
November 1995

CHILD SUPPORT ENFORCEMENT

States and Localities Move to Privatized Services





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

**Health, Education, and
Human Services Division**

B-270169

November 20, 1995

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

Facing budgetary and staffing constraints and increasing federal performance standards, state child support enforcement programs are struggling to serve their ever-increasing caseloads. As states confront the need to improve their services to the public, many are turning to the private sector to augment their child support enforcement programs. While states continue to expand these public and private partnerships, little is known nationally about such efforts. In May 1995, you asked us to develop information on these privatization initiatives. Specifically, you asked us to determine (1) the extent of, rationale for, and perceived advantages and disadvantages of privatizing child support functions; (2) the terms of these contracts; (3) the legal issues surrounding privatization; and (4) what is known about the cost effectiveness of these efforts.

In August 1995, we briefed your staff on the status of our ongoing work. Subsequently, in response to inquiries from officials of the Department of Health and Human Services (HHS) and several states about our inventory of state privatization efforts, you asked us for an interim report on that information. This fact sheet contains an inventory of ongoing and planned state contracts for location services, collections, payment processing, and full-service programs as of October 1995.¹

We gathered this information by visiting and interviewing child support officials and contractors in Georgia, Maryland, Mississippi, Tennessee, and Virginia. We also interviewed by telephone child support officials and contractors in the remaining states and gathered additional data through our analysis of child support contracts. Our inventory of child support contracts may not be complete, because where programs are state-supervised but locally administered, state officials said that they were not always fully aware of local privatization efforts.

¹We focused on these services because of recent increases in the number of contracts for such services and their direct relationship to the collection of child support. We did not include services traditionally contracted out such as genetic testing, legal services, and automated systems, nor did we include contracts solely for paternity acknowledgement or customer service.

In summary, we found that one or more child support services are privatized statewide in 20 states and at the local office level in 18 states (see app. D).² We identified 21 contracts for full-service child support operations, about half of which are served by one of two major contractors. We also identified 40 other contracts for collections and related location services; four major contractors provide most of these services. Finally, there are nine contracts for payment processing services and eight contracts for location services only. Appendix II contains detailed information about these contracts, including the contractor, contract terms, and the types of services provided. Appendix III contains a list of related GAO products on child support enforcement.

Agency Comments

We discussed this report with HHS' Office of Child Support Enforcement officials who generally agreed with the data presented. They provided technical comments on the data, which we have incorporated as appropriate.

We will send copies of this fact sheet to the Chairmen of the Senate Committee on Finance and the House Subcommittee on Human Resources, Committee on Ways and Means; the Secretary of HHS; and HHS' Assistant Secretary for Children and Families. We will also make copies available to others on request.

²Three new contracts are planned to be awarded in two states that have existing privatization contracts and at least five new contracts are planned to be awarded in four states that have no privatization contracts. Five of the current states with contracts have privatized services at both the statewide and local levels.

We will continue to keep you and your office informed of our progress in reviewing the costs and outcomes of state privatization initiatives. If you or your staff have any questions about this fact sheet, please contact David P. Bixler, Assistant Director, at (202) 512-7201 or Kevin M. Kumanga, Senior Evaluator, at (202) 512-4962. Other major contributors to this fact sheet include Gerard V. Grant, Christopher Morehouse, and Suzanne S. Sterling.

Sincerely yours,

A handwritten signature in black ink that reads "Jane L. Ross". The signature is written in a cursive, flowing style.

