated data processing and related support activities.

State and Local Governments Increase Social Service Privatization

In addition to state and local governments' past use of contractors in social services, a national study has reported recent growth in state privatization of these programs. In its 1993 national study, the Council of State Governments reported that almost 80 percent of the state social service departments surveyed in the study indicated they had expanded their use of privatization of social services in the preceding 5 years.[4] The council's study reported that child care services and several child welfare services, such as adoption, foster care, and independent living support services, were among the services in which privatization increased the most.

During our review, we found that privatization of social services has generally continued to expand, despite certain challenges confronting state and local governments seeking to privatize services, as discussed below. Representatives of several national associations told us that state and local social service privatization has increased throughout the country in the last several years, as indicated by the percentage of state and local social service budgets paid to contractors.[5] Among the state and local governments we contacted, most officials said the percentage of program budgets paid to contractors has increased since 1990.

[4]The Council of State Governments is a national association representing a range of state government professions, including budget, financial management, and program personnel. See also K. S. Chi, "Privatization in State Government: Trends and Options," prepared for the 55th training conference of the American Society for Public Administration, Kansas City, Missouri, July 1994. While this study reports growth in social service privatization based on self-reported information from state and local government officials, no national data on the actual dollar volume of social service privatization are available in this study or in any of the other studies we reviewed.

[5]We obtained perspectives on trends in social service privatization from the National Association of Counties, National Conference of State Legislatures, and the National Governors' Association, among others.

While the percentage of funds paid to private contractors has generally increased in the states and programs we selected, we found that the proportion of state and local social service budgets paid to private contractors varies widely among the programs we reviewed. According to local program officials, for example, the Los Angeles County child support enforcement program spent less than 5 percent of its $100 million program budget on contracted services in 1996. In comparison, program officials said the child care component of San Francisco's Greater Avenues for Independence (GAIN) program spent all its program funds, or $2.1 million, on privatized services in 1996.[6]

State and local government officials we interviewed generally said that, in addition to the increased and varied portion of program budgets spent on privatized services, the number of functions performed by private contractors has increased since 1990. In Virginia, for example, officials said that the state has recently begun to contract out case management and assessment functions in its welfare-to-work program, a function previously performed by government employees. State and local governments have also recently begun to privatize a broad array of child support enforcement services. While it is not uncommon for states to contract out certain child support enforcement activities, in 1996 we reported that 15 states had begun to privatize all the activities of selected child support enforcement offices in an effort to improve performance and handle growing caseloads.[7]

For most of the state and local governments we interviewed, privatized social services are now provided by nonprofit organizations, especially in child welfare. However, most of the state and local officials we contacted indicated that they also contract with for-profit organizations to deliver social services. The state and local officials we interviewed told us that among their programs the proportion of the budget for private contractors that is spent on for-profit organizations varied, ranging from as low as zero for child welfare to as high as 100 percent for child support enforcement. Within each program, the proportion of funds paid to for-profit organizations has remained about the same since 1990.

[6]The GAIN program is California's version of the former federal JOBS program.

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

States and Localities Privatize for Various Reasons

A variety of reasons have prompted states and localities to contract out social services. The growth in privatization has most often been prompted by strong support from top government officials, an increasing demand for public services, and the belief that private contractors are able to provide higher-quality services more cost-effectively because of their management flexibility. In addition, state and local governments have chosen to contract out to compensate for the lack of government expertise in certain service areas, such as in the development of automated information systems. The following examples highlight common privatization scenarios:

- Several local child support offices in Virginia each contracted with a for-profit organization to provide a full range of program services such as locating absent parents, establishing paternity and support orders, and collecting support payments. The local offices undertook these contracts to improve program effectiveness and efficiency.
- Some California counties privatized job training and placement services in their GAIN program as a way to meet new state-legislated program requirements or avoid hiring additional government employees.
- Some state and local governments have expanded already privatized services in programs such as child care to respond to a greater public demand for services.
- Texas contracts to provide food stamp and other benefits electronically to use the technical expertise of private providers.

Privatization Expansion Is Expected to Continue

State and local government officials and other experts told us they expect the growth of privatization to continue. Increasingly, future trends in privatization may incorporate additional functions traditionally performed by state and local governments. For example, as a result of the recent welfare legislation, state and local governments now have greater flexibility in deciding how welfare programs will be administered, including an expanded authority that allows them to use private contractors to determine eligibility, an activity that has traditionally been conducted by government employees. Additionally, the Congress has shown greater interest in broadening the range of government activities that could be privatized in other social service programs. Such activities include eligibility and enrollment determination functions in the Medicaid and Food Stamps programs. The Clinton administration has opposed these proposals to expand privatization, stating that the certification of eligibility for benefits and related operations, such as verification of income and other eligibility factors, should remain public functions.

