Outsourcing Social Services: Eliminating Public Watchdogs

Outsourcing, or privatization, is promoted as a way to save money, improve services, and shake up so-called "unaccountable bureaucracies." But in reality, privatization often fails on all counts, especially in attempts to outsource human and social services. Turning tax dollars and control of public services over to companies whose overriding incentive is to maximize short-term profits rather than long-term public interests erodes accountability and transparency, costs more in the long-run, limits access to services, and leaves communities worse off.

What drives outsourcing of social services?

Welfare reform in 1996 expanded the roles of private contractors, including the complicated core function of deciding who does and does not qualify for federal cash benefits. Before that, eligibility determination was done by public agency staff to ensure impartial and unbiased service delivery, protected from political whims. Now, states and counties may contract out eligibility determination of cash assistance programs (TANF). Yet few states have actually privatized TANF administration, in part because important public protections are still in place for the related Supplemental Nutrition Assistance Program (SNAP/food stamps) and Medicaid. States that have experimented with TANF privatization have experienced problems and abuses.

Other targets of outsourcing include child welfare case management, mental health services, child support enforcement, job training and placement, and information technology systems. Legislative changes do not happen in a vacuum. Businesses and investors lobby for these changes. The latest twist to outsourcing is social impact bonds (SIBs). SIBs are complex multi-stakeholder loans between government, investors, intermediaries, and service providers. Private investors provide funding for service delivery and the government repays with interest if pre-determined social outcomes are met. Savings as a result of the service accrue to private investors, rather than being re-invested in the community.

Outsourcing does not improve services.

- Florida: Since Florida outsourced child welfare case management, it experienced increased instances of abuse. In 2005, 11 percent of children were abused within six months of first being victims of maltreatment, compared with 8 percent in 1998 when the child welfare system was administered by the state. At the same time, the stability of foster care placements declined. The percentage of children with three or more placements within 12 months doubled to 17 percent in 2004 from 8 percent in 2000.[1]
- Tennessee: Parents in Tennessee lodged numerous complaints about customer service in the privatized child support enforcement system related to lack of professionalism on the part of Maximus employees, lost or late child support payments, and administrative errors on the part of these employees that cost the jobs of non-custodial parents.[2]

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1 "Child Welfare System Performance Mixed in First Year of Statewide Community-Based Care." Office of Program Policy Analysis & Government Accountability, Report No. 06-50, June 2006.

2 "A new firm is taking over Davidson's privatized child support enforcement – and not a moment too soon." John Lasker, Nashville Scene. June 27, 2013.

- Kansas: Kansas privatized child support collection services in 2013. At the end of the first year, collections fell to a 14-year low. The state is collecting the smallest percentage of current support due since 2000. The state also collected less current support dollars in FY 2014 than FY 2013, despite an increase in the amount of current support due. About $130.6 million in current support was collected in 2014, compared with $134.5 million in 2013. But the amount of current support increased from $241.09 million in 2013 to $241.7 million in 2014. In another key area – collection of late support or arrears – the collection percentage fell to a 13-year low.[3]

Outsourcing erodes oversight and accountability.

- Indiana: After only two years, Indiana canceled its $1.34 billion contract with IBM to provide benefit eligibility service in 2009. Families failed to receive benefits for which they qualified, including food stamps, health coverage, and cash assistance, due to the company's poor performance.[4] In 2008, one year after IBM took over, the SNAP error rate jumped to over 13 percent, more than double the previous year's rate and the largest rate increase in the nation.[5]

- Texas: In 2010, the U.S, Department of Agriculture (USDA) called Texas' privatization of welfare application screening a "botched experiment" that caused "a five-year slide in how fast and accurately the state handles food stamp applications… punishing middle-class Texans who've recently lost jobs and are seeking government help." Before four privately operated call centers launched in 2005, the state performed well. After privatization, paperwork for applicants was lost, needy Texans received little help when they complained of mistakes, and many who should have qualified for various kinds of public assistance were refused. In 2009, USDA's Food and Nutrition Service threatened to dock Texas $173 million a year in food stamp program administration grants if the processing time of applications didn't improve. State officials cited inability to retain qualified staff as one of the main problems with the system.[6]

- Nebraska: Nebraska's attempt to privatize child welfare is one of the worst cases. The contracts began in November 2009. Within a year, four of the five original private contractors lost or ended their contracts due to financial and management deficiencies. In February 2015, an independent evaluation concluded that privatization did not produce "any measurable benefits" and that "privatization has caused disruption and dissension among the parties and within the community without obvious benefits to children and families."[7] In 2014, a federal audit by the Administration for Children and Families found that the state misspent nearly $22 million in Title IV-E foster care dollars because of inadequate documentation from the private agencies.[8]

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3 "Brownback: Overall good results after DCF child support privatization." Jonathan Shorman, The Capital-Journal, December 12, 2014.

4 "State loses legal fight on welfare overhaul Judge rules for IBM but criticizes both sides." Niki Kelly. Fort Wayne Journal Gazette. July 19, 2012.

5 "Indiana's bumpy road to privatization." Matea Gold, Melanie Mason and Tom Hamburger, Los Angeles Times. June 24, 2011.

6 "U.S. official blames privatization for food stamp lag, but state agency cites burdened, dated system." Robert T. Garrett. The Dallas Morning News, January 13, 2010.

7 "An Assessment of Child Welfare Privatization in Nebraska." Hornby Zeller Associates, Inc. December 2014.

8 Letters from Administration for Children and Families to the Nebraska Department for Administrative Services regarding Title IV-E Foster Care findings.

Contractors often low ball, overcharge, and cut corners.

- New York: Thousands of part-time workers in New York work with the developmentally disabled to teach them simple tasks, like grooming or how to take a bus. For their work, which requires no special credentials, the employees typically earn $10 to $15 an hour. But when the nonprofit organizations that employ those workers bill the state, they collect three and four times that amount — with some having received as much as $67 an hour.[9]

- Massachusetts: As much as 70 percent of state spending on direct services is in the hands of private vendors in Massachusetts — nonprofit and for-profit. Executives of one vendor were found to have run up bills at restaurants, liquor stores and Disney World. After state auditors uncovered the waste, the state withheld $1.7 million in taxpayer funded disabled services contracts from the private agency.[10]

- Texas: In 2010, an investigation revealed that a key figure in the privatization of Texas' food stamp eligibility program was receiving taxpayer dollars to help fix the problems that the private system created. Gregg Phillips, who was deputy commissioner at the Texas Health and Human Services Commission (HHSC) and led the push for privatization, became the chief of AutoGov Inc., a company that received $207,500 from the state government to eliminate errors in the food stamp eligibility determination program.[11]

- Nebraska: Cost savings in Nebraska's failed child welfare privatization experiment appeared to be a result of shifting costs to the clients and to Medicaid, where they impact the state budget but do not get counted as child welfare costs.[12]

9 "Aiding Disabled, Nonprofits Rake In State Money." Russ Buettner. New York Times. December 13, 2011.

10 "Suzanne Bump sends a message to nonprofits: Party's Over." Erin Smith and Chris Cassidy. Boston Herald, April 19, 2012.

11 "State privatization champion gets contract to help clear up welfare mess." Robert T. Garrett. The Dallas Morning News, March 13, 2010.

12 "An Assessment of Child Welfare Privatization in Nebraska." Hornby Zeller Associates, Inc. December 2014.