Jane L. Ross
Director, Income Security Issues

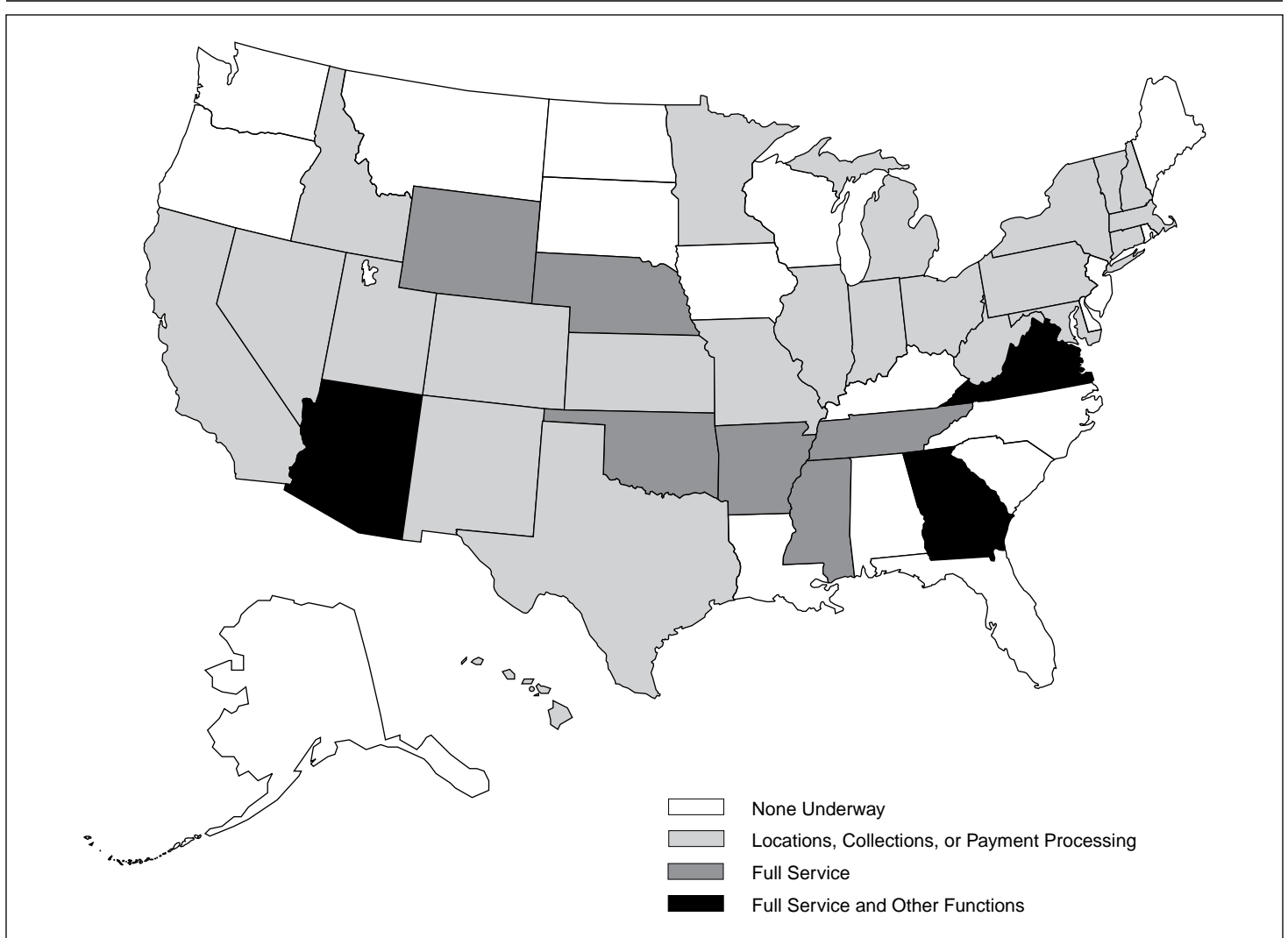
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Abbreviations

AFDC	Aid to Families With Dependent Children
HHS	Department of Health and Human Services

Statewide or Local Child Support Privatization Initiatives as of October 1995



Contract Information on State and Local Child Support Privatization Initiatives Ongoing or Planned as of October 1995