In addition to the changes anticipated from the welfare legislation and more recent legislative proposals, state and local officials anticipate that privatization will continue to increase in the three other social service programs we examined. In child welfare services, according to a 1997 Child Welfare League of America survey, 31 states are planning or implementing certain management functions or use of managed care approaches to apply some combination of managed care principles—currently used in physical and behavioral health services—in the management, financing, and delivery of child welfare services. These principles include contracting to meet all the needs of a specific group of clients for a set fee rather than being paid for each service they provide. Also, in child care programs, states are increasingly privatizing the management of their voucher systems. In these cases, contractors manage the system that provides vouchers or cash certificates to families who purchase child care services from authorized providers. Finally, in child support enforcement, state program officials expect that more states will begin to contract out the full range of child support services.

Privatized Social Services Decreased in Certain Locations

In two California counties we contacted, county officials, after initially contracting out for certain services, decided to discontinue the practice and now have those services performed by county employees. Los Angeles County, for example, had contracted with a for-profit organization to perform the case management function in its GAIN program; however, following a change in the composition of the county's board of supervisors, the board opposed privatizing these functions. Program officials did not renew the contract. In San Bernardino County's GAIN program, a portion of the job search services was initially contracted out because the county did not itself have the capacity to provide all such services when the program was first implemented. Once the county hired and trained the necessary public workers, the contractor's services were no longer needed and the contract was terminated. In both these cases, local program officials were satisfied with the contractors' performance.

Competition, Contract Development, and Monitoring Issues Could Undermine Privatization Goals

Federal, state, and local government officials, union representatives, national associations, advocacy groups, contractors, and other experts in social service privatization identified several challenges that state and local governments most often encountered when they privatized social services. These challenges include obtaining a sufficient number of qualified bidders, developing sufficiently detailed contract specifications, and implementing effective methods of monitoring contractor

performance. The challenges may make it difficult for state and local governments to reduce program costs and improve services. State and local government officials we contacted reported mixed results from their past and present efforts to privatize social services. However, few empirical studies compare the program costs and quality of publicly and privately provided services, and the few studies that do make such comparisons report mixed results overall.

Competitive Market for Social Services Is Sometimes Insufficient

Competition has long been held as a principle central to the efficient and effective working of businesses in a free-market economy. In a competitive market, multiple parties attempt to secure the business of a customer by offering the most favorable terms. Competition in relation to government activities can occur when private sector organizations compete among themselves or public sector organizations compete with the private sector to conduct public sector business. In either case, competition for government business attempts to bring the same advantages of a competitive market economy—lower prices and higher-quality goods or services—to the public sector.

Competitive markets can help governments reduce program costs and improve service quality. In many cases, the benefits from competition have been established for nonsocial service programs, such as trash collection, traffic enforcement, and other functions intended to maintain or improve a government's infrastructure. State and local governments that have contracted out public works programs competitively have documented cost savings, improved service delivery, or gained customer satisfaction.[8] By contracting out, for example, the city of Indianapolis has already accrued cost savings and estimated that it would save a total of $65 million, or 42 percent, in its wastewater treatment operations between 1994 and 1998. The city also reported that the quality of the water it treated improved. In addition, New York State estimated that it saved $3 million annually by contracting out certain economic development and housing loan functions.

However, not all experts agree whether it is possible to achieve the same results with privatization of social service programs. Some experts believe that competition among social service providers can indeed reduce program costs and improve services for children and families since, in their view, private firms inherently deliver higher-quality services at lower

[8]Privatization: Lessons Learned by State and Local Governments (GAO/GGD-97-48, Mar. 14, 1997). Estimated cost savings and other results are as reported by the governments. We did not independently verify these results.

costs than public firms. In contrast, other experts hold that social services are significantly different from services such as trash collection or grounds maintenance—so different, in fact, that one cannot assume that competition will be sufficient to increase effectiveness or reduce costs. Several factors make it difficult to establish and maintain competitive markets with contractors that can respond to the diverse and challenging needs of children and families. These factors include the lack of a large number of social service providers with sufficiently skilled labor, the high cost of entry into the social services field, and the need for continuity of care, particularly in services involving residential placement or long-term therapy. Some experts believe that these constraints reduce the likelihood of achieving the benefits anticipated from social service privatization.[9] Appendix II contains a more detailed comparison of characteristics associated with privatizing social services and nonsocial services.