	Privatized services			Contractor	Start date (contract length ^c)	Payment terms ^{d, e}	Type of cases served ^f
	Full service ^a only	Locate Collections ^b	Payment processing				
Alabama							
17 of 67 counties		X		To be awarded	(2.5 years)		Aid to Families With Dependent Children (AFDC) arrears
Arizona							
Apache, Coconino, Graham, Greenlee, Maricopa, Mohave, and Yuma Counties		X		RSI Enterprises, Inc.	5/94 (4 years)	Variable rates each year based on performance	All
Apache, Coconino, Graham, Greenlee, Maricopa, Mohave, and Yuma Counties		X		Equifax Accounts Receivable Service	6/94 (4 years)	Variable rates each year based on performance	All
Santa Cruz and Yavapai Counties	X ^g			Policy Studies, Inc. (PSI)	3/94 (4 years)	32-24 percent ^h	All
Arkansas							
Jefferson County	X			Hunt Law Firm	9/95 (1.8 years)	Fixed fee of \$810,000, reimbursable expenses up to \$490,000 plus incentives	All
Greene County	X			Greene County Child Support Enforcement, Inc.	9/95 (1.8 years)	Fixed fee of \$175,000, reimbursable expenses up to \$290,000 plus incentives	All
Garland County	X			Owen Support Services, Inc.	7/95 (2 years)	Fixed fee of \$390,000, reimbursable expenses up to \$460,000 plus incentives	All
Craighead County	X			Brent Davis, Esq.	7/95 (2 years)	Negotiated contract ⁱ	All
3rd Judicial District	X			Randolph Co., Judge/Multi Services, Inc.	7/95 (2 years)	Negotiated contract ⁱ	All

(continued)

**Appendix II
Contract Information on State and Local
Child Support Privatization Initiatives
Ongoing or Planned as of October 1995**

	Privatized services			Contractor	Start date (contract length ^c)	Payment terms ^{d,e}	Type of cases served ^f
	Full service ^a only	Locate Collections ^b	Payment processing				
14th Judicial District	X			Multi Services, Inc.	7/95 (2 years)	Fixed fee of \$300,000 reimbursable expenses up to \$330,000	All
California							
Los Angeles County			X	Lockheed Martin IMS	7/95 (5 years)	Fixed fee of \$15.3 million plus incentives	All
Colorado							
Statewide			X	Lockheed Martin IMS	8/91 (5.5 years)	Fixed fee of \$8.75 million	All
El Paso County	X			Maximus	1/96 (5 years)	19-10 percent ^h	All
Mesa County		X		Lockheed Martin IMS	2/95 (11 months)	Negotiated contract ⁱ	All
Mesa County		X		Technical Management Resources (TMR)	2/95 (11 months)	Negotiated contract ⁱ	All
Rio Blanco County		X		Colorado Child Support Services, Inc. (CCSSI)	1/95 (1 year)	16 percent ⁱ	AFDC arrears
Delta County		X		CCSSI	6/95 (7 months)	16 percent	AFDC arrears
Archuleta County		X		CCSSI	5/95 (7 months)	Negotiated contract ⁱ	AFDC arrears and some current AFDC
Las Animas County		X		CCSSI	4/95 (8 months)	Negotiated contract ⁱ	AFDC and non-AFDC arrears
Connecticut							
Statewide		X		Lockheed Martin IMS	10/95 (3 years)	23.75 percent ^k	Closed AFDC cases
Statewide			X	Shawmut Bank	6/95 (5 years)	Variable fee per service	All
Florida							
Statewide (2 contracts)		X		To be awarded	11/95 (1 year)		AFDC and non-AFDC arrears

(continued)