Many state and local program officials we contacted reported that they were satisfied with the number of qualified bidders in their state or locality. However, some of these officials expressed concern about the insufficient number of qualified bidders, especially in rural areas and when the contracted service calls for higher-skilled labor. For example, in certain less-urban locations, officials found only one or two contractors with the requisite skills and expertise to provide needed services. In Wisconsin, some county child welfare officials told us that their less-populous locations made them dependent on a single off-site contractor to provide needed services. As a result, program officials believed, the contractor was less responsive to local service needs than locally based public providers usually are. Similarly, officials in Virginia's welfare-to-work program said rural areas of the state have less-competitive markets for services, thereby minimizing benefits from contracting by raising contractor costs to levels higher than they would be in a more competitive market.

State and local officials also encountered situations with few qualified bidders when they contracted for activities that required higher-skilled labor. In Texas, only one contractor bid to provide electronic benefit transfer services for recipients of cash assistance and other benefits, and the bid exceeded anticipated cost estimates. Faced with only one bidder, the state had to rebid the contract and cap the funds it was willing to pay.

[9]This section was based on information from J. I. Nelson, "Social Welfare and the Market Economy," Social Science Quarterly (Dec. 1992); J. O'Looney, "Beyond Privatization and Service Integration: Organizational Models for Service Delivery," Social Service Review (Dec. 1993); and S. R. Smith and M. Lipsky, "Privatization of Human Services: A Critique," Nonprofits for Hire: The Welfare State in the Age of Contracting (1994).

Although state and local program officials reported instances of insufficient qualified bidders, we found few empirical studies of social service programs that examine the link between the level of competition and costs, or service quality, and these studies taken together were inconclusive.

Given the uncertainties of the market, several state and local governments can use creative approaches to augment the competitive environment in order to reduce program costs and improve services. For example, under "managed competition" a government agency may prepare a work proposal and submit a bid to compete with private bidders. The government may award the contract to the bidding agency or to a private bidder. In Wisconsin, counties are competing against nongovernment providers to provide welfare-to-work services in the state's Wisconsin Works program.

Some state and local governments have configured their service delivery system to encourage ongoing competition between private and public providers. In some cases, a jurisdiction awards a contract to a private provider to serve part of its caseload and allows its public agency to continue to serve the rest. The competition fostered between public and private providers can lead to improved services, as in both the Orange County and San Bernardino County GAIN programs. In these counties, program officials concluded that when public agencies provide services side-by-side with private providers, both government personnel and private sector personnel were motivated to improve their performance. In Orange County, GAIN program job placements increased by 54 percent in 1995 when both the public agency and a private provider provided job placements to different groups of clients, compared with 1994, when only the public agency provided job placement services to all clients.

While many state and local government officials advocate privatization, others believe that it is possible, through better management, to reduce the costs and improve the quality of services delivered by programs that government employees administer. Internal management techniques include basing performance on results, consolidating and coordinating human services, and reforming management systems. For example, the Oregon Option, a partnership between the federal government and the state, aims to, among other things, improve the delivery of social services by forging partnerships among all levels of government for the purpose of focusing on measurable results.

Officials Cited Challenges in Developing and Monitoring Contracts

Successful contracting requires devoting adequate attention and resources to contract development and monitoring. Even when contractors provide services, the government entity remains responsible for the use of the public resources and the quality of the services provided. Governments that privatize social services must oversee the contracts to fully protect the public interest.

One of the most important, and often most difficult, tasks in privatizing government activities is writing clear contracts with specific goals against which contractors can be held accountable. Although some program officials told us that they had an ample number of staff who were experienced with these tasks, others said that they had an insufficient number of staff with the requisite skills to prepare and negotiate contracts. When contract requirements are vague, both the government and contractor are left uncertain as to what the contractor is expected to achieve.

Monitoring for Results Is Difficult

Contract monitoring should assess the contractor's compliance with statutes, regulations, and the terms of the agreement, as well as evaluate the contractor's performance in delivering services, achieving desired program goals, and avoiding unintended negative results. In this and previous reviews of privatization efforts, we found that monitoring contractors' performance was the weakest link in the privatization process.[10]

Increasingly, governments at all levels are trying to hold agencies accountable for results, amid pressures to demonstrate improved performance while cutting costs. Privatization magnifies the importance of focusing on program results, because contractor employees, unlike government employees, are not directly accountable to the public. However, monitoring the effectiveness of social service programs, whether provided by the government or through a contract, poses special challenges because program performance is often difficult to measure.