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	Privatized services			Contractor	Start date (contract length ^c)	Payment terms ^{d,e}	Type of cases served ^f
	Full service ^a only	Locate Collections ^b	Payment processing				
Georgia							
Statewide		X		GC Services Limited Partnership (GC Services)	1995 (3 years)	7.89 percent	AFDC arrears ^l
Statewide		X		Lockheed Martin IMS	3/94 (2.3 years)	\$46.50 per location	At staff discretion
Fulton County	X ^g			Child Support Services of Georgia (Policy Studies, Inc.)	7/94 (5 years)	11.5-10 percent ^h	All non-AFDC
Hawaii							
Statewide			X	Lockheed Martin IMS	10/95 (1 year)	Fixed fee plus volume adjustments	All
Idaho							
Statewide		X		Equifax Credit Information Services	11/93 (4 years)	21 percent	AFDC arrears on closed cases
Illinois							
Statewide		X		Lockheed Martin IMS	7/94 (2 years)	Negotiated contract ⁱ	AFDC and non-AFDC arrears
Statewide		X		GC Services	7/94 (2 years)	Negotiated contract ⁱ	AFDC and non-AFDC arrears
Statewide		X		Hanover Credit	7/94 (2 years)	Negotiated contract ⁱ	AFDC and non-AFDC arrears
Statewide		X		Harvard Collection Services	7/94 (2 years)	Negotiated contract ⁱ	AFDC and non-AFDC arrears
Statewide		X		Midwest Account Consultants	7/94 (2 years)	Negotiated contract ⁱ	AFDC and non-AFDC arrears
Indiana							
Marion County		X		Trans Union	1993	Negotiated contract ⁱ	At staff discretion
Marion County		X		TRW	1993	Negotiated contract ⁱ	At staff discretion
Marion County		X		Associated	1993	Negotiated contract ⁱ	At staff discretion

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	Privatized services			Contractor	Start date (contract length ^c)	Payment terms ^{d,e}	Type of cases served ^f
	Full service ^a only	Locate Collections ^b	Payment processing				
Iowa							
To be determined (local office level)	X			To be awarded	11/95		All intrastate cases for paternity and support order establishment only
Kansas							
Statewide		X		GC Services	12/93 (5 years)	17 percent	All
Maryland							
Statewide		X		GC Services	12/94	12.85 percent	AFDC and non-AFDC arrears
Baltimore County	X			To be awarded	11/96 (3 years)		All
Queen Anne County	X			To be awarded	11/96 (3 years)		All
Baltimore City			X	Nations Bank	1989	Variable fee per service	All
Massachusetts							
Statewide			X	Shawmut Bank	10/95 (3 years)	Variable fee per transaction	All
Statewide		X		Lockheed Martin IMS	10/92 (3 years)	Negotiated contract ⁱ	AFDC and non-AFDC arrears
Statewide		X		GC Services	10/92 (3 years)	Negotiated contract ⁱ	AFDC and non-AFDC arrears
Michigan							
Bay County Friend of the Court		X		David M. Griffith & Associates	1/95	20 percent	AFDC, non-AFDC, and service fee arrears
Branch County Friend of the Court		X		David M. Griffith & Associates	8/92	Negotiated contract ⁱ	AFDC, non-AFDC, and service fee arrears
Cass County Friend of the Court		X		David M. Griffith & Associates	1/92	Negotiated contract ⁱ	AFDC, non-AFDC, and service fee arrears

(continued)

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	Privatized services			Contractor	Start date (contract length ^c)	Payment terms ^{d,e}	Type of cases served ^f
	Full service ^a only	Locate	Payment processing				
Emmet County Friend of the Court		X		David M. Griffith & Associates	10/93	Negotiated contract ⁱ	AFDC, non-AFDC, and service fee arrears
Iosco/Oscoda County Friend of the Court		X		David M. Griffith & Associates	6/92	Negotiated contract ⁱ	AFDC, non-AFDC, and service fee arrears
Midland County Friend of the Court		X		David M. Griffith & Associates	5/95	20 percent	AFDC, non-AFDC, and service fee arrears
Minnesota							
Statewide		X		Lockheed Martin IMS	12/94 (4 years)	16 percent	All non-AFDC arrears; interstate AFDC arrears
Mississippi							
Hinds and Warren Counties	X			Maximus	7/94 (5 years)	40.1-27.6 percent ^{h,m}	All
Missouri							
Statewide		X		GC Services	7/94 (3 years)	9.9 percent	AFDC arrears
Nebraska							
Douglas County	X			PSI	2/93 (5 years)	15-13 percent ^h	All
Nevada							
Statewide		X		GC Services	3/94 (2 years)	20 percent ⁿ	AFDC arrears
New Hampshire							
Statewide		X		Credit Bureau Services of New Hampshire	7/94 (2 years)	Variable fee per service ^o	All
New Mexico							
Statewide		X		GC Services	11/93 (3 years)	22 percent ^p	AFDC arrears ^q
Statewide		X		CRW (TRW)	2/94 (2 years)	21 percent ^p	AFDC arrears ^q
New York							
Statewide ^r			X	Lockheed Martin IMS	1/93 (3 years)	Fixed fee of \$6.3 million	All