State and local governments have found it difficult to establish a framework for identifying the desired results of social service programs and to move beyond a summary of a program's activities to distinguish desired outcomes or results of those activities, such as the better well-being of children and families or the community at large. For example, a case worker can be held accountable for making a visit,

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

following up with telephone calls, and performing other appropriate tasks; however, it is not as easy to know whether the worker's judgment was sound and the intervention ultimately effective.[11]

Without a framework for specifying program results, several state and local officials said that contracts for privatized social services tend to focus more on the day-to-day operations of the program than on service quality. For example, officials in San Francisco's child care program told us that their contracts were often written in a way that measured outputs rather than results, using specifications such as the number of clients served, amount of payments disbursed, and the total number of hours for which child care was provided. In addition, monitoring efforts focused on compliance with the numbers specified in the contracts for outputs rather than on service quality. These practices make it difficult to hold contractors accountable for achieving program results, such as providing children with a safe and nurturing environment so that they can grow and their parents can work.

Reliable and complete cost data on government activities are also needed to assess a contractor's overall performance and any realized cost savings. However, data on costs of publicly provided services are not always adequate or available to provide a sound basis for comparing publicly and privately provided services. In some cases, preprivatization costs may not be discernible for a comparable public entity, or the number of cases available may be insufficient to compare public and privatized offices' performance. In other cases, the privatized service may not have been provided by the public agency.

To address many of the difficulties in monitoring contractor performance, government social service agencies are in the early stages of identifying and measuring desired results. For example, California's state child care agency is developing a desired-results evaluation system that will enable state workers to more effectively monitor the results of contractors' performance. Many agencies may need years to develop a sound set of performance measures, since the process is iterative and contract management systems may need updating to establish clear performance standards and develop cost-effective monitoring systems. In the child support enforcement program, for example, performance measures developed jointly by HHS and the states provide the context for each state to assess the progress contractors make toward establishing paternities,

[11]S. R. Smith and M. Lipsky, Nonprofits for Hire: The Welfare State in the Age of Contracting (Cambridge, Mass.: Harvard University Press, 1994).

obtaining support orders, and collecting support payments. Developing the agreed-upon program goals and performance measures was a 3-year process.

Views Differ on Whether Privatized Services Will Protect Recipient Rights

Some experts in social service privatization have expressed concern that contractors, especially when motivated by profit-making goals and priorities, may be less inclined to provide equal access to services for all eligible beneficiaries. These experts believe that contractors may first provide services to clients who are easiest to serve, a practice commonly referred to as "creaming," leaving the more difficult cases to the government to serve or leaving them unserved.

Among the organizations we contacted—federal, state, and local governments, unions, public interest and advocacy groups, and contractors—we found differing views on whether all eligible individuals have the same access to privatized services as they had when such services were publicly provided. Generally, federal, state, and local government officials whom we interviewed were as confident in contractors as they were in the government to grant equal access to services for all eligible citizens. For example, an official in Wisconsin said that after privatization of some county welfare-to-work services, she saw no decline in client access to services. In contrast, representatives from advocacy groups and unions were less confident that contractors would provide equal access to services for all eligible citizens than the government would. We found no conclusive research that evaluated whether privatization affects access to services.

Various groups have also raised concerns about recent changes that permit contractors to perform program activities that government employees traditionally conduct. Advocacy groups, unions, and some HHS officials expressed concern about privatizing activities that have traditionally been viewed as governmental, such as determining eligibility for program benefits or services, sanctioning beneficiaries for noncompliance with program requirements, and conducting investigations of child abuse and neglect for purposes of providing child protective services. Under federal and state requirements, certain activities in most of the programs we studied were to be performed only by government employees.[12] Under TANF, however, contractors can determine program

[12]These activities, often described as "discretionary," include decisions or actions that may affect the level of benefits or services received by a beneficiary or that may be carried out in accordance with a government's authority to investigate and resolve reported instances of noncompliance with applicable statutes and regulations.

eligibility. Several union representatives and contractors told us that they believe certain functions, including policy-making responsibilities and eligibility determinations, often based on confidential information provided by the service recipient and requiring the judgment of the case worker, should always be provided by government employees.

Strategies to Protect Recipient Rights Have Been Identified but Are Difficult to Implement

Officials from several of the organizations we interviewed believe that equal access to services and other recipient rights can be protected by making several practices an integral part of social service privatization. Two contractor representatives said that carefully crafted contract language could help ensure that contracted services remain as accessible as publicly provided services. Other officials told us that remedies for dispute resolution should be provided to help beneficiaries resolve claims against contractors. Another suggested practice would require government agencies to approve contractor recommendations or decisions regarding clients in areas traditionally under government jurisdiction. In the Los Angeles County GAIN program, for example, county officials had to approve contractor recommendations to sanction certain clients for noncompliance with program requirements before those sanctions could be applied.

While these options may provide certain protections, they may be difficult to implement. The limited experiences of state and local governments in writing and monitoring contracts with clearly specified results could lead to difficulties in determining which clients are eligible for services and in determining whether or not these clients received them. In addition, advocacy groups and unions said some remedies for dispute resolution might be difficult to implement because contractors do not always give beneficiaries the information they need to resolve their claims. Finally, others noted that any additional government review of contractor decisions can be costly and can reduce contractor flexibility.

State and Local Governments Report Mixed Results in Privatizing Social Services

While numerous experts believe that contracted social services can reduce costs and improve service quality, a limited number of studies and evaluations reveal mixed results, as illustrated by the following examples:

- Our previous report on privatization of child support enforcement services found that privatized child support offices performed as well as or, in some instances, better than public programs in locating noncustodial parents, establishing paternity and support orders, and collecting support

owed. The relative cost-effectiveness of the privatized versus public offices varied among the four sites examined.[13] Two privatized offices were more cost-effective, one was as cost-effective, and one was less cost-effective.[14]

- A California evaluation of two contracts in Orange County's GAIN employment and training program found that the one contract for orientation services resulted in good service quality and less cost than when performed by county employees. The other contract for a portion of case management services had more mixed results; the contractor did not perform as well as county staff on some measures but was comparable on others. For example, county workers placed participants in jobs at a higher rate and did so more cost-effectively than private workers. Yet client satisfaction with contractor- and county-provided services was comparable.[15]
- A comparison of public and private service delivery in Milwaukee County, Wisconsin, found that the cost of foster care services was higher when provided by private agencies than when provided by county staff. Further, the private agencies did not improve the quality of services when measured by the time it took to place a child in a permanent home or by whether the child remained in that home.[16]
- State governments have contracted to upgrade automated data systems in the child support enforcement program. Since 1980, states have spent a combined $2.6 billion on automated systems—with $2 billion of the total being federally funded. 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.[17] According to HHS, almost $11 billion in child support payments were collected in 1995—80 percent higher than in 1990. While it is too early to judge the potential of fully operational automated systems, at least 10 states are now discovering that their new systems will cost more to operate once they have been completed. One state estimated that its new system, once operational, would cost three to five times more than

[13]Cost-effectiveness was defined as the ratio of each office's administrative costs to collections, expressed as the cost to collect $1.

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

[15]County of Orange Social Services Agency, "Evaluation of Contracts to Privatize GAIN Services" (Dec. 1995).

[16]F. Emspak, R. Zullo, and S. Rose, "Privatizing Foster Care Services in Milwaukee County: An Analysis and Comparison of Public and Private Delivery Systems," prepared for The Institute for Wisconsin's Future (not dated).

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

the old system and former operating costs could be exceeded by as much as $7 million annually.

Potential savings from privatizing social services can be offset by various factors, such as the costs associated with contractor start-up and government monitoring. While direct costs attributable to service delivery may be reduced, state and local agencies may incur additional costs for transition, contract management, and the monitoring of their privatization efforts. Despite the lack of empirical evidence, most state and local government officials told us they were satisfied with the quality of privatized services. Some officials said that efficiencies were realized as a result of contractors' expertise and management flexibility. In many cases, public agencies established collaborative relationships with private providers that helped them be more responsive to beneficiaries. Still other officials, however, said they saw no significant benefits resulting from privatization because outcomes for children and families were the same as when the government provided the service. For example, Milwaukee's privatization of foster care services had not improved the proportion of children who remained in permanent homes, a specified goal of the program.

HHS' Oversight of States and Localities May Need to Change in a New Environment

The increase in privatization combined with the difficulties states are having in developing methods to monitor program results raise questions about how HHS can ensure that broad program goals are achieved. It will be challenging for HHS to develop and implement approaches to help states assess results of federally funded programs and track them over time so that state and local governments are better prepared to hold contractors accountable for the services they provide. Currently, monitoring program results poses a challenge throughout the government.