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	Privatized services			Contractor	Start date (contract length ^c)	Payment terms ^{d,e}	Type of cases served ^f
	Full service ^a	Locate only	Collections ^b				
New York City		X		Equifax	3/94 (3 years)	Variable fee per service ^s	All
North Carolina							
Sixteen state run programs			X	Educational Recovery Services (GC Services), Payco-General American Credit, and A.M. Miller and Associates	12/95 ^t (1.5 years)	19, 18.4, and 20 percent, respectively	AFDC and non-AFDC arrears
Ohio							
Huron County			X	David M. Griffith & Associates	10/94 (2 years)	Fixed fees per service: \$14.84 per location. \$10.63 per collection ^u	AFDC and non-AFDC arrears
Clark County			X	David M. Griffith & Associates	7/95 (6 months) ^v	15 percent	At county discretion
Lawrence County			X	GC Services	7/95 (6 months) ^v	18 percent	At county discretion
Lucas County			X	United Creditors Alliance Corp.	7/95 (6 months) ^v	23.5 percent ^w + \$45 per location	At county discretion
Oklahoma							
Pittsburg County, Haskell County	X			Kibois Community Action Foundation (nonprofit)	1993 (4 years)	Cost-reimbursement	All
Comanche County, Cotton County	X			Great Plains Improvement Foundation (nonprofit)	1993 (4 years)	Cost-reimbursement	All ^x
Pennsylvania							
Dauphin County			X	David M. Griffith & Associates	8/93 (3 years)	Negotiated contract ⁱ	AFDC and non-AFDC arrears

(continued)

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	Full service ^a only	Locate Collections ^b	Payment processing				
Tennessee							
District 7	X ^g			Maximus	7/92 (5 years)	16 percent	All
District 20	X ^g			Maximus	7/93 (5 years)	12-10.5 percent ^h	All
District 10	X ^g			PSI	7/91 (5 years)	13.5 percent fixed	All
District 29	X ^g			PSI	2/92 (5 years)	19-15 percent ^h	All
District 27	X ^g			PSI	1/95 (5 years)	17-14 percent ^h	All
Texas							
Statewide		X		Lockheed Martin IMS	9/93 (4 years)	13.24 percent	AFDC and non- AFDC arrears ^g
Utah							
Statewide		X		Lockheed Martin IMS	12/94 (3 years)	13.95 percent + \$46.50 per location	AFDC arrears
Vermont							
Statewide			X	Vermont National Bank	1/95 (1.5 years)	Variable fee by type and volume of transaction ^y	All
Virginia							
Statewide		X		GC Services	6/95 (1 year)	20 percent	AFDC and non-AFDC arrears
Hampton and Chesapeake District Offices	X			Lockheed Martin IMS	2/94 (5 years)	10 percent ^z	All
Alexandria/Arlington/ Falls Church	X			To be awarded			All
Washington							
Statewide		X		To be awarded			AFDC arrears
West Virginia							
Statewide			X	One Valley Bank	7/95 (5 years)	Variable fee by type of transaction plus cost reimbursement	All

(continued)

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	Privatized services			Contractor	Start date (contract length ^c)	Payment terms ^{d,e}	Type of cases served ^f
	Full service ^a only	Locate Collections ^b	Payment processing				
Wyoming							
Districts 1,2,3	X ^g			PSI	6/95 (4 years)	17.5-16 percent ^h	All
Districts 8,9	X			Gray & Associates	5/95 (4 years)	\$724,000 + 8 percent of collections over \$2.5 million	All

Note: We did not identify planned or ongoing contracts in 13 states and the District of Columbia. The 13 states are Alaska, Delaware, Kentucky, Louisiana, Maine, Montana, New Jersey, North Dakota, Oregon, Rhode Island, South Carolina, South Dakota, and Wisconsin.