Some state and local government officials whom we interviewed believed they should pay greater attention to program results, given the increased use of private contractors. Several officials mentioned 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. The fact that officials in most of the states we contacted said they currently do not have methods in place to assess program results suggests that unless HHS provides states with this help, it will have difficulty assessing the effectiveness of social service programs nationally.

HHS' current focus on compliance with statutes and regulations poses a challenge in monitoring the effectiveness of state programs and in identifying the effects of privatization on these programs. HHS carries out its oversight function largely through audits conducted by the Office of the Inspector General, program staff, and other HHS auditors. HHS officials told us that the department has focused its auditing of the states on compliance with federal statutes and regulations more than other areas of focus, such as results achieved or client satisfaction. For example, HHS may conduct a compliance audit to verify that state programs spent federal money in ways that are permitted by federal regulations.

The Government Performance and Results Act of 1993 may provide an impetus for HHS to place a greater emphasis on monitoring the effectiveness of state programs. Under this act, federal agencies are required to develop a framework for reorienting program managers toward achieving better program results. As a federal agency, HHS must refocus from compliance to developing and implementing methods to assess social service program results. However, this transition will not be easy, given the challenge that government agencies face when attempting to orient their priorities toward achieving better program results and the difficulty inherent in defining goals and measuring results for social service programs.

Some agencies within HHS have made progress in including the assessment and tracking of program results within their oversight focus. For example, within HHS, the Office of Child Support Enforcement has recently increased its emphasis on program results by establishing, in conjunction with the states, a strategic plan and a set of performance measures for assessing progress toward achieving national program goals.[18] Child support enforcement auditors have also recently begun to assess the accuracy of state-reported data on program results. These initiatives may serve as models for HHS as it attempts to enhance accountability for results in social service programs supported with federal funds.

Conclusions

Our work suggests that privatization of social services has not only grown but 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, contracts are effectively developed and

[18]Child Support Enforcement: Reorienting Management Toward Achieving Better Program Results (GAO/HEHS/GGD-97-14, Oct. 25, 1996) describes how the federal Office of Child Support Enforcement worked with the states to establish a framework for improving program management.

monitored by government officials, and program results are assessed and tracked over time.

The observed increase in social service privatization highlights the need for state and local governments to specify desired program results and monitor contracts effectively. At the same time, the federal government, through the Government Performance and Results Act of 1993, is focusing on achieving better program results. These concurrent developments should facilitate more effective privatized social services. More specifically, HHS in responding to its Government Performance and Results Act requirement 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.

Agency Comments and Our Evaluation

We provided draft copies of this report to HHS, the five states we selected for review, and other knowledgeable experts in social service privatization. HHS did not provide comments within the allotted 30-day comment period. We received comments from California, Texas, and Virginia. These states generally concurred with our findings and conclusions. Specifically, officials from Texas and Virginia agreed that developing clear performance measures and monitoring contractor performance present special challenges requiring greater priority and improvement. These states also support a stronger federal-state partnership to help them address these special challenges. Comments received from other acknowledged experts in social service privatization also concurred with the report and cited the need to increase competition, develop effective contracts, and monitor contractor performance, thereby increasing the likelihood that state and local governments would achieve intended results sought through social service privatization. The comments we received did not require substantive or technical changes to the report.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to the Secretary of HHS and HHS' Assistant Secretary for Children and Families. We will also make copies available to others on request.

If you or your staff have any questions about this report, please contact Kay E. Brown, Assistant Director, or Mark E. Ward, Senior Evaluator, at (202) 512-7215. Other major contributors to this report are Gregory Curtis, Joel I. Grossman, Karen E. Lyons, and Sylvia L. Shanks.

Sincerely yours,

Jane L. Ross
Director, Income Security Issues

Contents

Letter 1

Appendix I Scope and Methodology 26

Appendix II Characteristics Associated With Privatization of Nonsocial and Social Services 30

Bibliography 32

Related GAO Products 36

Abbreviations

AFDC	Aid to Families With Dependent Children
CCDBG	Child Care Development Block Grant
GAIN	Greater Avenues for Independence
HHS	Department of Health and Human Services
JOBS	Job Opportunities and Basic Skills Training Program
TANF	Temporary Assistance for Needy Families

Scope and Methodology

To meet the objectives of this study, we reviewed and synthesized studies and published articles on social service privatization by conducting a literature review and synthesis of articles, studies, and other documents selected from economic, social science, and business bibliographic files. We also considered articles and studies recommended by other organizations. As a result of these efforts, we selected 14 articles or studies on social service privatization in the United States. These articles are listed in the bibliography.

We chose the four programs included in our study because they constitute an increasingly important component of the nation's welfare system in terms of both the diversity of services they provide and the magnitude of federal funding used to support state program administration. To select states for study, we reviewed GAO reports and other studies of privatization, concluding that we would interview state and local government officials in California, Massachusetts, Texas, Virginia, and Wisconsin regarding their respective child care, child welfare, child support enforcement, and family assistance programs supported by TANF. We selected these states to learn how state and local governments have implemented privatized services among the four social service programs we included in our review. We chose these states also because we were aware that they had some experience in the privatization of social services and we could thus examine a mix of state- and county-administered social service programs. To broaden our coverage of the diverse views on privatization, we also interviewed officials of HHS, national associations and advocacy groups, unions, and contractors. During our interviews, we obtained and reviewed agency documents.

For our interviews, we used semistructured guides containing both closed and open-ended questions to obtain information on the extent of recent social service privatization, type of program functions being privatized, issues leading to the decision to privatize, issues in implementation of social service privatization, degree and type of monitoring and evaluation conducted, and federal policy implications stemming from social service privatization. We conducted 36 interviews in total concerning the four social service programs we studied.

In conducting our interviews, we asked the interviewees to respond from the perspective that seemed to us most consistent with their knowledge base and area of primary interest. For example, we asked state program officials to respond from the perspective of their entire state, whereas we asked local officials to base their responses solely on their experiences in

their own locality. Similarly, we asked officials in HHS, national associations and advocacy groups, unions, and contractors to provide a national perspective on key issues surrounding privatization in each of the four social service programs. The interview responses that we report on reflect the views of only the officials we interviewed.

The following information lists the federal, state, and local government, union, advocacy group, national association, and contractor contacts we made. The number of interviews conducted with representatives of each organization appears in parentheses.

Federal Government

Department of Health and Human Services, Administration for Children and Families (6)

State and Local Governments

California

Department of Education (1)
Department of Social Services (3)

Los Angeles County

Department of Public Social Services, Employment Program Bureau (1); District Attorney's Office, Bureau of Family Support Operations (1)

San Bernardino County

Jobs and Employment Services Department (1)

San Francisco City and County

Department of Human Services, Employment and Training Services (1); Department of Human Services, Family and Children's Services Division (1)

Santa Clara County

Social Service Agency, Family and Children Services Division (1)

Massachusetts	Department of Social Services (1) Department of Transitional Assistance (1)
Virginia	Department of Social Services (2)
Texas	Department of Human Services (1) Department of Protective and Regulatory Services (1) State Attorney General's Office (1)
Wisconsin	Department of Health and Family Services (1) Department of Workforce Development (1) **Dodge County** Department of Human Services (1) **Saulk County** Department of Child Services (1)
Unions (1)	American Federation of Labor, Council of Industrial Organizations American Federation of State, County, and Municipal Employees American Federation of Teachers Communication Workers of America Service Employees International Union
Advocacy Groups	American Public Welfare Association (1) Center for Law and Social Policy (1) Child Welfare League of America (1)
National Associations	National Association of Counties (1) National Conference of State Legislatures (1) National Governors Association (1)
Contractors	Maximus, Government Operations Division (1) Lockheed Martin IMS (1)

We conducted our study between October 1996 and July 1997 in accordance with generally accepted government auditing standards.

Characteristics Associated With Privatization of Nonsocial and Social Services

Nonsocial services	Social services
Reasons for privatizing	
To reduce costs and improve services	Same as nonsocial services
Often prompted by political leaders and top managers	Same as nonsocial services
Private sector viewed as having expertise, management flexibility, and technological resources	Same as nonsocial services
Service delivery	
Performance of repetitive tasks or development of a tangible asset, such as building maintenance or street repair	Services require special skills to meet the long-term needs of beneficiaries
Market competition	
Presence of providers in the market results from demand for services	Limited number of qualified bidders, cost of entry into the field is high, and continuity of care may be desired
Consumers of public goods and services, such as public works and park maintenance, provide feedback to help ensure that high-quality, low-cost providers are selected	Clients often do not possess market knowledge to judge price and quality of services
Consumers receive goods or services with few, if any, conditions	Clients often must participate as a condition of receiving financial benefits
Access to services	
Public goods are generally not means-tested	Consequences of unequal access to services can be severe because these programs provide a safety net for the protection and well-being of beneficiaries
Contract development, management, and monitoring	
Work requirements can be more easily specified	Tasks are often complex and uncertain; work requirements may be more difficult to specify clearly
Quantitative outputs can be clearly specified and more easily monitored than long-term results	Long-term program results more difficult to specify and monitor
Performance monitoring focuses on tangible tasks or outputs	Performance monitoring is difficult to do
Performance is more easily measured because tasks tend to be more standardized and quantifiable	Performance is difficult to measure because most services cannot be judged on the basis of client outcomes; treatment approaches cannot be standardized, nor can the appropriateness of workers' decisions be effectively assessed