^aFull service includes location, paternity and support order establishment, payment processing, and collections.

^bCollections and related location services.

^cLength of contract can include possible annual renewals.

^dUnless otherwise noted, payment terms are expressed as a percentage of contractor-generated collections.

^ePayment terms vary, depending on factors such as volume, quality, type of cases referred, and use of multiple or single contractors.

^fArrears may be defined differently in each jurisdiction (for example, no voluntary payment in 90 days or 6 months).

^gState performs payment processing.

^hFirst figure is the payment figure for the contract's first year; second figure is the rate reached by the end of the contract period.

ⁱPayment terms of negotiated contracts are not disclosed because they are considered private information.

^jTotal cost of contract capped at \$3,000.

^kTotal cost of contract capped at \$2.95 million.

^lCases referred to the contractor are primarily AFDC arrears, but may also include any type of case, since referral is made at the discretion of state staff.

^mTerms are based on statewide operation of full-service programs that have not yet been implemented and are pending legislative approval. In addition, contractor received \$2.98 million for start-up costs between April and June 1994 and \$14,180,262 as a flat fee for the first 15 months. Currently, contractor receives \$400,000 a month plus incentives for operating the two programs shown.

ⁿTotal cost capped at \$75,000 in fiscal year 1994 and \$125,000 in fiscal year 1995.

^oTotal cost capped at \$10,000 in fiscal year 1995 and \$16,000 in fiscal year 1996.

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^pTotal cost of contract capped at \$225,000.

^qCaseload includes some cases that are not in arrears.

^rCounties have been phased in over the life of the contract; Lockheed reached full statewide coverage in March 1995.

^sTotal cost of contract capped at \$5,115,000.

^tDate of first referral of child support cases to a contractor who currently has a contract with the state attorney general for collections.

^uTotal cost of contract capped at \$9,999.

^vThis effort is a pilot.

^wTotal cost of contract capped at \$10,000.

^xContract excludes incoming interstate cases.

^yTotal cost of contract capped at \$150,000.

^zContract includes a performance guarantee, reducing contractor's revenue by 10 percent per month for failure to meet certain goals.

Source: Interviews with state officials and contractors; contracts and other documents obtained by GAO.

Related GAO Products

Child Support Enforcement: Opportunity to Reduce Federal and State Costs (GAO/T-HEHS-95-181, June 13, 1995).

Child Support Enforcement: Families Could Benefit From Stronger Enforcement Program (GAO/HEHS-95-24, Dec. 27, 1994).

Child Support Enforcement: Federal Efforts Have Not Kept Pace With Expanding Program (GAO/T-HEHS-94-209, July 20, 1994).

Child Support Enforcement: Credit Bureau Reporting Shows Promise (GAO/HEHS-94-175, June 3, 1994).

Child Support Enforcement: States Proceed With Immediate Wage Withholding; More HHS Action Needed (GAO/HRD-93-99, June 15, 1993).

Child Support Assurance: Effect of Applying State Guidelines to Determine Fathers' Payments (GAO/HRD-93-26, Jan. 23, 1993).

Child Support Enforcement: Timely Action Needed to Correct System Development Problems (GAO/IMTEC-92-46, Aug. 13, 1992).

Medicaid: Ensuring That Noncustodial Parents Provide Health Insurance Can Save Costs (GAO/HRD-92-80, June 17, 1992).

Child Support Enforcement: Opportunity to Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91, June 5, 1992).

Interstate Child Support: Wage Withholding Not Fulfilling Expectations (GAO/HRD-92-65BR, Feb. 25, 1992).

Interstate Child Support: Mothers Report Less Support From Out-of-State Fathers (GAO/HRD-92-39FS, Jan. 9, 1992).

Interstate Child Support Enforcement: Computer Network Contract Not Ready to Be Awarded (GAO/IMTEC-92-8, Oct. 23, 1991).

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