(Table notes on next page)

Note: This table compares the characteristics that many believe are associated with privatizing nonsocial services and social services along several key dimensions—reasons for privatizing, service delivery, market competition, access to services, and contract development, management, and monitoring. The comparisons are based on the results of our literature review and synthesis and interviews with HHS, state and local government officials, union representatives, national associations, advocacy groups, and contractors.

Bibliography

Chi, K.S. "Privatization in State Government: Trends and Options." Prepared for the 55th National Training Conference of the American Society for Public Administration, Kansas City, Missouri, July 23-27, 1994.

Donahue, J.D. "Organizational Form and Function." The Privatization Decision: Public Ends, Private Means. New York: Basic Books, 1989. Pp. 37-56.

Drucker, P.F. "The Sickness of Government." The Age of Discontinuity: Guidelines to Changing Our Society. New York: Harper and Row, 1969. Pp. 212-42.

Eggers, W.D., and R. Ng. Social and Health Service Privatization: A Survey of County and State Governments, Policy Study 168. Los Angeles, Calif.: Reason Foundation, Oct. 1993. Pp. 1-18.

Gronbjerg, K.A., T.H. Chen, and M.A. Stagner. "Child Welfare Contracting: Market Forces and Leverage." Social Service Review (Dec. 1995), pp. 583-613.

Leaman, L.M., and others. Evaluation of Contracts to Privatize GAIN Services, County of Orange, Social Services Agency, December 1995.

Matusiewicz, D.E. "Privatizing Child Support Enforcement in El Paso County." Commentator, Vol. 6, No. 32 (Sept.-Oct. 1995), p. 16.

Miranda, R. "Privatization and the Budget-Maximizing Bureaucrat." Public Productivity and Management Review, Vol. 17, No. 4 (summer 1994), pp. 355-69.

Nelson, J.I. "Social Welfare and the Market Economy." Social Science Quarterly, Vol. 73, No. 4 (Dec. 1992), pp. 815-28.

O'Looney, J. "Beyond Privatization and Service Integration: Organizational Models for Service Delivery." Social Service Review (Dec. 1993), pp. 501-34.

Smith, S.R., and M. Lipsky. "Privatization of Human Services: A Critique." Nonprofits for Hire: The Welfare State in the Age of Contracting. Cambridge, Mass.: Harvard University Press, 1994. Pp. 188-205.

Smith, S.R., and D.A. Stone. "The Unexpected Consequences of Privatization," Remaking the Welfare State: Retrenchment and Social Policy in America and Europe, Michael K. Brown (ed.). Philadelphia, Pa.: Temple University Press, 1988. Pp. 232-52.

VanCleave, R.W. "Privatization: A Partner in the Integrated Process." Commentator, Vol. 6, No. 32 (Sept.-Oct. 1995), pp. 14-17.

Weld, W.F., and others. An Action Agenda to Redesign State Government. Washington, D.C.: National Governors' Association, 1993. pp. 42-63.

Related GAO Products

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).

Privatization and Competition: Comments on S. 314, the Freedom From Government Competition Act (GAO/T-GGD-97-134, June 18, 1997).

The 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).

Welfare Reform: Three States' Approaches Show Promise of Increasing Work Participation (GAO/HEHS-97-80, May 30, 1997).

Welfare Reform: Implications of Increased Work Participation for Child Care (GAO/HEHS-97-75, May 29, 1997).

Foster Care: State Efforts to Improve the Permanency Planning Process Show Some Promise (GAO-HEHS-97-73, May 7, 1997).

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

Child Welfare: States' Progress in Implementing Family Preservation and Support Activities (GAO/HEHS-97-34, Feb. 18, 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).

Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996).

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

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov

PRINTED ON RECYCLED PAPER

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested