

**SOCIAL SERVICES PRIVATIZATION: THE BENEFITS  
AND CHALLENGES TO CHILD SUPPORT EN-  
FORCEMENT PROGRAMS**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON HUMAN RESOURCES  
OF THE  
COMMITTEE ON GOVERNMENT  
REFORM AND OVERSIGHT  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED FIFTH CONGRESS  
FIRST SESSION

NOVEMBER 4, 1997

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# **SOCIAL SERVICES PRIVATIZATION: THE BENEFITS AND CHALLENGES TO CHILD SUPPORT ENFORCEMENT PROGRAMS**

**TUESDAY, NOVEMBER 4, 1997**

**HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON HUMAN RESOURCES,  
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,  
*Washington, DC.***

The subcommittee met, pursuant to notice, at 2:08 p.m., in room 2247, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Snowbarger, Pappas, Towns, Barrett, Kucinich, Allen, and Waxman.

Staff present: Lawrence J. Halloran, staff director and counsel; Anne Marie Finley, professional staff member; R. Jared Carpenter, clerk; Cherri Branson, minority counsel; Karen Lightfoot, minority professional staff member, and Ellen Rayner, minority chief clerk.

Mr. SHAYS. The Subcommittee on Human Resources will come to order.

We welcome our witnesses and guests to this hearing and also welcome the ranking member of the full committee. This is the first of a number of hearings the subcommittee plans to hold on the implementation and implications of last year's welfare reform law. In the months ahead, we will discuss the fundamental changes underway in critical human service programs, including child welfare, job training, and child support enforcement. And meeting our jurisdictional charge to monitor intergovernmental relations, we will look carefully at the new responsibilities and greater flexibility given States in moving people from welfare to work.

In preparation for these hearings, we asked the General Accounting Office, the GAO, to study one tool increasingly employed by States and localities to meet social service program goals—privatization. Defined as involving the private sector to varying degrees in the performance of governmental function, privatization of social service delivery is a growing, but not well-understood, phenomena.

So we asked GAO to focus on three key questions: One, what is the recent history of State and local government efforts to privatize federally funded social service? Two, what are the key issues surrounding State and local privatized services? Three, what are the Federal policy implications of State and local social service privatization?

The answers released by GAO today provide an important perspective on the promises and pitfalls of contracting for the private

performance of public activities. According to the study, program officials are motivated by, "increasing public demand for public services and a belief that contractors can provide higher quality services more cost effectively than can public agencies." Yet, the report cautions that an absence of robust competition, a lack of experience specifying contract results, or a failure to monitor performance can undermine privatization benefits and damage program quality.

Since Federal efforts to improve child support enforcement began in 1975, billions of dollars have been spent helping States locate absent parents, establish paternity, obtain State court orders, and collect payments. Yet in 1996, families received only 21 percent or \$11.7 billion of the \$56.3 billion owed in current and past-due support. To improve those figures and to fulfill the fundamental premise of welfare reform—personal responsibility—Congress has put in place an extensive program of incentives and program standards. Most recently, the House passed a bill to tie Federal CSE payments more closely to State program performance. Today we will discuss another proposal to strengthen child support enforcement: H.R. 399, a bill to deny Federal finance assistance to anyone who is not meeting his or her court-ordered obligation.

To meet the challenges of welfare reform, CSE programs are also looking to long-established debt collection practices in the private sector to streamline operations and instill performance-based incentives. Efforts to contract for the performance of some of or all aspects of CSE programs have met with some success, and GAO reports State and local government officials expect the growth of social service privatization to continue.

Our witnesses today will describe their work to improve both the efficiency and effectiveness of child support enforcement through competition and other market forces. But privatization is no panacea. Perverse incentives and unintended consequences can appear when privatization becomes the end, not the means to achieving government's basic mission to serve.

Our final panel of witnesses today offers cautionary testimony on the perils of privatization gone too far. In a future hearing, we will hear from the Department of Health and Human Services' Office of Child Support Enforcement, as well as State and local CSE officials, on their approaches to the extraordinary growth of privatization.

When he signed the welfare bill, President Clinton observed, "The current welfare system is fundamentally broken, and this may be our last best chance to get it straight." In this hearing, and in the coming months, we will ask whether Federal and State policymakers are making the most of that chance.

We welcome all our witnesses to this hearing, the beginning of our examination of welfare reform and social service delivery in an era of smaller government, and we look forward to their testimony.

Now it's my privilege to welcome the ranking member of the full committee, Mr. Waxman. Nice to have you here.

[The prepared statement of Hon. Christopher Shays follows:]

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### Statement of Rep. Christopher Shays November 4, 1997

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In preparation for these hearings, we asked the General Accounting Office (GAO) to study one tool increasingly employed by states and localities to meet social service program goals -- privatization. Defined as involving the private sector to varying degrees in the performance of a governmental function, privatization of social service delivery is a growing but not well understood phenomenon.

So we asked GAO to focus on three key questions: (1) What is the recent history of state and local government efforts to privatize federally funded social service? (2) What are the key issues surrounding state and local privatized services? (3) What are the federal policy implications of state and local social service privatization?

The answers, released by GAO today, provide an important perspective on the promises and pitfalls of contracting for the private performance of public activities. According to the study, program officials are motivated by "increasing public demand for public services and a belief that contractors can provide higher-quality services more cost-effectively than can public agencies." Yet the report cautions that any absence of robust competition, a lack of experience specifying contract results or a failure to monitor performance, can undermine privatization benefits and damage program quality.

**Statement of Rep. Christopher Shays  
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Page 2**

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But privatization is no panacea. Perverse incentives and unintended consequences can appear when privatization becomes the end, not the means to achieve government's basic mission, to serve. Our final panel of witnesses today offers cautionary testimony on the perils of privatization gone too far.

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When he signed the welfare bill, President Clinton observed, "The current welfare system is fundamentally broken, and this may be our last best chance to get it straight." In this hearing, and in the coming months, we will be asking whether federal and state policy makers are making the most of that chance.

We welcome all our witnesses to this hearing, the beginning of our examination of welfare reform and social service delivery in an era of smaller government, and we look forward to their testimony.

Mr. WAXMAN. Thank you very much, Mr. Chairman. I want to thank you for holding this hearing and I commend you for your attention to child support enforcement, an issue critically important to children and single-parent families. I'd like to also thank Stan Trom, director of the Child Support Division of Ventura County for taking the time to come from California to be with us today.

Efforts to reduce poverty for children and single-parent families require a broad and comprehensive strategy. A job that pays a living wage is one component of self-sufficiency for families; adequate health care coverage is another. And for single parents, receiving a child support payment each month can be extremely important.

We have seen some progress since the 1970's when Congress began to insist the States give priority to child support enforcement. Yet, despite some success, we still have a long way to go. Of the millions of families eligible for child support, only 54 percent have child support orders. Another 11 percent had an award but received nothing. That means that all together 6.5 million families received no payments at all. And even those with child support orders often are not much better off. Only half of those due money actually received 100 percent of their court-ordered payment.

We are all in agreement that a vital part of operating an efficient child support program is data processing. I am concerned that many States, including my own, do not have functioning computer networks. This is especially troubling since many of the child support reforms depend on such a system.

In California, the experience of developing a statewide, automated child support enforcement system has been plagued with operating problems and cost overruns. As many in this room are aware, California contracted with a private company, Lockheed Martin, to build a statewide computer system. The initial project cost has swelled from \$99 million to over \$300 million, and yet the system is still not operational statewide. Only 11 counties of the 23 counties which have the system are still using it, and many of those still using the system have major concerns with performance.

I have a critical report prepared by the California Assembly Committee on Technology entitled, "The \$260 Million Question: Will the State Automated Child Support System Ever Really Work?", which I would like to enter into the record.

[NOTE.—The report referred to may be found in subcommittee files.]

Mr. WAXMAN. As a result of the failure to meet the Federal deadline for automating the program, the State is at risk of losing not only millions of dollars in Federal reimbursement for the computer system, but their TANF grant of nearly \$4 billion is in jeopardy as well.

I look forward to hearing more about the California experience today. We frequently hear criticism of public agencies and their performance and are told that the solution is to turn to the private sector. Privatizing is held up by supporters as a way of making the government more accountable and cost-effective. Yet by most accounts, the experience in California has done neither, nor has it advanced the goal of increasing child support collections. With millions of dollars involved and the well-being of millions of low-income families at stake, it is critical that we proceed with caution,

and I hope that by looking at the California experience we can learn more about the limitations and pitfalls of privatization.

Thank you very much, Mr. Chairman. I want to express my appreciation to all the witnesses, including my chairman, Congressman Bilirakis, for being here today. Unfortunately, a conflict in scheduling will prevent me from being here the full time. I'll try to come in and out when time permits.

Mr. SHAYS. Mr. Waxman, we know that this is an issue that you've worked long and hard on and we appreciate any time you can spend here.

Let me recognize Mr. Allen, because Mr. Snowbarger said he doesn't have an opening statement and we'll go to you, Tom.

Mr. ALLEN. Thank you very much, Mr. Chairman. I very much appreciate your leadership in holding these particular hearings and I'm pleased to be here today. I'm particularly pleased to be here to discuss this whole question of child support enforcement around the country and whether and to what extent the Federal and State governments should privatize these and other public services.

We have 11.4 million single-parent American families with children under the age of 18. And in those circumstances it's clear that the enforcement of child support against noncustodial parents is critically important. We have 9.9 million American children who are supported solely by their mothers, and 44 percent of that 9.9 million are living below the poverty line. So that, for them, the enforcement of child support orders is really a matter of necessity.

But this is in a complex area. It requires establishing paternity, obtaining court-ordered child support judgments, and collecting support payments in-State and out-of-State. While the Federal Government has established a national directory to track delinquent parents across State lines, a procedure that took effect only last month, it has still been the States which have taken the lead in child support enforcement. And I know that there is a wide variety of experiences around the country in child support enforcement, whether it should be contracted out or not.

I want to review with you just for a moment the experience that my State has had, the State of Maine. And first, we have both child support enforcement and also what we call our Aspire Program and the Welfare-to-Work Program in Maine.

Now, with respect to child support enforcement, our State contracted out the automation of that system with Deloitte Touche in 1984 and we did not have a good experience. It was impossible to determine which cases of the thousands of cases that were pending required action. The reason was that there were—the way that system was set up back then, there were 270 separate screens that needed to be evaluated and it just—it was too complex, simply didn't work.

In 1994, the contractor informed the State that it was getting out of the business, getting out of the program. Then what the State did was simply hire four programmers and use its own Bureau of Information Services to clear the backlog and move ahead. The number of paternity cases to be established was cut in half to 5,000.

Turning to collection efforts, the State of Maine contracted with Payco American, a national collections agency. But of the 6,000

cases given to Payco, the State of Maine has taken back all but a 1,000 cases, and in this case the problem was that although the agency was prepared to and could collect cases in which the issue was simply an arrearage, it was not very good at collecting—collecting in situations where ongoing support was required. And as you—any who knows who's dealt with this field, there are constantly—orders are being updated, reissued, changed to provide for changed circumstances among the two parents. And that requires the ability for any agency or independent contractor to adjust.

In 1989, the State turned over case management and employment and training for the Aspire Program to private contractors, but that didn't work out either. The contractors were not able to provide these services in a cost-efficient and cost-effective manner. The cost per participant tripled in that case, and then when the State brought case management back into the government agency, the cost dropped back dramatically.

In talking with representatives of the Bureau of Family Independence in Maine, it is clear, their view is it is critically important to keep the major decisionmaking in house and not to contract out the principal decisionmaking processes. There is clearly an appropriate role for private contractors, but where that is the case, there needs to be an ongoing partnership with the agencies that are there to protect the public and that are there to protect the constituents.

The year 1993 has been—was, in fact—a turning point for the State of Maine for child support enforcement. Maine was the first State in the country to revoke licenses for noncompliance with child support obligations. In Maine, hunting licenses, fishing licenses, business licenses, a whole range of licenses that the State would ordinarily issue—and according to Kevin Concanon, the commissioner of Maine's Department of Human Services, they sent out 11,000 letters warning of revocations, but only 1,100 licenses were actually revoked. And when that was done, in about 700 of the cases, compliance was achieved promptly. I might add, especially in advance of hunting season. I'm not sure that's the case, but I believe it to be the case.

And the other—finally, I would say that the success was also due to the fact that the State requires employers to report new hires to the State within 7 days, however they want to do the report.

I would just say that we are proud in Maine of our accomplishments in this area in the last few years, but our experience with private contractors has been very much a mixed one. We don't suggest that would be the same around the country, but I simply, Mr. Chairman, as we begin today, wanted to call attention to our experience, as well as what we'll hear today.

Mr. SHAYS. Thank you, Mr. Allen. Mr. Towns.

Mr. TOWNS. Mr. Chairman, I'd like to forego my opening statement and just place it in the record, and we have the chairman of the Health Committee here waiting and I do not want to detain him any longer.

[The prepared statement of Hon. Edolphus Towns follows:]

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**OPENING STATEMENT**

**REP. EDOLPHUS "ED" TOWNS**  
**RANKING DEMOCRATIC MEMBER**

**BEFORE THE**  
**SUBCOMMITTEE ON HUMAN RESOURCES**

**NOVEMBER 4, 1997**

Mr. Chairman, thank you for holding today's hearing on state and local efforts to privatize child support enforcement programs. Almost five million female headed families have incomes below the poverty line. Twelve percent of those households were poor despite the fact that the mothers worked full time. The collection of child support would assist these households in rising above the poverty line. I think everyone here today believes children should get the child support payments they deserve and government should use every available means to help this process. Mr. Chairman, I suggest our discussion of privatization of child support enforcement recognize that our true objective is to improve the life chances of children who need and deserve that money.

Privatization is the shifting of activities or functions from the governmental sector to the private sector through vouchers, contracts or joint ventures. Before we begin that shift, we should ask whether the activity is uniquely governmental; whether privatization would improve the economy and efficiency of the activity and whether there is some reason to transfer a revenue stream from public to private hands. According to the Urban Institute, there is no evidence that private service delivery is more effective than public service delivery. The effectiveness of any service delivery depends on the same key factors that the Committee on Government Reform and Oversight have always considered: authority, accountability, and clarity. The General Accounting Office found that privatization in the social service arena may be difficult to achieve because of a lack of qualified bidders. In addition to possible contractor inexperience, there may also be a problem with governmental inexperience in developing contract specifications, reviewing contractor bids, negotiating bond and performance issues and monitoring overall outcomes. Mr. Chairman, I hope that we consider those findings today and determine if those problems still exist.

Finally, Mr. Chairman, I need to remind all assembled here that the issue of child support collection will not resolve the issue of child poverty. Many children have fathers who are unable to contribute to their support. I am not excusing their inability or irresponsibility. However, we

cannot use them as an excuse to shirk our responsibilities either. In addition to assuring effective and efficient child support systems, we must assure that children who are unable to obtain support are not left without assistance and we must do our best to assure that the assistance is forthcoming. Mr. Chairman, thank you for holding today's hearing and especially for your accommodation of the minority witnesses. I look forward to hearing the testimony of all our witnesses here today.

#####

Mr. SHAYS. Now that is the sign of a senior veteran. [Laughter.]  
Mr. Bilirakis, before we—I'm just going to ask some—excuse me,  
Mr. Barrett.

Mr. BARRETT. I concur with Mr. Towns.

Mr. SHAYS. I'm sorry. I'd ask unanimous consent that all members of the subcommittee be permitted to place any opening statement in the record and the record will remain open for 3 days for that purpose, and without object, so ordered. And I ask further unanimous consent that all witnesses be permitted to include their written statement in the record and without objection, so ordered.

[The prepared statement of Hon. Tom Lantos follows:]

**Statement by Congressman Tom Lantos**

**Government Reform Subcommittee on Human Resources**

**Hearing on  
Social Service Privatization: The Benefits and Challenges to Child Support  
Enforcement Programs**

**November 4, 1997**

Mr. Chairman, many of my friends on the other side of the aisle tend to view government as a disaster and they are all too eager to solve a problem by turning it over to the private sector. Is Medicare too expensive? Bring in private-sector HMOs. Irritated by the IRS? Let's hire private companies to help collect taxes. Want to track down "dead-beat dads"? Find a company and sign a contract. But back in California, we have learned an important lesson: The private sector can create some spectacular boondoggles of their own at the expense of the taxpayer.

California's experience with contracting out government services to the private sector involves a Fortune 500 corporation, a big pot of tax dollars, and a computer system that is stuck in an endless loop of delays, cost overruns, and excuses.

Mr. Chairman, as you know, the privatization of social services began nearly a decade ago, when the federal government ordered the states to develop automated systems for enforcing child-support orders. To meet the requirement, the State of California hired Lockheed Martin to design a statewide system for \$99 million. In 1995, Lockheed Martin missed its first major deadline -- the federal government required full deployment in counties by September 30, 1995, but the Statewide Automated Child Support System had only been piloted in 7 small counties.

Due to these delays the State needed to amend its contract with Lockheed Martin. These negotiations would end up clarifying who would be left holding the bag if the project failed -- the taxpayer. A California State Assembly report stated that "Inexplicably, the amended contract capped the vendor's liability for project failure at a meager \$4 million."

In February 1996, when the system was rolled out in Fresno County, the largest pilot county to that date, it flopped. It was unable to connect to other systems -- which was the whole point of a statewide system.

**Finally, in January of this year, the state hired an independent vendor to provide an independent assessment of the system. One month later, the outside appraisal group returned with a long list of over 1,400 problems. As of today, over two years after the system was supposed to have been in place, the system has been piloted in only 23 of 58 California counties.**

**Most counties refuse to have anything to do with the system, including San Francisco County, the area which I represent. And where the system is in place, there are complaints that it is unusable and makes countless mistakes. In hearings like this in the California Assembly last month, experts testified that they were unable to say whether the system would ever be fully operational.**

**The question for us is, will Congress learn from California's experience? Privatization of government services is a simple answer to a complex problem. As we have seen in California it can lead us into costly disasters.**

**Mr. Chairman, California's experience raises questions about the costs of privatization, both financial and otherwise, which I hope we will get answered during these hearings.**

**Thank you.**

Mr. SHAYS. And, Mr. Bilirakis, since you know that we swear in all members, even Members of Congress, I'd just ask you to raise your right hand.

[Witness sworn.]

Mr. SHAYS. Thank you so much. I appreciate your patience. We were actually trying to give you a little more time to get here and we gave you more time than you needed. Nice to have you here.

**STATEMENT OF HON. MICHAEL BILIRAKIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA**

Mr. BILIRAKIS. Thank you, Mr. Chairman. I know that and I appreciate very much—

Mr. SHAYS. Can you turn the mic toward you?

Mr. BILIRAKIS. I came almost directly right from the airport to get here.

Mr. SHAYS. I know you did. Thank you.

Mr. BILIRAKIS. In addition to my more lengthy statement, Mr. Chairman, I have a letter here we've just really recently received from the Children's Defense Fund which supports my efforts that I'm going to talk about and I would ask unanimous consent that might be made part of the record.

Mr. SHAYS. That will be entered in the record.

[The letter referred to follows:]



November 3, 1997

The Honorable Michael Bilirakis  
 United States House of Representatives  
 2369 Rayburn House Office Building  
 Washington, DC 20515

Dear Representative Bilirakis:

The Children's Defense Fund appreciates your leadership in introducing H.R. 399, the "Subsidy Termination for Overdue Payments Act of 1997." The bill makes an important statement about how seriously government regards parents' responsibility to support their children.

Child support reform is critical. Our current child support system is failing our children. According to Census Bureau data, of those single mothers owed child support, only half get the full amount due; a quarter receive only partial payment; and a quarter receive nothing at all. The child support problem cuts across race and income lines, and plagues children in every community.

As a nation, we have failed to send a message that paying child support is a fundamental civic responsibility, and that failure to do so has serious consequences. Efforts such as yours to reinforce that message are extremely helpful, and play a useful role as part of a broader effort to reform child support enforcement. We look forward to working with your staff to fine-tune the proposal to ensure that it collects the maximum support possible for children while at the same time it preserves subsistence benefits for very poor non-custodial parents and other dependents and streamlines certification procedures on the status of child support payments. We especially appreciate your ongoing commitment to this issue, and congratulate you for your continuing concern.

Very truly yours,

Nancy Ebb  
 Senior Staff Attorney

25 E Street, NW  
 Washington, DC 20001  
 Telephone: 202 628 8787  
 Fax: 202 662 3510

Mr. BILIRAKIS. Mr. Chairman and members of this subcommittee, I thank you for allowing me to testify today on this very critical issue. I commend you and thank you on behalf of so many little ones out there for your concern in this regard. I'm certainly not at all surprised, Mr. Chairman, that you have a great concern here.

Our Nation's system for enforcing child support orders has failed miserably. In fact, 80 percent of custodial mothers who are entitled to receive child support either lack a support order or fail to receive full payment. Of those who have a child support award, not even half—not even half—ultimately collect what is owed. In the United States, child support has historically been governed entirely by State law and enforced through State courts. State agencies provide free enforcement services to families on welfare and also assist nonwelfare families by providing low-cost services.

Unfortunately, Mr. Chairman, as you know, State agencies have had an abysmal track record. These agencies establish paternity in less than half the necessary cases. Even worse, less than 21 percent of these cases result in collection of any support during the year.

In addition, the time involved in processing cases is extensive. Typically, parents have to wait more than 6 months to obtain a support order. If that were not bad enough, approximately 79 percent of those parents have to wait more than a month to receive their first payment.

Mr. Chairman, we must recognize that any delinquency in child support ultimately, of course, hurts the innocent children. Individuals who neglect their parental obligation simply transfer the costs to the rest of society and they should not be rewarded for such action.

And that's why I introduced H.R. 104, the Subsidy Termination for Overdue Payments—or STOP Act. This legislation would deny a broad range of Federal benefits to individuals who willfully refuse to pay child support.

Mr. Chairman, I appreciate your cosponsorship of the legislation. In addition to your support, eight other members of the Government Reform and Oversight Committee have cosponsored it, and this legislation is, as you might imagine, truly bipartisan, with 49 Republicans and 31 Democrats supporting it. Specifically, sir, my bill would require applicants for Federal financial assistance to certify that they are not more than 60 days delinquent in the payment of child support. And if they are delinquent, they must be in compliance with the terms of an approved repayment agreement.

The intent of the legislation is really twofold: First, to encourage payment of child support; and second, to preclude the use of Federal taxpayers' dollars to assist individuals who neglect their children.

Under my bill, the Federal agency involved is not required to research the applicant's status. Rather, an applicant for assistance must make a simple affirmative statement of compliance. This is a requirement which will be enforced through existing provisions of Federal law which establish penalties for fraud in obtaining Federal financial assistance.

The legislation also includes a good cause exception to avoid penalizing parents where they are unable to satisfy their child sup-

port obligation due to factors beyond their control. This exception is necessary to avoid penalizing parents in situations where, despite a good faith effort, they are unable to modify the terms of their child support obligation or obtain a repayment agreement.

Finally, H.R. 399 is designed to emphasize that the payment of child support is a fundamental civic responsibility. Passage of the STOP Act will ensure that persons who fail to satisfy their most basic parental obligation are not rewarded for such actions.

I am pleased that the proposal has been endorsed by the Association for Children for Enforcement of Support, which is better known as ACES, and now, of course, as I've already stated, the National—the Children's Defense Fund.

In closing, Mr. Chairman, the need for action to address this crisis in our child support system is certainly clear, and I look forward to working with you and members of your subcommittee to develop legislation that will strengthen the enforcement of child support and improve the well-being of our Nation's children. It's really just another one of those additional things—Mr. Allen went into the details of some of the things they're doing in Maine with licenses and that sort of thing. This is sort of an additional step. In the 103d Congress, I introduced legislation tied into small business loans. And that is now law and this bill sort of hitchhikes upon that.

Mr. Chairman, it's a big problem out there. Back in the days when I practiced law, but mostly now since I've been in the Congress, I get complaints all the time regarding this area and I refer them to the reciprocal support people that exist in our States and quite frankly it just doesn't work very well. I'm not throwing any stones at any individuals, but there's something wrong there. I don't think we're emphasizing it adequately. Thank you very much, Mr. Chairman.

[The prepared statement of Hon. Michael Bilirakis follows:]

**STATEMENT BY THE HONORABLE MICHAEL BILIRAKIS  
BEFORE THE SUBCOMMITTEE ON HUMAN RESOURCES**

**November 4, 1997**

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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

GOOD AFTERNOON, AND THANK YOU FOR ALLOWING ME TO TESTIFY  
TODAY ON THE CRITICAL ISSUE OF CHILD SUPPORT ENFORCEMENT.

OUR NATION'S SYSTEM FOR ENFORCING CHILD SUPPORT ORDERS HAS  
FAILED MISERABLY. IN FACT, 80 PERCENT OF CUSTODIAL MOTHERS  
WHO ARE ENTITLED TO RECEIVE CHILD SUPPORT EITHER LACK A  
SUPPORT ORDER OR FAIL TO RECEIVE FULL PAYMENT. OF THOSE WHO  
HAVE A CHILD SUPPORT AWARD, NOT EVEN HALF ULTIMATELY COLLECT  
WHAT IS OWED.

IN THE UNITED STATES, CHILD SUPPORT HAS HISTORICALLY BEEN GOVERNED ENTIRELY BY STATE LAW AND ENFORCED THROUGH STATE COURTS. STATE AGENCIES PROVIDE FREE ENFORCEMENT SERVICES TO FAMILIES ON WELFARE AND ALSO ASSIST NON-WELFARE FAMILIES BY PROVIDING LOW-COST SERVICES.

UNFORTUNATELY, STATE AGENCIES HAVE HAD AN ABYSMAL TRACK RECORD. THESE AGENCIES ESTABLISH PATERNITY IN LESS THAN HALF THE NECESSARY CASES. EVEN WORSE, LESS THAN 21 PERCENT OF THESE CASES RESULT IN COLLECTION OF ANY SUPPORT DURING THE YEAR.

IN ADDITION, THE TIME INVOLVED IN PROCESSING CASES IS EXTENSIVE. TYPICALLY, PARENTS HAVE TO WAIT MORE THAN SIX MONTHS TO OBTAIN A SUPPORT ORDER. IF THAT WERE NOT BAD ENOUGH, APPROXIMATELY 79 PERCENT OF THOSE PARENTS HAVE TO WAIT MORE THAN A MONTH TO RECEIVE THEIR FIRST PAYMENT.

MR. CHAIRMAN, WE MUST RECOGNIZE THAT ANY DELINQUENCY IN CHILD SUPPORT ULTIMATELY HURTS INNOCENT CHILDREN. INDIVIDUALS WHO NEGLECT THEIR PARENTAL OBLIGATION SIMPLY TRANSFER THE COSTS TO THE REST OF SOCIETY. THEY SHOULD NOT BE REWARDED FOR SUCH ACTION.

THEREFORE, I SPONSORED LEGISLATION IN THE 103RD CONGRESS TO DENY SMALL BUSINESS LOANS AND LOAN GUARANTEES TO INDIVIDUALS WHO REFUSE TO PAY CHILD SUPPORT. MY PROPOSAL WAS APPROVED BY THE HOUSE OF REPRESENTATIVES AS AN AMENDMENT TO THE "SMALL BUSINESS REAUTHORIZATION ACT" AND WAS SUBSEQUENTLY ENACTED INTO LAW.

WHEN THE 104TH CONGRESS CONVENED, I INTRODUCED H.R. 104, THE "SUBSIDY TERMINATION FOR OVERDUE PAYMENTS" OR "STOP" ACT. THIS LEGISLATION WOULD DENY A BROAD RANGE OF FEDERAL BENEFITS TO INDIVIDUALS WHO WILLFULLY REFUSE TO PAY CHILD SUPPORT. I HAVE REINTRODUCED THIS LEGISLATION IN THE 105TH CONGRESS.

MR. CHAIRMAN, I APPRECIATE YOUR COSPONSORSHIP OF MY LEGISLATION. IN ADDITION TO YOUR SUPPORT, EIGHT OTHER MEMBERS OF THE GOVERNMENT REFORM AND OVERSIGHT COMMITTEE HAVE COSPONSORED H.R. 399, AS WELL. THIS LEGISLATION IS TRULY BIPARTISAN WITH 49 REPUBLICANS AND 31 DEMOCRATS SUPPORTING IT.

SPECIFICALLY, MY BILL WOULD REQUIRE APPLICANTS FOR FEDERAL FINANCIAL ASSISTANCE TO CERTIFY THAT THEY ARE NOT MORE THAN 60 DAYS DELINQUENT IN THE PAYMENT OF CHILD SUPPORT. AND IF THEY ARE DELINQUENT, THEY MUST BE IN COMPLIANCE WITH THE TERMS OF AN APPROVED REPAYMENT AGREEMENT.

THE INTENT OF MY LEGISLATION IS TWO-FOLD: FIRST, TO ENCOURAGE PAYMENT OF CHILD SUPPORT; AND SECOND, TO PRECLUDE THE USE OF FEDERAL TAXPAYERS' DOLLARS TO ASSIST INDIVIDUALS WHO NEGLECT THEIR CHILDREN.

UNDER MY BILL, THE FEDERAL AGENCY INVOLVED IS NOT REQUIRED TO RESEARCH THE APPLICANT'S STATUS. RATHER, AN APPLICANT FOR ASSISTANCE MUST MAKE A SIMPLE AFFIRMATIVE STATEMENT OF COMPLIANCE. THE REQUIREMENT WILL BE ENFORCED THROUGH EXISTING PROVISIONS OF FEDERAL LAW WHICH ESTABLISH PENALTIES FOR FRAUD IN OBTAINING FEDERAL FINANCIAL ASSISTANCE.

MY LEGISLATION ALSO INCLUDES A "GOOD CAUSE" EXCEPTION TO AVOID PENALIZING PARENTS WHERE THEY ARE UNABLE TO SATISFY THEIR CHILD SUPPORT OBLIGATION DUE TO FACTORS BEYOND THEIR CONTROL.

THIS EXCEPTION IS NECESSARY TO AVOID PENALIZING PARENTS IN SITUATIONS WHERE, DESPITE A GOOD FAITH EFFORT, THEY ARE UNABLE TO MODIFY THE TERMS OF THEIR CHILD SUPPORT OBLIGATION OR OBTAIN A REPAYMENT AGREEMENT.

FINALLY, H.R. 399 IS DESIGNED TO EMPHASIZE THAT THE PAYMENT OF CHILD SUPPORT IS A FUNDAMENTAL CIVIC RESPONSIBILITY. PASSAGE OF THE STOP ACT WILL ENSURE THAT PERSONS WHO FAIL TO SATISFY THEIR MOST BASIC PARENTAL OBLIGATION ARE NOT REWARDED FOR SUCH ACTION.

I AM PLEASED THAT MY PROPOSAL HAS BEEN ENDORSED BY THE ASSOCIATION FOR CHILDREN FOR ENFORCEMENT OF SUPPORT, BETTER KNOWN AS ACES.

MR. CHAIRMAN, THE STATISTICS ON CHILD SUPPORT ARE APPALLING. ACCORDING TO ACES, THERE ARE 30 MILLION CHILDREN IN AMERICA WHO ARE OWED \$41 BILLION IN UNPAID SUPPORT. ALMOST NINE OUT OF TEN CHILDREN ON WELFARE ARE ENTITLED TO SUPPORT AND DO NOT RECEIVE PAYMENTS.

IF EACH OF THESE FAMILIES RECEIVED THE AVERAGE CHILD SUPPORT PAYMENT, APPROXIMATELY \$3100 PER YEAR, AND THEN OBTAINED A MINIMUM WAGE JOB, IT COULD MAKE THE DIFFERENCE BETWEEN WELFARE AND SELF-SUFFICIENCY.

THE HISTORIC WELFARE LAW ENACTED BY CONGRESS LAST YEAR REWARDS PEOPLE WHO TAKE RESPONSIBILITY FOR THEMSELVES AND THEIR FAMILIES. I CAN'T THINK OF A BETTER WAY TO ENSURE THE CONTINUED SUCCESS OF WELFARE REFORM THAN BY PASSING LEGISLATION TO HELP PEOPLE MOVE FROM WELFARE ROLLS TO THE WORKFORCE.

IN CLOSING MR. CHAIRMAN, THE NEED FOR ACTION TO ADDRESS THIS CRISIS IN OUR CHILD SUPPORT SYSTEM IS CLEAR. I LOOK FORWARD TO WORKING WITH YOU AND MEMBERS OF YOUR SUBCOMMITTEE TO DEVELOP LEGISLATION THAT WILL STRENGTHEN THE ENFORCEMENT OF CHILD SUPPORT AND IMPROVE THE WELL-BEING OF OUR NATION'S CHILDREN.

THANK YOU AGAIN FOR THE OPPORTUNITY TO TESTIFY ON THIS IMPORTANT ISSUE. I WOULD BE GLAD TO ANSWER ANY QUESTIONS YOU MAY HAVE AT THIS TIME.

\* \* \*

Mr. SHAYS. Thank you, Mr. Chairman. It's nice to have you here. You've done such exceptional work on the Commerce Committee, and I think most Members of Congress would recognize of all the subcommittees, yours is probably the busiest and clearly one of the most important, Health and Environment.

Mr. SNOWBARGER, do you have any questions?

Mr. SNOWBARGER. These are the kinds of questions that come from those of us that weren't around when the original bill passed that you're talking about. Could you explain in your bill the types of benefits that you would deny access to?

Mr. BILIRAKIS. Yes, any Federal benefits. The prior bill that I mentioned, Mr. Snowbarger, referred to small business loans.

Mr. SNOWBARGER. Right.

Mr. BILIRAKIS. But that was limited. This expands it to any type of Federal benefits. At least, that's the intent.

Mr. SNOWBARGER. What I'm trying to get at, I guess, is—explain to me how this would actually work. How many people do we have out there who have child support obligations that are applying for Federal benefits? First of all, do we have any feel for what that number might be?

Mr. BILIRAKIS. I don't know that we have any statistics. We have gotten a multipage submittal from the State of Florida based on their particular history. But I don't know that I have any of those statistics. I do know that, as a result of the new welfare law, there is a Federal case registry required, and so now we're getting something actually in place which can be used and hitchhiked upon, with a requirement that we include court support information to it. And that is something that we can go to, something that has not existed up until now.

Of course, the States, in many cases, they have State case registries. Others are required to establish one under the new welfare law. Hopefully, there would be a tie-in of those particular two, but, you know, in terms of specific numbers, I really don't have that answer. I have a staffer here, but I don't think we have that information at this point.

Mr. SNOWBARGER. Going back to the types of benefits, I mean, are you talking about VA benefits, retirement benefits, all of the above?

Mr. BILIRAKIS. Basically, all of the above, right.

Mr. SNOWBARGER. OK.

Mr. BILIRAKIS. All of the above. There's no reason why any of those people, even a veteran—and I'm on the Veterans' Committee and a big proponent of veterans—but they should—a person should not be rewarded for failing to support his or her children.

Mr. SNOWBARGER. If the person were receiving those benefits, would the benefits be cut off if they ran behind?

Mr. BILIRAKIS. Yes, yes. If they ran behind? If they're already receiving them, you mean, before the law is passed?

Mr. SNOWBARGER. Or for a period of time they're in compliance and are receiving benefits—

Mr. BILIRAKIS. I'm not sure—

Mr. SNOWBARGER [continuing]. And then fall 60 days behind.

Mr. BILIRAKIS. It's really a good question. I'm not sure that we have contemplated something like that. The contemplation is first—

Mr. SNOWBARGER. The first application?

Mr. BILIRAKIS. The first application, right. But you bring up a good point. That certainly would mean there'd be a big gap there. It would not be filled in and so—you know, this is far from perfect and that's something that I think we all should work on.

Mr. SNOWBARGER. Well, having dealt with this issue at the State level, one of the concerns we always ran into—we talked about the licensing withdrawal and things of that nature, and went so far at one point in time to at least discuss pulling professional licenses and all of a sudden we realized, wait a minute, we're kind of cutting off our nose to spite our face because if the lawyer can no longer practice law, which is his primary source of income, how do you ever get him in a position where he can in fact provide the child support?

Mr. BILIRAKIS. Well, and that's been the argument that I've heard over the years. I guess we all have—that if you take this individual who is not paying child support and put him or her in prison, in jail, then they certainly are not in a position to be able to help. But let's face it, they've been on the outside and they haven't helped, so it doesn't really make the situation any worse. But it certainly would discourage a hell of a lot of cases because the word would get around that we're really serious about it all.

And I think the same thing would be applicable as far as attorneys go. They should be at the head of the list as far as that's concerned.

Mr. SNOWBARGER. They normally are at the head of everybody's list. [Laughter.]

Mr. BILIRAKIS. Well, because they're more familiar with the laws and that sort of thing, so they should be at the top of the list.

Mr. SNOWBARGER. Well, but, again, in terms of taking away professional license, I guess what I'm getting at is if we are eliminating from someone's portfolio a retirement benefit or something of that nature that they would otherwise be entitled to, particularly—let me move on to a different question. Maybe this will flesh it out. You say that—and I just ran out of time, do you want me to pursue this later, Mr. Chairman?

Mr. SHAYS. Let's just go through—if you don't mind, let's just finish that one question, then—

Mr. SNOWBARGER. Well, I was going to a different line, so why don't we—

Mr. SHAYS. Then let's go, if you don't mind—that'll be fine.

Mr. TOWNS. I just have one quick question to my colleague and friend, who has a great legal mind. The use of Federal power to enforce private contracts establishes a dangerous precedent. Doesn't that bother you?

Mr. BILIRAKIS. Well, I think you know, because we've served in the Commerce Committee so many years, how I feel about so-called Federal mandates, Federal power. But at the same time, we are talking about Federal taxpayers' dollars which are helping these children, taking care of these children because the person who is responsible under the law and morally and every other way, is not

upholding his or her part of the bargain. And so we're there. We're already there. I mean, the Federal dollars are doing it. And so consequently, you know, this is the way we rationalize.

Mr. TOWNS. I yield back, Mr. Chairman.

Mr. SHAYS. Thank you. Mr. Barrett.

Mr. BARRETT. Just a couple of quick questions so that I can understand the bill a little more. Are you saying that if a person is behind in their child support that they have to clear up the arrearages or—

Mr. BILIRAKIS. If they make application for some sort of Federal benefit. The answer is yes, if they're more than 60 days behind—unless they can show that they've reached an agreement. In other words, they're legally behind, but, you know, they've basically reached an agreement with the other parent, with the court, if you will, that they plan to get caught up through a payments schedule or something of that nature.

Mr. BARRETT. See, I would assume in a situation where the child is now an adult, let's say the child now is 25 years old, and the father, because it's usually the father, had been out of the picture for 18 years, that person then would not be entitled to any benefit?

Mr. BILIRAKIS. For that 25-year-old?

Mr. BARRETT. Well, no. What I'm saying is the child is gone, the child is grown—

Mr. BILIRAKIS. The child is grown, right.

Mr. BARRETT. But the father stiffed the mother for 18 years.

Mr. BILIRAKIS. I don't think it's our intent to cover that type of a situation because that child is now an adult and probably fending for his or herself.

Mr. BARRETT. I'm just curious.

Mr. BILIRAKIS. No, no. These are all—you know, it's a point. If our language would seem to catch something like that it's not intended to and I don't think that it does.

Mr. BARRETT. OK. And I assume that this would apply to Federal Ginnie Mae mortgages? Is it your intention to have those—

Mr. BILIRAKIS. Yes, yes, it is. It very definitely is.

Mr. BARRETT. OK. What about something like SSI disability?

Mr. BILIRAKIS. Well, it's—I guess you'd put it in the category of a Federal benefit. I know that there are some exceptions on Social Security.

Mr. BARRETT. And that may fall into the good cause exceptions, I'm just—I don't know the answers and I'm not trying to trap you—

Mr. BILIRAKIS. No, I appreciate that really very much. I would say in general probably—probably it would, but you know, I think that SSI, Social Security, Medicare, those things maybe could be looked upon as being—looked upon a little differently in view of the fact that that's an entitlement, medical care is something that if you defer that or take that away it could cause even bigger problems. No, you know, very good questions. This is, of course, why you are this committee and you are accustomed to going into these details. But what we're trying to do is to stop, if you will, a reward, people being rewarded for, you know—not being penalized, but actually being rewarded for—

Mr. BARRETT. I totally agree with you on that. I just wanted to ask those questions. I yield back my time.

Mr. SHAYS. Mr. Allen.

Mr. ALLEN. Quickly, a couple questions. I applaud the goals of your legislation. I'm going to look forward to taking a look at it and making sure I understand it.

There are sort of two general categories of things that come to my mind. One has to do with how it would—how you deal with the problem of individual cases being different? And the second sort of area of concern has to do with the speed with which information moves through State governments or Federal Governments and over long distances.

With respect to the first case, just the question of how you adapt to individual cases. It seems to me always the case that when you withdraw benefits from someone who's already on the financial edge that you've got a problem. And sometimes, it seems to me, there needs to be some way to exercise—for someone to exercise appropriate discretion so that you don't drive a non-custodial parent over the edge and make it impossible for that person to pay child support. And I'm wondering if your legislation has a way of dealing with that.

Mr. BILIRAKIS. Well, this is, of course, I guess why we had the good cause exception in the legislation. Now, good cause is a very subjective type of thing, there's no question about that, but we are concerned about that, too. We really are very much concerned about unintended consequences and some of the things that you all have brought up are things that we want to really spend a lot of time on because we are sort of famous up here for trying to do some good and coming with a piece of legislation, and then it turns out that it doesn't work ultimately the way we intended it to. And so I'm really concerned, you know, about that.

But we have this good cause thing in here. One of the reasons we have that in there is because of the fact that in different jurisdictions the efficiencies certainly vary. And consequently, you might have a person who is up to date insofar as the child support is concerned but it hasn't really caught up to the paperwork in some way or to the case registry, if you will, and consequently there could be a problem as far as that's concerned. And someone mentioned earlier about the fact that this is a very changeable thing because with changed circumstances a person can go into court and they've lost their job or taken a big pay cut or something of that nature and quite often there would be—there might be a reduction in the amount of child support. And so these are all things that concern us and that's why this one area of good cause is something that we want to really spend a lot of time on.

Mr. ALLEN. The second area that I'd be concerned about is related. I spent 19 years as an attorney, and during that time I did a little bit of domestic relations work and the length of time between a change of circumstances and an order of the court reflecting the change of circumstances can be a month, I mean months and months—

Mr. BILIRAKIS. Months, right.

Mr. ALLEN. Or more than a year. And I worry not just about that change, you know, the length of time it takes to get a court to

make a change in an order, but also the length of time it takes—you know, if you're operating within a single State, you know, you can almost have in many cases, as slow as it may be, at least have one system. The minute you're trying to do this nationally you have the problem of moving information from State to State, and I'm talking not just about the kind of information that comes out of the court, but the other things you were mentioning—changes in circumstances, loss of a job, change of a job, moved to a new place, you name it—and I suggest that this is an area to work on.

Mr. BILIRAKIS. By the time these things might get to the Federal case registry and to the State case registry, you're adding months there, too. And those are big problems; there's no question about that. And, you know, and hopefully those can be surmounted, but what we're all trying to do here is to improve the overall situation and, unfortunately, there are probably, as is always the case, there will be maybe some innocent people who might suffer in the process. But hopefully not too many. But that certainly is something that we're very much concerned with, yes, sir.

Mr. ALLEN. Good.

Mr. BILIRAKIS. And you know, I'm very much willing to work with the committee on this. There's no pride of authorship here. The important thing is to get—the bottom line is to get it done.

Mr. SHAYS. Have you done any research as to how many committees this is ultimately going to go through? We're starting it out, Intergovernmental Relations in particular. Do you think we would send this directly to the floor? It will be interesting. I think I'll ask my committee—

Mr. BILIRAKIS. My staffer tells me—

[Laughter.]

Mr. SHAYS. That alone is justification for passage.

Mr. BILIRAKIS. I guess Judiciary conceivably may be in the picture. I don't know. Have they assigned it to the Judiciary? Only to this committee it's been referred. So that expedites it.

Mr. SHAYS. OK. We'll be very careful then.

Mr. Snowbarger.

Mr. SNOWBARGER. Actually, I just want to reflect the comments of Mr. Allen and his questions. Again, I had a similar experience, not only representing clients, but also dealing with it from the legislative perspective. And I guess, he went into the good cause exception question and one concern I would raise is that in addition to the multiplicity of jurisdictions that we now have involved in this, we'll have a multiplicity of agencies all with their own definition of what good cause is. Unless we get more specific about what good cause is. And so I think as we go through the process that's a term that needs to be there, that flexibility needs to be there but—

Mr. BILIRAKIS. Sure.

Mr. SNOWBARGER. We're going to run into a real dangerous problem.

Mr. BILIRAKIS. And we have—I think we probably all heard, also, from the alleged “deadbeat dads,” I'll say “dads” to try to keep it simple, who feel that they're really innocent and they're being taken advantage of, and whatever their problems are. So we've got to be concerned about that. That's why I use the unintended con-

that is unfair. But I'd like to think if the word spreads that this is taking place, that hopefully this will really defer anyone from going forward unless they are up-to-date, so that we won't have that problem.

Mr. SNOWBARGER. Thank you, Mr. Chairman. Mr. Chairman, I yield back.

Mr. SHAYS. Thank you. We're going to take a good look at the bill. I'll invite our second panel to come forward: Mark Nadel, Associate Director for Income Security Issues, U.S. General Accounting Office, GAO, and David Bixler, Assistant Director in the same office. May I ask you both to stand and I'll swear you in.

[Witnesses sworn.]

Mr. SHAYS. For the record, both our witnesses have responded in the affirmative, and we'll invite your testimony. Thank you.

**STATEMENT OF MARK V. NADEL, ASSOCIATE DIRECTOR, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY DAVID P. BIXLER, ASSISTANT DIRECTOR, GENERAL ACCOUNTING OFFICE**

Mr. NADEL. Mr. Chairman and members of the subcommittee, I am pleased to be here today to discuss our work on the privatization of child support enforcement and other social services. Specifically, I will address the following questions: First, has privatization increased? Second, has privatization improved efficiency and effectiveness? Third, what are the main challenges stemming from privatization? And finally, what role can the Federal Government play in this critical area?

I'll be presenting just a brief summary of my written statement which I know will be incorporated in the record. My remarks are based in large part on four recent reports we did on child support enforcement and in addition, in order to get a better understanding of contracting for child support services, I will discuss this issue in the context of the broader social service privatization issues we examine in the report on privatization that the subcommittee has released today.

The child support program enforces parental responsibility and there are several venues that the States can use to privatize, to contract out. The States can privatize information system development or particular child support services, such as locating non-custodial parents, establishing paternity, or collecting support owed. Or they can contract with the private sector to provide all local child support services, to take over an office entirely.

Turning now to our findings. With regard to trends, we found that since 1990 the number and type of all social services privatized has increased, as has the percentage of social service budgets that have been contracted out. For child support, before 1991, States would contract for limited activity such as collecting support payments. But it was quite rare for a State to contract with a for-profit organization to provide all the activities of a local child support office. But by 1996, we found that 15 States had turned to full-service privatization in selected local offices. This form of contracting out includes a broader array of services, such as interviewing clients and establishing paternity.

Now, while privatization is a growing trend, the results are still mixed, according to the few empirical evaluations that exist. Last year, we reported on child support privatization in a small number of locations. We found that privatized offices performed as well as, or better than public programs in locating noncustodial parents and establishing paternity and support orders and in collections. In Virginia, for example, the privatized office collected support payments from 41 percent of the cases we reviewed. A rate almost twice that of a similar public office with which we compared it.

However, in terms of comparative cost-effectiveness, that is the amount of money it cost to collect \$1 of payment, so in terms of cost-effectiveness of the private versus the public offices, in only two of the four locations we examined was the private office more cost-effective.

The collection of past due support, the service most often privatized, can be quite effective. Generally, the States only pay contractors if collections are made. And payments are often a fixed percentage of collections. Privatizing collections has enabled States to collect support that they would have been unable to collect without hiring additional staff.

While privatization offers many benefits, there are also several challenges in privatizing social services. They are: first, obtaining a sufficient number of qualified bidders; second, developing clearly specified contracts; and third, assessing contractor performance. Even when services are provided by contractors, the government entity remains responsible for the use of public resources and the quality of services provided. Unless the contractor meets these challenges, it can be difficult for State and local governments to reduce program costs and to improve services.

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

It should be noted that child support enforcement has goals and outcomes like support orders and collections that are much easier to specify and to measure than is the case with other social services. What does this mean for the Federal Government? Just as privatization has made it even more imperative for State and local governments to focus on results, recent Federal initiatives, particularly the Government Performance and Results Act of 1993, also require results focus at HHS and other Federal agencies.

Several State and local government officials told us that HHS could help the States and localities assess program results by clarifying goals, by providing more responsive technical assistance, and sharing best practices in measuring performance of social service providers.

HHS has made progress in integrating the assessment and tracking of program results in its oversight function. The Office of Child Support Enforcement was a GPRA pilot agency and initial results appear promising as OCSC and the States have agreed on a 5-year

strategic plan which had goals and performance measures for assessing progress.

In conclusion, our examination of social service privatization suggests that the magnitude of privatized services has grown and is likely to continue to grow. Under the right conditions, contracting may result in improved services and cost savings. Social service privatization is likely to work best when competition is sufficient, when governments effectively develop and monitor contracts, and program results are assessed and tracked over time.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or the subcommittee might have.

[The prepared statement of Mr. Nadel follows:]

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

Mr. Chairman and Members of the Subcommittee:

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

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

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

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

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## Background

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

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

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## Social Service Privatization Has Increased

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

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

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

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

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

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

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

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

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

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

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<sup>2</sup>Child Support Enforcement: Early Results on Comparability of Privatized and Public Offices (GAO/HEHS-97-4, Dec. 18, 1996).

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

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

<sup>5</sup>Child Support Enforcement: Strong Leadership Required to Maximize Benefits of Automated Systems (GAO/HEHS-97-2, June 30, 1997).

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

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

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### Competitive Markets for Social Services Are Sometimes Lacking

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

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

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

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### Developing Contracts Poses Challenges

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

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

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### Privatization and Accountability for Results

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

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

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

<sup>7</sup>The Government Performance and Results Act, 1997 Governmentwide Implementation Will Be Completed (GAO/GGD-97-107, June 2, 1997).

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

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## HHS Has a Key Role

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

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

HHS has traditionally focused more on monitoring compliance with legislation and regulations than on results. However, in CSE, HHS has made progress in integrating the assessment and tracking of program results in its oversight function. Following its designation as a pilot agency to test the implementation of the Government Performance and Results Act, HHS' Office of Child Support Enforcement (OCSE), in conjunction with the states, began to reorient its management of the CSE program. OCSE and its state partners agreed on a 5-year strategic plan containing program goals and objectives and developed performance measures for assessing state performance.<sup>9</sup> In addition to conducting traditional compliance audits, CSE auditors have recently begun to assess the accuracy of state-reported data on program results. Also, OCSE and the states, in accordance with the new welfare law, developed and submitted to the Congress proposed changes in the program's incentive funding structure intended to reorient incentive payments toward rewarding state progress in achieving program goals.

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<sup>9</sup>Child Support Enforcement: Reorienting Management Toward Achieving Better Program Results (GAO/HEHS/GGD-07-14) (Oct. 25, 2007) describes how OCSE worked with the states to establish a framework for improving program management.

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

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## Conclusions

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

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

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

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## Related GAO Products

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Social Service Privatization: Expansion Poses Challenges in Ensuring Accountability for Program Results (GAO/HEHS-96-8, Oct. 20, 1997).

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

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

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

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

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

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

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

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

Child Support Enforcement: States and Localities Move to Privatized Services (GAO/HEHS-96-43FS, Nov. 20, 1996).

District of Columbia: City and State Privatization Initiatives and Impediments (GAO/GGD-96-194, June 28, 1996).

Mr. SHAYS. Thank you very much. Mr. Towns, do you have any questions? We'll start with you. Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman. Do you know whether the private companies are forbidden from repackaging that information and selling it for other marketing purposes, you know, marketing is a big idea, a big thing.

Mr. NADEL. Yes, privacy has always been a big issue. I don't know whether there is a prohibition. Mr. Bixler, do you—I'm sorry, if you'd like we can check and supply that information for the record, Mr. Towns.

Mr. TOWNS. I'd like that very much. Thank you.

[The information referred to follows:]

Federal law in effect requires the states to assure that their child support enforcement contractors do not disclose personal or confidential information. A recent amendment to the Social Security Act requires that state child support enforcement plans include safeguards, applicable to all confidential information handled by the state agency, to protect the privacy rights of the parties. 42 U.S.C. § 654(26). Under this law, it is incumbent on states to include safeguards in their contract with collection agencies prohibiting unauthorized disclosure by the agencies of personal information acquired in the course of their work on the contract.

In addition, depending on the nature of the information and the contractor's activity, other specific statutory prohibitions may be applicable. For example, child support enforcement contractors receiving wage information from the state are explicitly required to use the information only for program purposes. 42 U.S.C. § 503(e)5.

Mr. TOWNS. It's my understanding that the Fair Debt Collection Practice Act which forbids unfair debt collection practices exempt government employees. Is there any indication that contractors who are acting on their government contract may also be exempt from the law?

Mr. NADEL. I would have to check with our General Counsel on that one, I'm sorry, I don't have an answer.

Mr. TOWNS. OK.

Mr. NADEL. I'll supply that for the record also, sir.

[The information referred to follows:]

Contractors collecting child support payments are exempt from the controls on abusive debt collection in the Fair Debt Collection Practices Act, because child support is not a "debt" as defined in the Act. However, this does not necessarily free the contractor from controls: provisions in state law similar to the federal statute might exist, and provisions in the contract with the state can regulate the contractor's conduct.

The Act, which generally prohibits abusive practices in the collection of debts, defines "debt" as "obligation. . . of a consumer" to pay for goods or services "primarily for personal, family, or household purposes." A federally appellate court has ruled that child support obligations are not debts within this definition. *Mabe v. G.C. Services Ltd. Partnership*, 32 F. 3d 86 (4th Cir. 1994). However, the collection agency in the Mabe case was not unfettered; its contract with Virginia required it to comply as if the Act applied.

Mr. TOWNS. Thank you very much. We'll keep it open for it.

Mr. NADEL. OK.

Mr. TOWNS. OK. In your report you found that privatization in the social service arena could have special problems because of the lack of contractors and the inexperience of State and local governments in developing, advertising, awarding, and monitoring these kinds of contracts. Let me just follow up by saying, what special problems are caused by the lack of bidders on a contract? Are there any special accountability issues raised here?

Mr. NADEL. There are a couple of problems. One, the benefits of having privatization are partly premised on just the normal virtues of competition. You're likely to get a better price and better quality when there's more competition. We don't know what the magic number is or if there is a magic number, but clearly there is a tendency to get less competition on price and on quality as the number of bidders goes down. So that's one issue.

A second issue is that as the numbers go down, the State or locality has less flexibility and in fact it can be held hostage if, to take the extreme case, if there's only, you know, one guy in town who is bidding for your computer business, you're kind of hostage to what that person has. This is actually a bigger problem in rural areas where a smaller town, a less populous county might be bidding because of the small population and smaller budget might attract a smaller number of competitors.

Mr. TOWNS. Right. There is some concern that there is a revolving door between State welfare and child support agencies and private companies that seek social service privatization contracts. Does this allegation cause you any concern? And if so, why?

Mr. NADEL. It's a complex question. I don't mean to be coy or evasive. On the one hand, you want, you clearly want the expertise and—so that the contractor and the clients may in fact be better served by having people who've had government experience. On the other hand, if there is any indication or any possibility of someone trading on inside knowledge in order to gain the contract or if there's any favoritism, that would clearly be a matter of concern.

But in reality, we just don't know whether that has been a problem. We do know, of course, and it's quite evident that there are quite a number of senior State and local officials and child support enforcement and other areas who have joint contractors.

Mr. TOWNS. Right. Thank you. Mr. Chairman, I see that the red light is on.

Mr. SHAYS. Keep going.

Mr. TOWNS. OK, keep going? OK. I'm trying to be as brief as possible.

Mr. SHAYS. That's all right. No, this is important. Just cover it.

Mr. TOWNS. Yes. You mentioned State inexperience in several areas as a factor which causes challenges in this arena. Hopefully this is a short-term concern. The more States do this, the better they will get. But what are the program concerns and deficiencies that might result while the States are gaining this experience?

Mr. NADEL. Well, there are several. There's a certain flexibility that the contractors might have that government agencies may not have in terms of procurement. In the work we did we found that it was the case that a contractor was able to do a major computer procurement much, much faster than the State would have been able to. I think it was 60 days versus 7 months even under expedited procedures.

Again, competition itself seems to enhance results. Sometimes we see in situations where you have what's sometimes termed "managed competition," not like it is in the Clinton health plan, but the term refers to a situation where you might have a private contractor competing against a public entity and that seems to improve results. That was a situation in California in the GAINS program,

California's welfare jobs program, and a couple of offices' performance markedly improved when contractors were brought in. So there can be these kinds of program improvements. The potential is there.

Mr. TOWNS. All right. Mr. Chairman, I have maybe three or four questions I'm going to submit for the record, you know, because I would like to sort of—I don't want to hold him too long, but if you would—if I could get your agreement to do that, I will—

Mr. SHAYS. Sure, I will be happy to do that and we'll followup on that.

Mr. TOWNS. Thank you, Mr. Chairman.

Mr. SHAYS. Mr. Barrett.

Mr. BARRETT. Thank you. In your testimony you mentioned Virginia as an example of a State where this has worked well. And in your written statement I thought I saw Tennessee—

Mr. NADEL. Yes.

Mr. BARRETT [continuing]. As an example where it didn't work particularly well. Can you sort of compare and contrast those two as to why it worked well in one State and not in the other?

Mr. NADEL. Dave, do you want to—

Mr. BIXLER. Well, with regards to Virginia, it was both in terms of performance, collecting child support and the other services such as establishing paternity where the private firm did better than the public firm, but also in terms of cost-effectiveness, the contractor did better than the public entity there.

In terms of Tennessee, in terms of the administrative costs, the cost-effectiveness issue, the public firm did better than the private firm, but in terms of performance overall, in terms of services, they were fairly comparable.

Mr. BARRETT. And what did you attribute that to, or did you just make the analysis of what it was? Could you determine what the causes were?

Mr. NADEL. I don't think we could get into causation, our analysis didn't go into that level of detail and just required more than what we were able to do. We were looking at what the outcomes were and we compared private to comparable public, but we didn't do an analysis of the reasons why.

Mr. BARRETT. OK. One of the concerns that I would have in the privatization efforts here is that these may be contracts that are bid upon as lost leaders, where for a couple of years you could have a company coming in low-ball and get the contract, and then in subsequent years once there is no competition from the public sector that the costs would increase. Is that a legitimate concern? Is that something that you have considered at all?

Mr. NADEL. That is a legitimate concern and it really gets to what Mr. Towns asked about earlier, the lack of competition. I think that there is a concern on the part of State officials that we talk to about not being held hostage by the contractor. It is a concern, but I must emphasize we didn't actually see it happen, but clearly the State officials we talked to are concerned that a contractor could really get in a position where they dominate the business in a State and then—it's all well and good to talk about competition, but if they are holding a lot of the business, and then you want to replace them if their prices go too high, it's not that easy.

It's not like going from one car dealer to another. You have issues of computer systems, you have issues of operations, and so making that kind of transition can be very difficult.

For example, in another venue, it's been a nightmare in Medicare when you changed contractors in a State or a couple of States. There is always a huge jump in the error rate until things settle down. So it's a problem.

Mr. BARRETT. OK. In terms of the enforceability, one of the issues that comes up, and I think Mr. Snowbarger mentioned what his experience had been in the State legislature, where States at times have taken away fishing licenses, driving licenses, professional licenses, if you have a private company that makes a determination that a person should lose one of these things, and it turns out that that's incorrect and a person suffers some damage, who is ultimately legally liable for that?

Mr. NADEL. Mr. Barrett, I'm not a lawyer and so I don't know. But we can—we'll find out from our general counsel if there's any—

Mr. BARRETT. I would appreciate that. I think you can see where I'm going.

Mr. NADEL. Absolutely.

[The information referred to follows:]

The contractor is potentially liable. The state and its officials and the federal government in all probability are not. There is of course no way to predict whether a plaintiff would be successful in a particular case.

The contractor responsible for the incorrect information is the obvious target for liability. To recover damages from a contractor, a plaintiff would have to show, among other things, that the contractor was negligent, or worse, in disseminating the incorrect information.

States cannot be sued without their consent. A state may have partially waived its immunity by law, but the typical waiver would not permit a suit in these circumstances. A state might be at risk if, for example, its contract with the collection agency required it to indemnify the contractor for damages the contractor might incur. We do not know whether any existing contracts contain such provisions.

A plaintiff might try to invoke a federal law (42 U.S.C. 1983) that permits suits against state officials, as individuals, if they deprive someone of a right created by the Constitution or by law. However, if state officials followed the license revocation procedures prescribed by state law, such a suit would be unlikely to succeed.

We see no plausible basis for holding the federal government liable. The United States is not a party to the contracts, is not involved in any of the actions leading to revocation of a license, and, like the states, is protected by sovereign immunity.

Mr. NADEL. But that does illustrate another point. When you come to issues like that, where a State benefit is being taken away—and of course you have the same thing in welfare, where you have in some States eligibility being determined by private contractors—there will be a conciliation process. But that, of course, adds to the cost and not unnecessarily, of course, but that does add to the cost and the burdensomeness of the whole procedure.

So the more that you have public entities providing due process and looking over the shoulder of the contractors or providing a court of appeals, of course the greater the cost will be; or, to put it another way, the less the flexibility and cost savings.

Mr. BARRETT. One last question if I could, Mr. Chairman—

Mr. SHAYS. Sure.

Mr. BARRETT. Your report states that nine States—nearly \$60 million was collected and \$6 million was earned by these private

companies. I'm going to show my ignorance as to how these contracts work. Do they—when you say they get a percentage, does that percentage come off the top of what the custodial parent gets, or is that paid by the State—

Mr. NADEL. No, it would be a percentage of the amount, so that regardless of how the money is ultimately distributed, that is how much goes back to the State, to the Federal Government, and to the parent; it's just like a collection agency. They'll get a cut of the total, regardless of the ultimate disposition of the funds.

Mr. BARRETT. So that if I'm the custodial parent, does that mean that my child support payment will be reduced 10 percent?

Mr. NADEL. No, no, not at all.

Mr. BARRETT. So it doesn't come out—it comes from the State or the county?

Mr. NADEL. Yes, what you get as the custodial parent would not be affected—well, certainly not in a welfare case. In a private case though, it's still not—

Mr. BIXLER. The \$60 million that you were referring to were collection contracts in which the contractor got 10 percent of the collections achieved. That's netting all those nine States together, basically.

Mr. BARRETT. Thank you.

Mr. SHAYS. First, I just want to publicly state for the record that this committee always appreciates the work that GAO does. We may not agree with all your findings, but we appreciate that you're so responsive to the Government Reform and Oversight Committee and our subcommittee, as well as the rest of Congress.

Mr. NADEL. Thank you. I appreciate that.

Mr. SHAYS. You're welcome. And the questions we asked you to do did not really get into the micro issues; they were more macro. But I'd be interested to know if you have determined the cost-efficiency of child support services that are contracted out, privatized. Do you have any document now that you could respond to us, information that you could respond to us?

Mr. NADEL. Yes. Not across the board, but we did do a report last year where we looked at the comparative cost-efficiency in three States, four localities. And we found that in two of those cases the private entity was more cost-effective, in two they were not. They were the same or less cost-effective. But that's really just a very small snapshot of the total universe and we certainly wouldn't represent that as being a sample or representative of what the situation may be nationwide.

Mr. SHAYS. OK. So the bottom line is we should take a better look at that report that was done last year. It seems to me that GPRA has, in a sense, given us a wonderful—the Government Performance and Results Act—has given us a wonderful ability now to begin to compare public and private, because we're asking the public to begin to quantify and set goals the way the private sector in some cases does. And this should help us, is that true?

Mr. NADEL. That's exactly right. We think that two trends are coming together that will benefit the public interest and lead to better service. On the one hand, with privatization States and localities that are contracting—indeed, when the Federal Government contracts it's the same thing—contracts have to be specified.

They should be results oriented, so you know what you're buying and you know you have it when you get it, or you know whether you have it.

So on contracting that was one trend. On the other hand, as you point out with GPRA, there is an emphasis on results. So from both just public sector programs, which are run by the public, as well as contractor programs, there is this focus on results and we think it's a real promising development.

Mr. SHAYS. Now, a few States have adopted a full-service approach and let me just read what is our sense of full service: locating absent parents, establishing paternity, establishing child support orders, collecting child support payments, processing child support payments. Now that's full service; some States have done it. But it's only occurring, basically, on a county level. Do you have a sense of why that's the case?

Mr. NADEL. Yes, as you say, it's only a small number of States, 15 or 16 States so far. As to why it's not statewide, there are several reasons. One, it gets back to this issue about a State not wanting to be held hostage. If you go statewide and have everything in the hands of a single contractor, it's not clear who's working for whom.

There have also been some political struggles. For example, in Mississippi recently the Governor wanted to privatize statewide. When the legislature came into session, they heard a lot from public employees, from labor unions, and they basically decided that they were not going to privatize statewide.

Mr. SHAYS. Data systems seem to be an area where privatizing—and we've had some unhappy experiences in Social Security and IRS, when the Government sets out contracts; MTS in particular. What conclusion can I draw from that?

Mr. NADEL. Well, we shouldn't exclude child support enforcement. GAO issued a report a few months ago which found substantial flaws in automated systems, information systems in child support enforcement.

Mr. SHAYS. That were being contracted out?

Mr. NADEL. That's almost always contracted out. But it's not necessarily an issue just of privatization. The work the GAO did found that there was plenty of blame to go around, starting with HHS for not providing better technical leadership. The States also had inexperienced people. Again, we talked earlier about this issue of, you know, experience. The States were attempting to manage these very, very complex information systems contracts and procurements with people who were well-meaning but just didn't have the experience. And as I said, HHS did not provide adequate leadership, we feel. So that led to very substantial delays and cost overruns in most States.

Mr. SHAYS. And I'll conclude with this: I have a lot of sympathy for States that don't want to have all their eggs in one basket and be totally dependent on one contractor, particularly throughout the State. I think it's probably wise to have more than one. I don't know if you lose a lot of cost-efficiency here. But if you don't, it seems to me to make sense, in that whole competitive process, to have a few and notice which are doing it better and to be able to compare.

What do you think is the proper balance between contracting out services, keeping some services in-house, and whether there should be more than one that you contract with?

Mr. NADEL. You know, I think it depends on the kind of service. There are some areas where we've just seen, on the whole, greater efficiencies from contracting out—some. Collections is one area: sometimes it doesn't work out, but generally what gets contracted out in collections are the hardest-to-collect cases and cases generally that the State would not have collected on anyway because they're far in arrears, their back payments. And so if you get \$5 from it, it's \$5 you wouldn't have had otherwise. And usually it's a lot more than \$5. So that's kind of an easy case. But it does need to be on a case-by-case basis.

On the other side, it also becomes sort of a matter of political philosophy almost. Some people, some Members of Congress and some State officials, believe that some functions are inherently governmental and should not be done by a contractor, such as eligibility determination, for example, or certain pieces of the child welfare system. Other people are more comfortable with contracting that out, admittedly under some strict guidelines. So it's sort of—your policy orientation on the other side is another factor.

Mr. SHAYS. Very good. Mr. Kucinich, Mr. Allen, or Mr. Pappas, do any of you have any questions you'd like to ask? Mr. Kucinich.

Mr. KUCINICH. First of all, Mr. Chairman, I'm sorry I came in here late. I was in a Rules Committee.

Mr. SHAYS. We don't need to apologize, unless you want it for the record—we'll be here forever. [Laughter.]

Whenever you're here, I'm grateful to see you.

Mr. KUCINICH. All right. The GAO did a study of the State of Ohio in terms of its computerization efforts and found that the computerization efforts have cost \$73 million in State and Federal funds, according to a recent study, and it's supposed to take another \$60 million to get the system completed and operating. Now, my question is, do you have any update on your investigation into the State of Ohio situation?

Mr. NADEL. I know we have to—our representative from our information group—Mr. Chairman, if it's OK, I'd like him to answer, Mr. Latham.

Mr. SHAYS. Unfortunately, we have to swear him in. So we have to do that, but we're swearing in all the witnesses. Next time what we should do is just have everyone in common—it's my fault for not doing that.

[Witness sworn.]

Mr. SHAYS. Thank you very much. Happy to have your statement.

Mr. LATHAM. Thank you. As a matter of fact, we have followed up since our earlier report on Ohio's development of the child support enforcement system. Ohio is doing well. Unfortunately—fortunately, they're taking their time; they're being very cautious about it because some of the impacts of welfare reform on the system are going to cause them to have to go back and have to change some of the functions in the system. Now, as far as the exact price or projected cost of the final system, that's something that we do not

know and I don't think the program manager at the time we interviewed him could really project any—

Mr. KUCINICH. The State's developing its own system now, is that correct?

Mr. LATHAM. Yes, it is, sir.

Mr. KUCINICH. And at first it started with a private contractor—

Mr. LATHAM. It started with a private contractor—

Mr. KUCINICH. And then it terminated the contract with the private contractor?

Mr. LATHAM. Yes, sir.

Mr. KUCINICH. And why did it do that?

Mr. LATHAM. They basically had a difference of agreement on how the contract was being managed, there didn't seem to be a lot of progress being made, and basically the State decided that it was in their better interest not to proceed and spend more money getting probably not what they expected, so they decided to go to a body shop concept, where they hired specific expertise to do what they needed to do and brought in a young program manager who had some very good insights into how the system should be developed modularly, rather than a grand design. And I think those kinds of decisions that Ohio made has really gone well in getting their system—getting a good system built.

Mr. KUCINICH. Would this then be an example of when your report says results have been mixed where a private contractor didn't really perform but the State took over and the State's performing. Is that an example of mixed results?

Mr. NADEL. That would be an example, yes, sir.

Mr. KUCINICH. So Ohio now is emerging, hopefully, as an example where the private sector—or the public sector can in fact perform these responsibilities?

Mr. NADEL. Oh, certainly. We never claimed that they couldn't or that the benefits only go one way.

Mr. KUCINICH. Right. One of the things I want to do, Mr. Chairman, I have a statement and I like to submit it into the record with the permission of the Chair.

Mr. SHAYS. Without objection.

[The prepared statement of Hon. Dennis Kucinich follows:]

**Opening Statement**  
**Subcommittee on Human Resources**  
**Hearing on the Privatization of Social Services**

Thank you, Mr. Chairman. We are not here to debate whether or not changes need to be made in our social service programs, especially child support enforcement programs. The fact that reform is necessary is indisputable. There is definitely a problem with the system when 80% of children do not receive the child support payments they are due, or when it takes an average of seven months to cut through red-tape and complete the paperwork required to process a case across state lines. There is a problem when it takes an average of 6.4 months, or almost two years in the case of one of my constituents in Cleveland, to implement changes in a support order to reflect changes in the absent parent's income.

The existing system of child support enforcement is overly fragmented, with a myriad of federal agencies, state agencies, county governments, and court systems responsible for different aspects of the process. The rules and regulations are archaic and complex. Support orders among states are not compatible. Wage increases and job transfers are difficult to track, especially across state lines. Offices are understaffed, and in spite of last month's deadline, only 15 states have integrated computer systems that are certified by the Department of Health and Human Services.

Child support enforcement is more than establishing paternity and garnishing wages. There are a lot of feelings and complexities to deal with. There are visitation issues. Who gets the child during the holidays, or on his or her birthday? Wage withholding is sticky when the absent parent is, for example, a taxi driver, self employed, an aluminum siding installer, or a construction worker. Should Dad get credit for the three weeks the child spent with him last summer? Who should pay the child's transportation costs back and forth? Who pays which hospital bill? Should part of Dad's Christmas bonus be withheld?

We are here to discuss whether the private sector is better equipped to address these sensitive issues and administrative obstacles. State agencies have the authority to revoke driver's licenses and professional licenses. Should private agencies also have this right? State agencies have access to confidential IRS information, tax records, employment records, and worker's compensation records. Should private agencies also gain access to this privileged information?

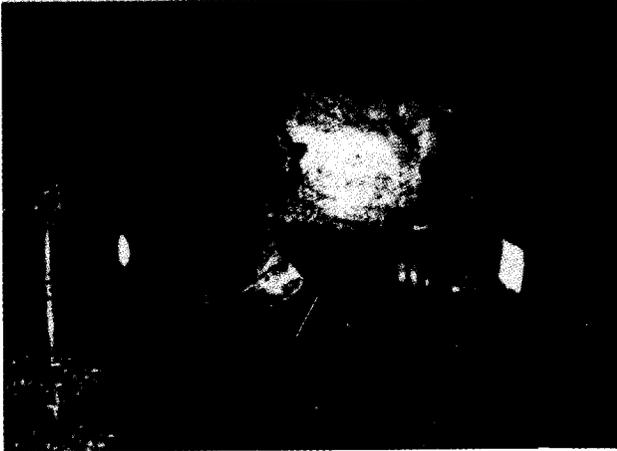
Advocates of privatization boast better access to state-of-the-art technology, lower overhead, increased cost-effectiveness, and less bureaucracy. Opponents question the profit motives of private agencies, accountability issues, dependence on the private sector, real costs, liability problems, and the quality of service.

In my home state of Ohio, Hamilton County has contracted with a private company to perform all aspects of child support enforcement to see if competition between the private and public sector would improve results. After one year, the public agency has held its own with the private company, and has outperformed the private company in the areas of support collection and paternity establishment. Furthermore, the public sector budget is about 20% less than the private company.

Stories of private sector mediocrity and outright disasters shower in from across the country. It's bad enough that these children were let down by a parent, but they're also being let down by the very child support enforcement agency whose only goal should be to help them. We need to reform these programs at the state and federal levels to more efficiently address the needs of the millions of children depending on the system for support.

Thank you Mr. Chairman. I yield back the balance of my time.

Mr. KUCINICH. And also I have a collection of articles from the Cleveland Plain Dealer which did an extensive investigation into the child support. I'd like to submit these into the record as well.  
[The information referred to follows:]



Nancy Driscoll of Euclid works as a secretary during the week and as a waitress on weekends to make ends meet for her daughter. Last, now 16, Driscoll's husband eyes back support.

## Felony conviction still doesn't produce money

By MICHELLE FUETSCH  
Staff writer

For some 15 years, Nancy Driscoll of Euclid has worked at a desk weekdays and waited on tables on weekends in order to support daughter, 19, in college while laboring to make Ohio's child support system do its job. Driscoll thought her child support problems were over in 1994, when her ex-husband, Kooco Boggs, was convicted of felony kidnapping. He was sentenced to 18 months in jail, but the judge suspended the sentence and placed Boggs on probation for five years when Boggs agreed to pay \$500 a month — \$200 for current child support and \$300 against back support. He was to pay the \$300 in installments, but Driscoll is still waiting for much of that money, and now fighting the criminal court system as well as the child support system. Boggs returned to Las Vegas and, in addition to his job, making most of his payments but also skipping the child support system.

"Why can't anybody do anything?" Driscoll asked recently. "Why can't anybody have any authority in the various agencies?"

Driscoll has been unable to get the child support system to enforce its orders. She has written to the Cuyahoga County Child Support Enforcement Agency, New York, head of Interstate Compact, and her lawyer Martin Siffel, but she says she doesn't have the power to collect or the shipped payments

by upping the attachment already on Boggs's wages. They say they operate under enforcement rules prescribed by the state but that the government is not doing its job. "I've requested income decrements, but how much can be taken out of his paycheck?"

Common Pleas Judge Kenneth R. Callahan, who presided over Boggs's criminal case, declared, "Boggs is in substantial compliance with the terms of his probation."

And Ohio probation officials say Boggs checks in every month and that monitoring his child support payments is the enforcement agency's job, not theirs.

According to court documents, Boggs owed \$22,014.17 in arrears in January 1997. He has paid \$200 a month consistently on the support order, he would owe \$2,700.

But Boggs owes Driscoll more than \$4,000, Driscoll said that is why "Lena had to return home from college this spring when her mother, even after talking her out, other jobs on her own, and other ways to pay her daughter's tuition.

Boggs, reached in Las Vegas by telephone, declined to comment.

Driscoll, meanwhile, has more to "know" than the "Vows of the money over the years. I take all the things I could have done things together. I had to work all the time."

CLEVELAND, JULY 20, 1997

# Agency fails to collect on deadbeat parents

20 years of effort yields scant progress for kids nationwide

By MICHELE FUETSCH

PLAIN DEALER REPORTER

Marcia Walsh, mother of seven, is still pained by the discovery last year that one of her children was skipping lunch at school.

Daughter Stephanie, a 16-year-old with a merry sprinkling of freckles on an otherwise sober countenance, insisted that she didn't eat the free lunches for low-income youngsters because she wasn't hungry.

Her mother believes otherwise. "I think she was ashamed," said Walsh, of Brook Park. "She didn't eat at all until she came home."

Once members of the middle class, Walsh and her brood were booted down into the ranks of the working poor in 1990, when she and her steelworker husband, Stephen Webb, divorced and he ignored his child support order.

He was ordered to pay \$200 a week for the six children still under 18. But he left Ohio without a forwarding address, forcing the children, then 6 to 15, to grow up on food stamps, \$14,000 a year their mother made working nights and the earned-income tax credit the government gives the working poor.

"I lost the home, the car, everything," said Walsh, 42, an X-ray aide at Southwest General Health Center.

She turned for help to the nation's Child Support Enforcement program, the federally funded, state-operated system that's supposed to find "deadbeat" parents and make them pay.

What she found was a system that collects on only one in five cases, though it spends \$3 billion annually and employs 51,000 na-

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## CHILD SUPPORT

A crippled system

First of three articles

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tionwide. And after more than two decades, the program has failed at every task, be it computerization or counting its own cases.

Even the man whom President Clinton appointed to direct the program at the federal level doesn't try to defend its performance.

"Twenty million cases across the country and we're collecting on only 3.9 million of them," said David Ross, a former Maryland Domestic Court judge. The exact collection rate is 19.4 percent nationally, according to the enforcement program's 1995 annual report, which was released last week and is the latest available.

In Ohio, it's difficult to compare collection rates with national rates or with other states. That's because Ohio requires that anyone owing child support — people who pay on time and those who don't — pay through the state's support enforcement program.

SEE CHILDREN/12-A

# System fails to track delinquent parents

## CHILDREN FROM 1-A

In 1995, the state collected on 28 percent of the more than 900,000 cases it handled, according to federal data.

No state has yet reached a 50 percent collection rate. The best, Minnesota, collected on 46 percent of its cases, according to the latest report. The worst state, Indiana, collected on only 10 percent.

### Program's aim changed

The federal-state partnership to enforce child support orders and track down non-supporting parents was created by Congress in 1975.

The federal lawmakers told the states to create agencies to locate absent parents; collect and distribute child support; establish paternity for the children of unwed parents; and go to court to obtain support orders for those children.

Initially, the program's aim was to keep children of divorce from falling into welfare and to collect support from fathers of children on welfare. State and federal governments planned to share the welfare money they recovered.

By the mid-1980s, the burgeoning divorce rate prompted millions of working women to demand that program administrators enforce support orders that were part of their divorce settlements even though their children were not on welfare.

Meanwhile, Child Support Enforcement program efforts have had a marginal impact, if any, on national child support performance, U.S. Census Bureau studies

show. In the 1970s, about half of the parents with child support orders received full payment; today, the percentage is unchanged.

The enforcement program imposes few performance standards on the states. For example, states have never been required to collect money on a set percentage of cases in order to receive federal reimbursement.

Some states with the worst collection rates have made what the House Ways and Means Committee calls "profits" on child support enforcement at the expense of the federal government because they collected more from the federal government than they spent on administering the program.

"The more people look around," said Paula Roberts, senior staff attorney and child support expert with the Center for Law and Social Policy in Washington, "and see that they have this very haphazard system that does a poor job and that the states make money at, the more people begin to ask what is going on."

### Economic consequences

For women like Walsh, the lack of child support enforcement has dire economic consequences.

Her income puts the family about \$4,000 below the poverty level. Had Cuyahoga County's child support enforcement

agency collected support for the four children still at home, the family income would be some \$3,100 above poverty level.

But county files show the agency failed to track Walsh's case as required by federal law. Little effort was made to find her ex-husband, Webb, although he has been living in the same place in southeast Tennessee where Walsh told enforcement workers to look in 1993.

The agency sent a letter to Walsh at the address she did not receive already.

Webb could not be reached to comment.

Eileen Corrigan, spokeswoman for the Cuyahoga enforcement agency, said nothing further was done on Walsh's case because she did not contact the agency again. Enforcement workers had no way of knowing Walsh wanted to "pursue" the case, Corrigan said.

Walsh said she telephoned the agency numerous times but her calls were never returned.

But it wasn't necessary for Walsh to make any calls. Federal regulations say enforcement agencies are responsible for working cases, regardless of whether the agency hears from parents. Agencies, for example, must submit cases such as Walsh's every quarter to state child support parent locator programs and every year to the federal parent locator — something that didn't happen in Walsh's case.

The locator programs troll for missing parents in such places as the files of the Internal Revenue Service, the U.S. Labor Department and state motor vehicle bureaus.

## U.S. CHILD SUPPORT SYSTEM

	1991	1992	1993	1994	% change
Cases	77,800	87,800	98,800	108,800	16% increase
Collected	21,800	26,800	31,800	36,800	67% increase
Percent of cases with collection	28.2%	30.4%	32.2%	33.8%	20% increase
Administrative costs (in billions)	\$1.804	\$1.884	\$1.964	\$2.044	13% increase

## OHIO'S CHILD SUPPORT SYSTEM

	1991	1992	1993	1994	1995	% change
Cases	780,082	804,879	857,198	891,463	905,288	16% increase
Total employees	2,951	3,324	3,803	4,085	4,369	48% increase
Administrative costs	\$111,203,172	\$135,088,450	\$141,984,438	\$151,087,883	\$178,440,828	59% increase
Percent of cases with orders for collection	61%	58%	60%	63%	66%	8% increase
Percent of cases that had collections	21%	20%	22%	25%	28%	33% increase
Percent of cases with orders with collections	35%	35%	37%	40%	42%	20% increase

Figures differ slightly from those in federal reports because these figures include 250 million employees Ohio did not count in 1995.

"We have much room for improvement, and I don't think anybody in here would disagree," said Daryl Novak, whom the Cuyahoga County commissioners named the enforcement agency director last summer.

Martin O'Donnell, head of the enforcement division of Cuyahoga's Child Support Enforcement agency, said, "I don't disagree that the follow-up on that case wasn't what it should have been."

But O'Donnell said it was unfair and unreasonable to expect the staff to closely monitor as many as 100,000 cases when Ohio still lacks a computerized system with which to manage its caseload.

By now, ex-husband Webb owes Walsh more than \$60,000 in back support. If the money were collected tomorrow, though, could the damage be undone?

"I feel like I lose my children earlier," Walsh said. "They drop out of school, they lose their motivation, their initiative. They just kind of give up. I think kids don't have any kind of self-esteem, not having a father in the house."

Walsh's sentiments are echoed and her family's losses borne out in a study conducted by the Center for Law and Social Policy titled "Childhood's End," which surveyed 300 mothers struggling without child support in four regions of the country, including Trumbull County, Ohio.

In a stark conclusion, the study said children who lose the financial support of their fathers "lose more than a parent, more than money. They lose their childhoods."

Walsh's oldest daughter, Marcie, 19, said of her high school years, "I never went to any dances."

"I called him once for a prom dress," she said, telling how she contacted her grandfather in Tennessee and asked him to contact her father, who did return her call.

"I asked him for \$200 and he said he'd send it, but he didn't," Marcie said. "A boy asked me. I said yes, but then I just told him I couldn't go."

And Marcie's feelings for her father now?

"Oh, I hate him," she said, her voice devoid of rancor or sorrow.

In the policy center's study, 49 percent of the mothers surveyed said that their children couldn't

participate in school activities because of family finances. Marcie and an older brother dropped out of high school, and last year Walsh struggled to keep daughter Jessica, 18, from doing the same.

The study also said that 48 percent of the families had to move in with friends and relatives or face homelessness. Walsh and her children live with her mother.

Their grandmother's home was so crowded that Steve, 22, left the family circle earlier than he might have otherwise. He slept at friends' houses or sometimes in a motel until he found a steady job in a factory and could rent a room.

#### Data inconsistencies

Some enforcement program officials and child support advocates claim, as O'Donnell and Novak did, that too large a ratio of cases to caseworkers hampers enforcement. With some 4,400 workers, however, Ohio's ratio of 206 cases per worker is low compared to most states.

Attempts to talk with local enforcement workers were unsuccessful. Vic Collova, business representative of Local 407 of the Teamsters Union, which represents Cuyahoga child support workers, said they feared anything they said would be held against them by management.

Several reports over the years have laid out the problems crippling the nation's enforcement program, among them reports from the House Ways and Means Committee and the General Accounting Office, Congress' non-partisan auditing agency.

One problem cited in such reports is the program's flawed data, which makes it impossible to usefully evaluate the program. For example, states vary in their interpretation of what constitutes a child support case. While some states open two child support enforcement cases if a woman had children by two different men, others open only one.

The discrepancy could explain why the national program reported that it had 20 million cases in 1995 and the census said there were only 11.5 million custodial parents in the country.

Critics and program officials say a lack of computers and decentralization in some states, including Ohio, have hampered the effort to build a nationwide system.

The state of Ohio requires all child support payments to go through a county agency, yet the agencies don't have central computer systems that can perform basic enforcement functions such as generating a list of parents who don't pay.

Ohio is not unique. According to a report released last week by the General Accounting Office, as of March only 12 states had met the federal requirement to fully computerize their enforcement systems. And since 1980, the GAO report said, \$2.6 billion has been spent on the computerization effort nationwide, \$2 billion of which was federal money.

The original deadline for computerizing was October 1995, and the GAO report said that as many as 14 states may not make the new deadline this October.

Arnold K. Tompkins, director of the state Department of Human Services, said the state's failure over nearly a decade to develop a

house, has delayed automation for child support enforcement and hurt its effectiveness.

The state continues to suffer from a decentralized system. The legislature set up a system in 1987 that created an autonomous enforcement agency for each county.

The federal government has ordered Ohio and other states to organize at least child support collection and check distribution under state control. Tompkins said the administration was backing a legislative proposal to do this and planned to bid the work out to private firms that specialize in highly automated collection and payment services.

#### New focus on collection

To boost enforcement, the state recently allowed counties to hire private collectors to find nonpaying parents. And the state plans to require a county agency to turn over a case to a private firm if the agency fails to collect on the case in 120 days.

Tompkins said private firms are collecting on 70 to 80 percent of the so-called difficult cases the county agencies are handing over. "And where are they getting the information? [From] the case file," said Tompkins.

Such failures by the counties to follow up on support cases has left custodial parents with the burden to collect money from deadbeat parents.

Patricia Jarrett, who supervises Lake County's enforcement agency, said her workers depend upon custodial parents to tell the agency when payments are not received.

Pickaway County Child Support Director Patricia Fouch said, "We deal on a complaint basis."

But dogging the county child support agencies and making complaints doesn't guarantee help.

"I would always get an answering machine or they would tell me I had to fill out papers I'd already done," said Mary Maichl of Brunswick, whose ex-husband failed for eight years to comply with his child support order. "Finally, I would call them once a week. It was just insane for all those years."

By the time Maichl began to get a steady child support check, it was too late to save her house, her car and her good credit. The house and car were repossessed and her credit record ruined after she was left to raise two preschool children without child support on a secretarial job that paid only \$15,000 a year.

After years of phone calls, Maichl said she got a sympathetic caseworker. By then, Maichl had gathered enough evidence against her ex-husband for a Cuyahoga County prosecutor to follow up.

In June 1996, her ex-husband, Anton Maichl, pleaded no contest to two counts of felony child non-support. He was placed on probation after agreeing to pay monthly support and has since paid \$20,000 in back support.

Walsh, meanwhile, still has no child support as she struggles to stretch dollars and raise youngsters who have done without the new clothes, the school activities, the bicycles and the hope enjoyed by other children.

Her husband warned her, Walsh recalled, that if she divorced him, she'd get nothing.



# Experts question child support as welfare cure-all

By MICHELE FUETSCH

PLAIN DEALER REPORTER

President Clinton has repeatedly said that if everyone in America paid the child support they owe "we could move 800,000 women and children off the welfare rolls today."

But Clinton and other policymakers touting tougher child support enforcement leave out two important facts.

Even if 800,000 people went off welfare tomorrow, there would still be nearly 11 million left on the rolls, according to federal welfare data. And most of them would resemble Lynette Quinones of Cleveland.

"I'm studying for my GED, but no job is going to pay enough to

## CHILD SUPPORT

A crippled system

Second of three articles

cover child care unless I have really good training," said Quinones, who is 23 years old, unskilled and the mother of boys 2 and 3 years old.

Quinones and millions like her illustrate why those who study poverty and welfare issues caution — in contrast to elected officials and child support activists — that better child support enforcement will not dramatically lower welfare costs or lift large numbers of women and children out of poverty.

SEE SUPPORT/6-A

## CHILD SUPPORT: A CRIPPLED SYSTEM

# Child support weak as cure-all

SUPPORT FROM I-A

"This is where some truth in advertising would really help," said Paula Roberts, a child support expert and a lawyer at the Center for Law and Social Policy in Washington, D.C.

"It is utterly ridiculous to think that child support alone is going to get any large number of women off welfare," Roberts said.

But low-wage jobs for former welfare mothers — without effective child support enforcement — won't "get kids out of poverty" either, she said.

And some studies question whether even a combination of jobs and strong child support enforcement — would appreciably reduce poverty rates.

## Success rate low

For all the talk about the link between child support and welfare, the nation's Child Support Enforcement program has a poor track record when it comes to welfare cases.

In 1995, the program collected child support in only 12.4 percent of the cases where there was an absent father with children on welfare, according to the program's latest annual report, released two weeks ago by the federal government.

Created by Congress 22 years ago, the enforcement program was not designed to help welfare mothers off the rolls. It was supposed to recoup the money the nation spent on welfare in the form of child support payments from absent fathers. Thus, welfare families are automatically considered cases in the child support enforcement program and the federal and state governments divide the money collected.

The enforcement program collects on such a small percentage of its welfare caseload, however, that it recouped only 13.6 percent of what the nation spent on welfare in 1995.



DALE OMORI / PLAIN DEALER PHOTOGRAPHY

Lynette Quinones, with sons Ethan Rivera, 3, left, and Jacob, 2, is one of many millions on welfare who are not receiving child support.

■ If you need advice on a child support issue, the largest advocacy group in the nation is the Association for Enforcement of Child Support in Toledo at 1-800-537-7072.

Congressional reports ratify Sorenson's findings. According to the 1996 Green Book, if child support is moving families off welfare or out of poverty, it's only in a fraction of cases.

Even on the nonwelfare side of the enforcement caseload, child support payments lift a mere 3 percent of families out of poverty, the Ways and Means report said.

## Child support's benefits

The Green Book and experts such as Roberts, however, caution that federal poverty statistics should not be the only indicator of how child support may benefit poor children. Even a little money makes a meaningful difference in a poor family's quality of life, the Green Book and experts note.

In its own reports, the program bills its work as welfare-reducing. Among the plethora of statistics states must collect is one reporting how many women moved off welfare because enforcement officials collected child support for them.

There is evidence, though, that child support helps some mothers — with job skills, a work history and no preschool children — get off welfare.

One of the believers is Carol A. Luttrell, an analyst in the Massachusetts Department of Revenue, which operates her state's enforcement program. Luttrell studies the transition of welfare recipients to work and said there exists a direct correlation between child support and hours worked.

"The more child support they get, the more hours they work, and combined with the [federal] earned-income credit, it enables them to get off of welfare," Luttrell said.

Child support of \$219 a month, for instance, encourages a custodial parent to work an additional 53 hours a month, according to Luttrell's study. And child support, she said, makes stable, steadier workers. It can offset vital expenses associated with working such as day care and transportation, or bestow such simple rewards as money for a doughnut and a social cup of coffee during a work break.

## One success story

Karen Turner of Cleveland is an example of a welfare mom who can be a steady, full-time worker — as long as Cuyahoga County's enforcement agency enforces her child support orders.

# Program struggles to prove paternity

By MICHELE FUETSCH  
PLAIN DEALER REPORTER

The number of families with never-married mothers has grown fifteenfold in the last 25 years, from 248,000 in 1970 to 3.5 million, the U.S. Census Bureau says.

The stunning social change poses a monumental task for the nation's Child Support Enforcement program, because two-thirds of the children in such families are legally fatherless, according to the House Ways and Means Committee. And unless paternity is legally established, child support cannot be collected.

About 60 percent of unwed fathers sign the birth certificate, said Dan Fitzgerald, who oversees paternities in the Summit County enforcement agency.

The nation's newly-drafted welfare plan puts the child support program under intense pressure to improve collections on welfare and former welfare cases.

Under the new welfare rules, families must move off public assistance after specified time limits. While many welfare mothers may get jobs, albeit low-paying ones, the fate of those without steady employment weighs on the minds of policy-makers such as federal Child Support Enforcement director David Ross.

"Those children are going to be in dire poverty if there's no child support," Ross said.

He calls child support the "new safety net."

For young welfare mothers such as Quinones, however, there's no safety in depending on child support. Quinones dreams about going to college, but in reality, she personifies the group of welfare recipients that has proven most difficult to move off welfare, according to the 1996 Green Book, an annual evaluation of the nation's social programs from the House Ways and Means Committee.

The recipients are young, unmarried, unskilled minority women with preschool children. And the fathers of their children are much like the absent father of Quinones' boys — an unskilled, unemployed high school dropout, hardly a good prospect for sizable support checks.

Nevertheless, child support enforcement efforts have "nearly universal support" among federal officials, who believe that better enforcement will "reduce poverty, welfare dependency and welfare costs," according to a study done in 1995 by Elaine Sorenson, an economist at the Urban Institute, a Washington think tank.

Facts, though, don't support federal officials' expectations, Sorenson's study found.

Even if the enforcement system collected billions more in child support each year, the study reported, there would be at best only a "modest" impact on poverty and welfare costs because so many fathers of children on welfare have low incomes or are impoverished themselves.

Monthly child support awards in welfare cases, for example, averaged only \$161.33 per month in 1995, compared to \$279.33 per month in nonwelfare cases, program data showed.



Sorenson

In 1994, according to the latest available annual report, 269,333 families left welfare because of child support enforcement.

But how reliable is that figure? Child support enforcement workers and experts across the country say many states come up with their numbers simply by comparing, via computer tapes, the names of people who leave the welfare rolls each year with the names of those receiving child support payments. When there is a match, the Child Support Enforcement program adds the name to its count.

Most states do not interview former welfare recipients to determine if, in fact, they exited welfare because they started receiving child support.

In Ohio, officials say that counties here chart the reasons women get off welfare and that some 18,000 families left the rolls in 1995 because they received child support.

Reviews from Cuyahoga County welfare statisticians, though, cast doubt on that assertion. According to the review, 2,053 people dropped off the county welfare rolls in July 1996 for 63 different reasons. Many left because they found work or got married.

Only one had dropped off because of child support payments. In March 1997, two were reported as having left because they started getting child support in excess of their welfare payments.

#### CHILD SUPPORT: A CRIPPLED SYSTEM

**YESTERDAY:** The nation's Child Support Enforcement program, federally funded and run by the states, is a crippled system that has failed to track down deadbeat parents for nearly two decades. How bad is it? More than 20 million cases have been opened, yet money is only being collected in 3.9 million cases.

**TODAY:** While some federal officials say improving the child support enforcement system would move 800,000 people off welfare, those who study welfare say that would be only a fraction of the 11 million on assistance.

**TOMORROW:** Critics of the nation's Child Support Enforcement program say it should be dismantled and its responsibilities handed over to other government agencies. But national, state and local enforcement officials say improvements in everything from computers to new laws targeting deadbeat parents will help them increase collections.

She recently went from 20 to 30 work hours a week at a local mental health agency, and on Aug. 1 she will begin a 40-hour workweek there. While she was on welfare last year, most of the child support collected from the three fathers of Turner's children — 15, 12 and 9 years old — was turned over to the state and federal governments as recouped welfare dollars.

Unlike Quinones, who had little work history and preschool children, Turner has skills and experience. In addition, all three fathers have steady jobs, which means Turner receives almost \$500 monthly in child support from them.

Turner said she was working as a nurse's aide last year but quit and went on welfare because two of her children suffer seizures, and one was in a medical crisis and she couldn't afford day care or medical insurance.

Insurance through her nursing home job would have cost \$350 a month — a prohibitive sum on take-home pay of \$800 monthly. At the time, she wasn't receiving steady child support.

It took more than a year of legal battles before Cuyahoga County's enforcement agency began collecting from all three fathers. And, equally important, the agency exercised its power to make sure that Turner's son, whose medicine is costly, was placed on his father's medical insurance.

When Turner goes full time at work, she will get medical coverage and earn about \$14,000 a year. If she continues to receive child support, the annual family income will be nearly \$20,000.

"I want to work," Turner said. "I don't want to be stuck on welfare."

"If he signs the birth certificate, he has 18 years to change his mind," Fitzgerald said. "If he signs the paternity acknowledgment, he has 30 days."

In other words, when parents are unwed, a signature on a birth certificate does not constitute legal paternity. Parents must sign paternity documents.

The federal government has nullified lengthy state court procedures that once hindered local agencies in establishing legal paternity. Blood tests, for example, are required only in contested cases. In turn, federal officials in 1991 imposed paternity standards on the states that require them to increase each year the number of legal paternitys they establish.

Results produced by the new standards vary differently to different audiences.

Child Support Enforcement program boosters, for example, cite rising numbers as proof of success. In 1995, state enforcement agencies established 659,373 paternitys, a 40 percent increase over 1991, according to the latest federal figures.

Critics, on the other hand, look at the same number and say it represents just 12 percent of the 5.5 million children who needed legal paternity established that year.

In order to further increase legal paternitys, the federal government had states create voluntary in-hospital programs in which new parents are given packets of paternity information. Nationally, that netted an additional 206,568 established legal paternitys in 1995.

At Cleveland's MetroHealth Medical Center, which has one of the state's highest birth rates for unwed parents, Cuyahoga County officials have come up with what they believe is a model for increasing legal paternitys.

In 1995, when packets of information were handed out to new parents at MetroHealth, the county netted 435 in-hospital legal paternitys.

But in 1996, the county stationed paternity workers at the hospital to talk directly to the parents about the need for legal paternity. The in-hospital number jumped to 1,410 legal paternitys established, Cuyahoga child support agency records show.

# Child support payments now 19%

## Critics want plug pulled on system

By MICHELE FUETSCH

PLAIN DEALER REPORTER

When the father of her child was in the Army and his child-support payments lapsed, Valerie Jordan had only to place a phone call and the money arrived post haste.

"I called his commanding officer," said Jordan, an East Cleveland X-ray technician and mother of Shawna, 13.

Today, the girl's father sells real estate in Arizona and, as Jordan has discovered, the nation's Child Support Enforcement program can't match the military's efficiency.

Twice, Jordan has had to pay private detectives after the father

moved and the enforcement program couldn't find him. The detectives found his new address in 24 hours, Jordan said.

Child support caseworkers could have found him in minutes — if one of them had telephoned the Arizona real estate licensing board and obtained the name of the firm where the man hangs his license.

A telephone call from The Plain Dealer to the firm promptly produced a return call from the man. He said he was behind in his payments because business is slow.

Nancy Somsak, head of interstate enforcement in Cuyahoga

County's child support agency, said that in such cases, the only thing Ohio can do is depend on the other state to find the person and collect.

Jordan's experience, coupled with explanations like Somsak's, illustrates that the path — through Ohio and the 49 other states — to an effective, national child support enforcement system has been excruciatingly slow and deeply frustrating.

### Some would pull plug

In 1983, the program's collection rate nationally hovered around 15 percent. Today, despite numerous revisions to the program, billions of dollars spent and a growing need for service, the collection rate has edged up to only 19.4 percent.

SEE COMPUTERS/6-A

### CHILD SUPPORT A crippled system

Last of three articles

# Critics want to pull support system's plug

## COMPUTERS FROM I-A

And what does the future hold for the millions of custodial parents seeking help? Depending on who's talking, vast improvements or more of the same.

"It's a flat line. The patient should be declared dead. It's like having no brain waves," said Geraldine Jensen, president and founder of the Association for Enforcement of Support.

Jensen is among those who want the child support enforcement system dismantled and child support collection turned over to the Internal Revenue Service. Critics of the idea say the IRS has too many computer and bureaucratic problems of its own to take on another task.

If Jensen is the ultimate pessimist about the program, Richland County agency Executive Director Richard W. Prater is its cheerleader. Like many working inside and outside the enforcement system, Prater and other officials believe that after two decades of failure, the program is poised for takeoff.

"I hate to use an old cliché, but you're probably looking at a sleeping giant," said Prater, a board member of the national Child Support Enforcement directors association.

Believers in the program at both the state and federal levels are citing two things they say are going to turn child support enforcement into a success story: a new set of enforcement measures

• If you need advice on a child-support issue, the largest advocacy group in the nation is the Association for Enforcement of Child Support in Toledo at 1-800-537-7072.

Parents needing help may also call Children's Support Rights in Cleveland at 216-575-1020.

books, but the statutes' effectiveness is limited because without a central statewide computer system, enforcement officials cannot automatically generate lists of delinquent parents to match with lists of license holders.

The state of Maine, though, may be a test for how well the measures can be expected to work. Since 1993, Maine has increased collection of support payments by threatening to revoke the licenses of deadbeat parents. Sixty-nine percent of a test group of 23,456 people who owed back child support paid all or part of their support payments.

**'You really don't need to know where the father is. You need to know where his money is.'**

ROBERT MELLA, Set up Massachusetts support system

Massachusetts, though, has a computerized hiring registry.

"You really don't need to know where the father is. You need to know where his money is," said Robert Mella, who supervised Massachusetts' child support enforcement technology makeover and is now with a private firm. "It's with his employer or it's in a bank account. So we're moving toward developing ways to track people when they change jobs, when they move to another state."

In Massachusetts, after workers depart for the day, hiring data entered into the computer that day is checked against child support cases, Mella said. When there's a match, the computer automatically generates a letter to the employer ordering wage withholding.

Most state child support enforcement agencies, Mella said, are stuck in a 1940s and '50s mindset that enforcement is a case-by-case task. Today, with millions of cases and high mobility rates, the federal-state child support program's success depends on its ability to use data from such places as motor vehicle, credit and employment bureaus.

"Think of fishing," he said. "The old way is dropping a line in the water and hoping you snag one. This is like fishing with drift nets."

The child support program has been trying since 1960 to come up with the modern computer network that federal lawmakers mandated.

Ohio terminated its agreement with a private contractor that was to have designed a system for the entire state. After paying \$400,000 to break its contract, the state opted to develop a system itself.

Since 1981, computerization efforts in Ohio have cost \$73 million in state and federal funds, according to a report issued Thursday by the General Accounting Office. It is expected to take another \$60 million to get Ohio's system completed and operating statewide, said Ronald L. Rhodes, spokesman for the Ohio Department of Human Services. The federal government pays most of the computerization costs.

The states had until October 1993 to get their systems certified by the federal government.

Only Montana made the deadline, so Congress extended it to October 1997, in part because federal enforcement officials acknowledged that their delay in writing the specifications for the data system delayed the states.

The key element federal planners want in computerized systems is automated case management. With all child support files



Arnold Tompkins, director of the Ohio Department of Human Resources.

adopted last summer by Congress and computerization that is supposed to make an aggressive, effective network.

David Ross, director of the national program office, worked with state program directors to come up with a new financial incentive formula for the states based in part on how well they perform specific tasks, such as establishing paternity and obtaining support orders.

The current incentive formula is based solely on the amount of child support collected. It will be up to Congress to accept or reject the new one.

Ross said he and state officials had also drawn up uniform auditing definitions in order to eliminate one of the program's worst problems, state-to-state variations in data collection. And Ross said he was also forming an advisory technology team to help states with computerization.

Among the new federal enforcement measures is a provision requiring all states to pass legislation to revoke the driver's and professional licenses of "deadbeat" parents.

Ohio legislators already have placed both measures on the law-

Moreover, Colburn W. Jackson Maine's former director for child support enforcement, said, "The thing that makes the law valuable is we haven't revoked that many licenses, but we've collected over \$50 million from the target group."

The first step toward revocation, Jackson said, is a warning letter followed by a stronger one. Eight out of 10 people who receive the warnings start paying, he said.

### Many records fair game

A new federal law allows the enforcement agency to use records from banks, public utilities, credit card and cable television companies to track down errant parents.

The law also requires each state to establish a hiring registry and mandates that employers report the names of new employees and their Social Security numbers to the registry within 30 days of employment. Those names will then be checked against child support orders.

Ohio has a hiring registry law, but hiring and child support information are not yet on a central, statewide computer system.

## CHILD SUPPORT ON COMPUTERS

Only 12 states have received certification from the federal government for their child support enforcement computer systems after years of planning and millions of dollars spent. The states have been given until October to get their systems on line.



SOURCE: U.S. Department of Health and Human Services

PLAIN DEALER



Valerie Jordan of East Cleveland hired private detectives to track down the father of her daughter, Shawna, 13, for child support.

on central systems, for example, automatic default notices can go out to delinquent parents every 30 days if they don't pay. Or, the names of those in default can automatically go to credit bureaus or be checked against IRS or employment files.

Ohio officials say their central state computer system will be up and running by the October deadline.

"By October 1997, we're going to look like one of the better states in the country, no question about it," said Arnold Tompkins, state Human Services director.

Meeting the October deadline, however, doesn't mean that the

ing centralization of some functions, such as child support collection and distribution, tasks the state plans to take over from the counties.

The state has no plans at this time to take over other county child support functions such as enforcement, Tompkins said.

With the central computer system, however, the state will be able to monitor counties' performances, Tompkins said. And Tompkins' department has already decided to impose on the counties the new, performance-based incentive plan being considered by Congress.

County child support agencies

falling to pay child support. To make the state enforcement program work, Fox said, it needs the same kind of muscle that in recent years has been given to drunken driving laws that contain mandatory jail sentences.

Jensen and other child support advocates, however, said the approach to reform must be nationwide.

#### Bill gives IRS the job

On Thursday, two members of Congress, conservative Henry Hyde, an Illinois Republican, and Rep. Lynn C. Woolsey, a liberal California Democrat, introduced legislation that would place the child support system in the hands of the IRS and Social Security Administration. They said the state-based system had proved a failure.

Under the Hyde-Woolsey proposal, the IRS would handle collections from the noncustodial parent just as it does income taxes. The money would then be automatically transferred to Social Security for distribution to custodial parents.

The current system doesn't work because the states want control and resist any federal oversight, Woolsey said in an earlier interview.

Richard Hensley, a spokesman for Social Security, said the department would not issue a comment on the proposal until its legislative analysts have time to study it.

"Those working in the enforcement systems scoff at the idea of having the IRS take over child support collections."

"The whole world is going in the other direction, to send stuff back to the states," said Marilyn Smith, past president of the National Child Support Enforcement Association and chief legal counsel and associate deputy commissioner of child support in Massachusetts. She and others point out that government programs such as welfare are being given back to the states to run.

The biggest barrier to having the IRS handle child support, however, may be its own performance as the nation's tax collector.

A Bipartisan National Commission on Restructuring the IRS completed its study of the nation's tax collection agency in April and concluded that the IRS has serious managerial and technical problems of its own, including \$4 billion worth of computers that can't talk to one another.

Rep. Bob Portman, a Republican from Cincinnati, was co-chairman of the commission. He said he doubted the IRS could handle child support collections.

"I'm skeptical about it, not from a child support standpoint but from the IRS's standpoint," Portman said. "If I learned anything on this commission the last couple months, it's that it can't handle what it has now."

#### CHILD SUPPORT: A CRIPPLED SYSTEM

**SUNDAY:** The nation's Child Support Enforcement program, federally funded and run by the states, is a crippled system that has failed to track down deadbeat parents for nearly two decades. How bad is it? More than 20 million cases have been opened, yet money is only being collected in 3.9 million cases.

**YESTERDAY:** While some federal officials say improving the child support enforcement system would move 800,000 people

state's 900,000 child support cases will be in the system. Rhoads acknowledged that each county must have a minimum of only 10 cases on the system in order for the state to meet the federal deadline.

Tompkins said he expected the 88 counties to have their full caseloads on the computer by October 1998.

#### Centralization pressure

Each county has an autonomous enforcement agency, but new federal regulations are forcing

of welfare, those who study welfare say that would be only a fraction of the 11 million on assistance.

**TODAY:** Critics of the nation's Child Support Enforcement program say it should be dismantled and its responsibilities handed over to other government agencies. But national, state and local enforcement officials say improvements in everything from computers to new laws targeting deadbeat parents will help them increase collections.

that don't meet the performance standards in such areas as paternity establishment, for instance, will not receive all state incentive payments.

But neither the federal nor state incentive plans demand that the collection rates rise.

"Problems in the enforcement program in Ohio and other states over the years have persuaded Jensen of ACES and others that computerization is just a pipe dream and that the program needs fundamental change."

"It's been 22 years they've been trying at this, so you have to stand back a moment and look at the problem, and you see that it's the structure that's not working," she said.

State Rep. Michael A. Fox, a Hamilton Republican and one of the program's most vocal critics, said decentralization was the problem in Ohio. He wants to eliminate the county agencies altogether.

He drafted a legislative proposal that called for centralizing child support enforcement under state control, which is the norm in most other states. But he recently dropped his proposal, saying he could not get any support for it from either legislators or the state administration.

Under state control, Fox argued, the enforcement program would be more efficient and more effective.

Fox has introduced legislation under which there would be a mandatory jail term for anyone found in contempt of court for

County agency Executive Director, Douglas J. ...  
 County agency Executive Director, Douglas J. ...

## System threatens dad who paid support directly to ex-wife

By MICHELLE FUETSCHE  
 PHAIN READER REPORTER

**EUCLID** — In the world of child-support enforcement, which focuses on "bad" or "dead-end" jobs, Tom Sinek of Euclid is a model father.

He pays support for his three children who range in age from 9 to 14, and bears financial responsibility for two stepchildren, 11 and 14, because the Child Support Enforcement program has not collected from their father.

The burden bankrupted Sinek and his wife, Robin, after he lost his job in a 1994 corporate cut-back. He was unemployed for six months before finding work at least pay.

"We live exactly paycheck to paycheck, and beyond those means," said Sinek, who installs security systems.

So why does a child-support agency say he is \$3,000 in arrears?

Sinek's problem stems from Ohio's child-support law, which requires that all payments go through the state. Payments in excess of the required amount are considered gifts, not support.

The state adds a 2 percent service fee to the required payment.

For most of last year, however, Sinek paid his bills directly. In December, agency-issued checks were late and Bobnik needed money for insulin for their diabetic daughter, Vanessa, 9.

"That's why I started paying it on my own — because my kid comes first, not the county," Sinek said.

Agency officials in Cuyahoga

County say no checks were late. Sinek documented his direct payments, but his record, until he obtains a court order, will not be corrected. With the arrears on his record, Sinek could lose his driver's license or have his assets attached.

Sinek has resumed paying through the agency, but Bobnik said it can take two weeks for payments to go from his employer to the enforcement agency and then to her.

Meanwhile, child-support enforcement has not collected in back child support \$23,000 from Sinek. The agency has dosed officials for help in Ohio and West Virginia, where her ex-husband, Dennis E. Scott, lives.

Even when Scott pays, the child-support enforcement sys-

tem may not get her check to her quickly.

A check from West Virginia, for example, took two weeks to reach Robin Sinek via the enforcement agency in Lake County in 1999. Computer problems held up the check, said Lake enforcement agency supervisor Patricia Jarrett.

Scott has to pay only \$22.10 a month in back child support, although program officials know Scott pays \$408 a month on his car, according to child support records in West Virginia and Ohio.

At \$22.10 a month, it will be 85 years before Robin Sinek gets what she is owed.

Scott could not be reached to comment.



PHAIN READER REPORTER MICHELLE FUETSCHE FOR A  
 Tom Sinek of Euclid supports his children and stepchildren, but because of a problem in Ohio law, he owes child support. Family members from left are Dennis Scott, 11, wife Robin Sinek, 40, Sinek, 8, Shawn Sinek, 12, Brandt Scott, 14, and Bryan Sinek, 14.

Mr. KUCINICH. Wherever there's a demonstration of the efficacy or efficiency of the private sector, does your analysis of the private sector take into account the embedded public spending in the infrastructure which comes—period.

Mr. NADEL. The specific analysis we did on cost-efficiency, no, we did not take in the embedded infrastructure.

Mr. KUCINICH. Would it be helpful, do you think, in really trying to achieve an analysis to offer this committee where we can understand exactly the costs that are involved if you did include the embedded infrastructure costs, because wouldn't you assume that the cost of starting up a system and putting it forth schematically, the time it takes to do that, the years it takes to see if that system works, that that is in effect an expense that ought to be included in evaluating the cost of the efficiency of the private sector versus public sector cost?

Mr. NADEL. I guess it would depend on what function you are talking about. If you're talking about developing computer systems—sometimes you're starting them, you're basically starting them from scratch. Sometimes you're building on what's there. I agree that if you're doing a total cost comparison, you should try to indicate all costs. But the private sector might also have costs that the public sector doesn't have, such as paying property taxes on his facilities, and so on. So it may cut both ways. But clearly your point about the public investment in infrastructure is well taken and there probably are some human capital development costs in terms of staff training and so on that are important but may even be impossible to quantify because you're talking about accruing them over many years. But I think your point is certainly well-taken.

Mr. KUCINICH. I think it would be helpful and I—as we receive future reports from GAO analyzing the effectiveness of privatization that you would look into this area of the embedded infrastructure offered by the public sector, because taxpayers pay a lot of money for the development of administration, for plans, for execution of programs, and if someone just comes along and rides on that, it seems that there should be some quantifiable amount that could be offset to make a determination as to how much benefit has been achieved through privatization.

One other question: How extensive is the practice with competitive bidding? Is there a lot of competitive bidding?

Mr. NADEL. We didn't analyze how the contractors that we looked at got there. Our strong assumption is that these were the results of competitive bids.

Mr. KUCINICH. Are sole-source contracts common?

Mr. NADEL. In child support enforcement? I don't know. I think that the succeeding witnesses would have a better handle on that because they bid on stuff all the time.

Mr. KUCINICH. Has the GAO ever performed or considered performing analyses where private contracts have been given, and let's say sole-source contracts have been given, and to determine if those sole-source contracts have at the same time or subsequently been involved in donated political contributions to political parties or individuals who are promoting the contracts?

Mr. NADEL. Not in the area of social services and I haven't heard of others as well. But the one area that I do know about, I know that we have not.

Mr. KUCINICH. Are there financial penalties built in for poor performance?

Mr. NADEL. There can be financial penalties built in for poor performance and it's probably a good idea. We know, for example, that one growing area is managed care of children's welfare services, and we became aware of one contract situation on family reunification where, if a reunification was not successful over a period of time, that the child would be reunified with the family from whom that child had been removed, if—I think it was after 9 months, or within 9 months, the State had to remove the child again because of abuse, then there would be a financial penalty on the private agency that orchestrated that reunification. So that's one example.

And there certainly are others of financial penalties. And there can also be structured financial awards so that the—collections is an easy case because it's just a percentage. But in other areas of performance you can have performance payments.

Mr. KUCINICH. All right, one final area of questioning: Has the GAO ever looked into the issue of revolving door—people who start at the public sector, working at a relatively high administrative position and then transiting over to the private sector—have you ever looked at that in terms of the prevalence of that practice in this particular industry?

Mr. NADEL. Not in this industry, no, sir.

Mr. KUCINICH. Would you be interested in looking at?

Mr. NADEL. Sir, we're always interested in doing what Congress asks us to do. [Laughter.]

No, I don't mean to be flip. I just don't have a sense of how big a problem it is or if it is a problem. It clearly exists.

Mr. KUCINICH. What if I told you it was a problem. Would you be interested in pursuing that?

Mr. NADEL. If you wanted us to pursue it, we would certainly, we would certainly talk to you about it and—

Mr. KUCINICH. May I offer why? Because if someone makes a move from the public sector to the private sector, whether it's moving on a parallel track in terms of administration or moving to a higher, better paying position, as often private sector jobs are. They would be in a pretty good position to lure contracts from the public sector. Particularly in the case, and this can happen if there's no exclusion or rule which would say you have to wait a year or longer to be able to lobby a department or to be able to contact people you used to work with. There are proscriptions for Members of Congress, for certain administrative officers in the Federal Government, but not necessarily so at various State levels. And because this could have an impact on the amount of money which the public ends up paying for these contracts, I think it could be important for you to look at this and I'd be happy to work with in providing you with a starter kit for your work.

Mr. NADEL. We'll certainly be in touch—I certainly didn't mean to imply that we're not aware of the potential for conflict of interest in any revolving door situation.

Mr. KUCINICH. Thank you for clarifying that. OK. Thank you, Mr. Chairman.

Mr. BARRETT [presiding]. Are there any other questions?

[No response.]

Mr. BARRETT. Thank you, gentlemen.

Next we'll call our third panel. Robert Melia, Harry Wiggins, David Hogan, Peter Genova. Mr. Shollenberger's here instead of Mr. Wiggins, is that correct? If you gentlemen will remain standing, we swear you in.

[Witnesses sworn.]

Mr. BARRETT. Mr. Melia, if you'd like to start. I'd also note for the record that the committee looks more like it did in the good old days. [Laughter.]

**STATEMENTS OF ROBERT M. MELIA, VICE PRESIDENT, POLICY STUDIES INC.; BARD D. SHOLLENBERGER, DIRECTOR OF GOVERNMENT RELATIONS, LOCKHEED MARTIN IMS; DAVID A. HOGAN, PRESIDENT, CHILD SUPPORT ENFORCEMENT DIVISION, MAXIMUS; AND PETER J. GENOVA, SENIOR DIRECTOR, CHILD SUPPORT PROGRAMS, GC SERVICES**

Mr. MELIA. Mr. Chairman, members of the committee, thank you for the opportunity to testify. My name is Robert Melia. I'm a vice president of Policy Studies Inc., which is a firm that provides a range of child support enforcement services to about 15 States now. In 1996, if you added up the amount of child support that we collected under contract to States, we collected in more than 22 of the 50 States, to give you an indication of the size and scope of our operations.

Prior to joining Policy Studies, I worked in and ultimately directed the program in Massachusetts for about 8 years. So I've got a background in child support enforcement now for about 10 or 12 years.

Fifteen years ago, for every \$1 that this country spent trying to collect child support, we collected \$3.70. Today for every \$1 that we spend, we still collect \$3.70 in child support. There has been zero productivity improvement in the program over a 15-year period.

There's been a study by the Urban Institute that estimates the amount of uncollected child support in this country every year and it puts it at about \$34 billion. So you do the math. You say it takes \$3.70—for every \$1 you invest, you get \$3.70. There's \$34 billion uncollected. If you want to collect it all at the current rate of productivity, you've got to increase spending on child support enforcement nationwide by \$9 billion; \$3 billion was spent last year. So you've got to quadruple it. There is no chance that that will happen. And that means that unless we can improve productivity dramatically in the child support enforcement program, there's very little chance of getting a true quality program in the near term.

That's always been important. It's particularly important now to make welfare reform succeed. As time limits begin to kick in, many families will find that child support will be an important part of their safety net, if in fact it can be collected.

To help States meet work requirements under the welfare reform law, child support will be critical, because as you all know, many folks on welfare face the opportunity that they go to work, and

after their working expenses and social security taxes, it doesn't pay them to work. And \$200 or \$300 a month in child support can sometimes make the difference.

So it's critically important to improve the program. To improve the program you've got to improve productivity and I think the facts will show that one of the best ways to improve productivity is to privately contract selected parts of the program. We operate a so-called full service child support program. Everything from interviewing the mother, ordering blood tests, establishing paternity, to ultimately collecting child support in six States. On average, we are 35 percent more cost-effective in those six States and that's after adjusting for the public infrastructure funds and computer systems and payment processing systems that we take advantage of.

So you have a situation now where the GAO has found that in terms of quality of performance, public and private, they are about the same. But there's a significant advantage that the private sector enjoys in cost-effectiveness. I'd like to spend a couple minutes to suggest some reasons why that's so. Particularly because it's counterintuitive for many people. They say, "private companies need to make a profit, which public agencies don't. Private companies bear marketing costs, which public agencies don't, how can they possibly be more cost effective?"

There's three key areas, but first I'd perhaps like to mention one area that people commonly think of that has proven not to be the case, and that is wages and benefits. In the States that we operate, wages and benefits that we pay to staff are about identical. If you take all the States that we operate in, on average, we pay our staff about 1½ percent more, factoring in fringe benefits, pensions, 401(k), that kind of stuff, than public sector employees. So the level of compensation has almost nothing to do with cost effectiveness.

There are three things that do drive cost-effectiveness. Technology, performance incentives, and the percentage of an organization's budget devoted to overhead. Public agencies suffer in all three of those areas. Technology I'll skip because evidently, from the comments that I've heard from the first two panels, all of the members of the committee are well aware of the difficulties that public agencies have had trying to implement technology. That comes from the fact that government procurement cycles drive huge, multibillion dollar all-or-nothing procurement efforts that are very risky, that are inevitably delayed, that inevitably go over budget. When we come in with a 4- or 5-year budget we look at what are the most lucrative areas, what can we do in 6 months that will have a demonstrable area for child support?

We can pay people bonuses to emphasize the activities that make the most difference in collecting child support which I could not do as a public manager. And the third thing is, my company spends 9 percent of its total staff in overhead positions. When I was trying to deliver the same service as a public manager, my agency spent 21 percent. You know, we used to get awards as being relatively efficient for a public sector agency. So there's a 12-percent difference in staff devoted to overhead functions to deal with the very complicated system of checks and balances.

I can see the red light's on here so I'll wrap up in just a minute. There are 50,000 people working child support in this country. Only about 3 percent of them work for private companies, so this is still a very new and small phenomenon. Welfare reform has put some very rigorous performance standards on States that for the first time if they do not meet those performance standards by a certain date, there will be financial penalties. This has produced and will continue to produce more States looking a private contracting because they will look at their existing staff and say "we can't get from where we are today to where Federal law requires us to be in time."

So it's inevitable that, unless Congress relents on the performance standards, which I certainly would urge you not to do, that this phenomenon will increase. And if the numbers that I've developed in the testimony that I've submitted stand up to scrutiny, this will be a good thing because the quality's about equal and cost-effectiveness is about a third better. Thank you very much for the opportunity to testify.

[The prepared statement of Mr. Melia follows.]

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## Introduction

Mr. Chairman and members of the Subcommittee, thank you for this opportunity to testify concerning the use of private contracting in the child support enforcement system. I am especially interested in this subject because I have spent most of the last decade managing child support enforcement programs, first as a public official and now as a private executive.

The 1990s have seen a major debate over how government delivers services. The goal is to make government less bureaucratic, more responsive and flexible, and therefore to deliver more and better service for every taxpayer dollar consumed. At the federal level, the President has launched a "reinventing government" program. Locally, cities and states have attempted to introduce competition into the provision of many government services through the use of private contracting.

The child support enforcement program has also been affected by this trend. Perhaps the quickest way to illustrate the growing importance of private contracting in the child support program is to look at the growth of my company, Policy Studies Inc. In 1991, we were the first private company to win a contract to provide the full range of child support enforcement services, and today we operate 19 full-service child support enforcement offices in six states. In 1990, the company employed 17 people. Today, we have nearly 500 staff.

While growing rapidly, private contracting in child support enforcement is still in its infancy. No more than two or three percent of all child support services are run under private contract. This means that the Subcommittee's timing is ideal. Because Congress has significant leverage over the program, it can encourage this trend if it is worth encouraging and also help states establish appropriate guidelines to ensure that private contractors deliver quality service and remain responsive to all of their customers, both the States which hire them and the parents who receive and pay child support.

## Background

To fully grasp the role that private contracting can play in improving child support enforcement, committee members need some background on how the program is funded and the current challenges the program faces. Child support enforcement is a joint federal and state program. Since 1975, the federal government has reimbursed states for most of the cost of running their programs. In return for paying 80 to 85 percent of the bills, the federal government establishes detailed rules on what services states must provide, how they are to be provided and in what time frame. The most recent federal report (for the year ending September 30, 1995) provides a good sense of the size of the child support program. The report notes that collectively, the 50 states:

- ✓ Managed a caseload of 19.2 million
- ✓ Determined paternity in 903,000 children
- ✓ Established 1,051,336 support orders

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- ✓ Collected \$10.8 billion in child support
  - ✓ Spent \$3 billion in administrative costs
  - ✓ Employed 51,432 staff

Child support programs perform three basic functions. First, they establish paternity for children born out of wedlock. For the most part, the mothers of these children receive public assistance payments. If a state collects child support from a father whose children are receiving such payments, the state keeps the money to help offset the cost of providing them. As a result, there is no immediate financial incentive for the mother to cooperate in identifying the father. Research in this area is inconclusive but suggests that about half of all mothers on AFDC with children born out-of-wedlock do not help identify the father. Sometimes, the parents may work out an agreement where the father pays the mother a small amount of money (say, \$75 a month) in return for the mother not providing the child support enforcement agency with information about the identity of the father. Both parents benefit from such an arrangement. The mother receives additional money to supplement her welfare grant and the father pays less than he would otherwise be required to pay if he were legally established as the father. Also, many mothers do not identify the father because of a fear of reprisal.

Once the identity of the non-custodial parent (NCP) is known, the next major step is to locate him. Most often, this is accomplished by accessing other government databases, such as driver's license data, tax return data, etc. Less often, it involves paying a sheriff, constable or private investigator to search for the missing father.

The last key task is collecting child support. Most child support is collected by identifying the father's employer and instructing the employer to withhold child support directly from the father's paycheck. Other enforcement tools include bank levies, real estate liens, income tax refund intercepts, seizure of personal property (cars, boats), threats to revoke driver's and/or occupational licenses and contempt of court.

Despite the array of tools available to child support agencies, much child support remains uncollected. On average, states collect about half of all the money that is due on outstanding orders. Moreover, there are more than eight million cases without child support orders (primarily because paternity has never been established). The Urban Institute estimates that a perfect child support system—where all cases have a support order and all support is paid—would collect more than triple what states actually collect. Any system that operates at 30 percent of peak performance clearly suffers from significant problems, and there is a consensus among child support professionals as to the most important problems:

**Fragmentation.** In most states, the child support enforcement program is split among a state agency, county agencies and the judiciary. The fact that no one entity is truly in charge makes it difficult to coordinate actions and introduce innovations.

**Archaic rules.** Child support enforcement suffers from extremely inefficient work processes, many of which are enshrined in legislation. Support orders issued in one state are not valid in any other state unless they have been properly "registered." This registration process is labor- and paper-intensive. A GAO study indicated that it takes child support agencies an average of seven months to complete the paperwork necessary to enforce a case

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across state lines. Another study found that when an absent parent's income increases enough to warrant increasing his support order, it takes 6.4 months to implement that increase.

**Obsolete technology.** Despite more than \$1.5 billion in spending on technology nationally, only a handful of states have modern computer systems. Most states are making do with computer systems that do not track critical data elements and therefore cannot help caseworkers prioritize their workloads or alert them to important dates and events.

**Micro-management.** For the most part, federal funding is simply open-ended reimbursement—the more a state spends, the more federal reimbursement it gets. In an attempt to make sure that states spend money effectively, the federal government intensively regulates every aspect of the program. There are regulations governing when cases must be opened. There are regulations governing when cases must be closed. There are regulations governing how many letters and notices must be sent, what those notices must say, when they must be sent and which can be sent first class mail and which must be sent registered mail.

**Understaffing.** During the last few years, staffing has grown at an average of 7 percent annually, but the caseload has grown even faster. Moreover, ever more staff must be devoted to following the archaic rules and obeying the detailed federal procedures discussed above. With heavy caseloads and inefficient work processes, most states are significantly understaffed.

In 1988 and again in 1996, Congress passed legislation designed to ease these problems. The 1988 legislation required states to develop comprehensive new computer systems and committed the federal government to paying 90 percent of the cost of those systems. In 1996, Congress passed additional legislation designed to reduce the paperwork needed to enforce cases in which the parents live in different states and make state child support agencies less dependent on the judiciary. Both the 1988 and 1996 legislation required that all state legislatures give their child support enforcement agencies stronger enforcement powers, such as the ability to seize bank accounts and revoke driver's and occupational licenses. Also, as part of President Clinton's reinventing government initiative, the federal Office of Child Support Enforcement has begun to rethink its voluminous rules and regulations restricting how state child support agencies can act, with the goal of abandoning the current system of dictating the process of child support enforcement and moving toward a system that recognizes and rewards success.

This movement toward creating a more flexible, efficient system has not yet demonstrated significant results and the program's cost-effectiveness has not increased. In 1988, just before states began implementing stronger enforcement tools and developing their computer systems, the program collected \$3.94 for every dollar of administrative cost. In 1995 (the most recent year for which data is available), the program collected \$3.59 per dollar spent, a 9 percent decrease in cost effectiveness.

This complete lack of improvement in cost-effectiveness is a major force behind the move toward private contracting. The Urban Institute has estimated that over \$34 billion in child support goes uncollected each year. At the current rate of cost-effectiveness, states would

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have to spend an additional \$9.5 billion to collect all of this money, increasing the cost of the program nearly 400 percent. With states unwilling to make this level of investment, child support enforcement directors have begun to look at all available means to increase cost-effectiveness, including private contracting.

### **The Move Toward Private Contracting**

In 1991, Tennessee became the first state to use private contracting when it hired a private company to run the child support program in one of its 39 judicial districts. Today, 13 states have hired private companies to run full-service child support enforcement programs. To date, no state has asked a private company to run the program in the entire state. Instead, states hire private firms to run the program in one or more selected county or district. All states pay private companies a percentage of the child support they collect. The rates range from 6.6 percent to 40 percent, depending on the case mix, the enforcement powers available in a given state, the exact services involved and the amount of up-front private investment in equipment that must be recouped over the life of the contract. Most contracts pay private contractors about 15 to 20 percent of collections. This payment structure gives private companies an incentive to be efficient and to invest additional resources up to the point where additional child support case workers no longer generate enough revenue to cover their costs.

Private companies generally have a free hand to introduce new technology, bring in new managers, and streamline organizational structures. However, private companies must obey all the same rules and federal regulations as state agencies. In part, those rules are designed to ensure that all child support cases receive attention. The easiest way for a private contractor to make a large profit is to focus on the easy cases and ignore the hard cases where collections, if they materialize, will never cover the cost of the staff time needed to work the case. The victims of this strategy would be primarily low-income women who may be accustomed to inadequate service and unlikely to complain. Several states audit the performance of the private companies they hire, to make sure that these companies are performing all of the required services and are working all appropriate cases, not just those that are the easiest to enforce and therefore the most profitable. More importantly, private contracting now has enough of a track record to allow us to examine the three issues posed in the introduction: cost, quality and methods.

### **Cost**

On average, the 50 states spend 28 cents to collect \$1 of child support, but states vary widely in their cost-effectiveness. Most of this variance is explained by the fact that different states have different laws for establishing child support orders and collecting those orders. Some states use a fast, inexpensive administrative process to establish a child support order, while others use a more expensive judicial process. Some states require all financial institutions to report the names and Social Security Numbers of all account holders, making it easy to identify and levy bank accounts, but other states do not yet have this law. While PRWORA will increase the amount of uniformity in the system (by requiring that all states have new

hire reporting, bank match capabilities, enact UIFSA, etc.), there will still be significant differences among the states, especially over the next five years.

While legislative and organizational differences make it difficult to compare cost-effectiveness *among* states, we can compare the cost-effectiveness of private offices versus public offices *within* the same state, because they both operate under the same laws and constraints. PSI operates full-service child support offices in six states. In one state, West Virginia, the PSI office has been open only for a year and therefore has not yet established an independent track record. However, in the other five states (Arizona, Georgia, Nebraska, Tennessee and Wyoming), PSI offices have been running for up to six years.

Table 1 shows that in each state in which it operates, PSI spends less to collect a dollar of child support than public offices do. Taking a weighted average, PSI collects a dollar of child support for 35 percent less than what public offices spend. (For a more detailed analysis of PSI's experience in delivering child support services, including a discussion of PSI source data and how I derived the data for public agencies, please refer to *Public Profits from Private Contracts: A Case Study in Human Services*, published by the Pioneer Institute for Public Policy Research in June, 1997).

**Table 1. Cost to Collect \$1 of Child Support**

<i>State</i>	<i>PSI Cost</i>	<i>Public Agency Cost</i>
Arizona	\$0.28	\$0.48
Georgia	0.11	0.22
Nebraska	0.14	0.15
Tennessee	0.15	0.16
Wyoming	0.17	0.28
<b>Weighted Average</b>	<b>\$0.15</b>	<b>\$0.23</b>

## Quality

The first question to ask about this 35 percent cost advantage is whether it comes at the expense of quality. To help answer this question, Congress commissioned a General Accounting Office (GAO) report on this subject. The GAO examined private contracting in Arizona, Tennessee and Virginia. In each state, the privately contracted office was run by a different company. The GAO compared the performance of these three companies to the performance of state-run child support offices and concluded, "Fully privatized offices performed at least as well as or, in some instances better than, public child support programs in locating noncustodial parents, establishing paternity and support orders and collecting support owed."

To arrive at this conclusion, the GAO conducted a "paired comparison" analysis of privately contracted versus public child support offices in Virginia, Arizona and Tennessee. In each state, the GAO selected an office that had been run under private contract long enough to have a track record. The GAO then selected a government-run office that had a three-year performance record similar to the performance record of the privately contracted office during its last three years of government management. The GAO made sure that the two

offices served areas with similar demographics, caseload size and composition and staffing levels.

By controlling for external influences (median household income, minority population, percentage of households headed by a single parent), resources (caseload to worker ratios), and past performance, the GAO study isolated the influence of private management as a performance factor. The GAO sampled cases from the six offices (three public, three private), determined what type of action was needed (locate the father, establish paternity, etc.) and then reviewed the case files to determine whether the appropriate action was taken. Table 2 presents the combined results from the private-public paired offices in Virginia and Arizona. (GAO did not present the findings from the Tennessee offices because its sample of cases in the public office turned out to be too small to be statistically significant.)

**Table 2. Percentage of Cases with Successful Outcomes**

<i>Activity</i>	<i>Private Offices</i>	<i>Public Offices</i>
Location of Absent Parent	61%	41%
Establishment of Paternity	30	16
Issuance of Support Order	29	13
<b>Collection of Support Payments</b>	<b>32%</b>	<b>17%</b>

In all four key activities, the private offices outperformed their public counterparts by a wide margin. The performance difference on paternity establishment is especially significant. Cases requiring paternity establishment are generally the most labor-intensive cases, and they also tend to result in lower child support orders. If a private company were trying to skimp on service, this would be an area that would likely be affected. However, the GAO results seem to indicate that private companies were performing acceptably across the entire range of cases.

This conclusion is supported by looking at collections per case. A private company that works only the easy cases will not collect very much per case, because when those collections are divided by all of the cases in the company's assigned caseload, the collection per case figure will be quite low. The GAO study did not present information on collection per case. However, as Table 3 shows, PSI collects more per case in four of the five states in which it operates and, on average, collects 30 percent more per case than do public offices in the five states.

**Table 3. Collections per Case**

<i>State</i>	<i>PSI</i>	<i>Public Agency</i>
Arizona	\$418	\$405
Georgia	708	543
Nebraska	610	694
Tennessee	709	271
Wyoming	492	425
<b>Weighted Average</b>	<b>\$615</b>	<b>\$472</b>

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## Methods

Both the GAO report and PSI's performance record indicate that private companies have a significant cost advantage and achieve that advantage without sacrificing quality (in fact, the evidence suggests that quality also improves). I now turn to some of the reasons why private contractors perform better.

The GAO auditors asked both public and private child support enforcement managers about the advantages of private contracting. These managers reported that the most significant advantages include:

- ✓ The ability to purchase equipment in days or weeks that public agencies, laboring under elaborate purchasing rules, needed up to seven months to procure.
- ✓ The ability to quickly replace under-performing *managers* (interestingly, the GAO report did not cite the ability to replace under-performing front-line employees as a source of advantage. This focus on managers is exactly the opposite of what conventional wisdom takes as a source of advantage—that private contractors focus on removing under-performing rank and file employees).
- ✓ The ability to operate during evening and weekend hours, which public agencies could not do without renegotiating union contracts.
- ✓ The ability to install quickly productivity-enhancing technology such as case tracking systems and bar-coded files.

While the GAO auditors asked both government and private managers for their opinions regarding the advantages of private contracting, the report does not attempt to verify or quantify these opinions. Delving deeper into these supposed sources of competitive advantage is extremely important. Without a clearer understanding of why private contracting produces better results, we will be unable to determine whether, and under what conditions, private contracting can be used advantageously in other human services programs.

## The PSI Experience

The primary cost of running a child support program is labor. Salaries and fringe benefits account for about two-thirds of the cost of running a child support program. Add those expenses that are directly related to the number of staff (rent, furniture, workstations) and labor and labor-related expenses comprise about three quarters of the total cost of running a child support enforcement program. If private contractors are in fact more efficient, the very first thing we should expect to see is a significant advantage in collections per FTE. As Table 4 shows, PSI staff collect an average of 39 percent more child support per FTE than their government counterparts and out-collect government employees in all five states in which the company has been operating for more than a year.

Table 4. Collections per FTE

<i>State</i>	<i>PSI</i>	<i>Public Agency</i>
Arizona	\$185,172	\$97,475
Georgia	376,066	247,605
Nebraska	356,429	254,401
Tennessee	293,657	268,542
Wyoming	279,440	180,190
<b>Weighted Average</b>	<b>\$321,868</b>	<b>\$230,747</b>

Before analyzing the reason for this very large productivity advantage, we should first discuss some of the common misconceptions about why the private sector is more cost-effective. Proponents of private contracting often state that the private sector hires better managers and better employees. In fact, some privatization proponents act and talk as if government were the employer of last resort and that government managers, "bureaucrats," are innately less intelligent, talented and hardworking than private-sector managers.

The child support enforcement experience with private contracting refutes this assertion. First, all three major private companies that run child support enforcement programs have reached into state governments and hired senior child support officials to run their child support operations. Several of these ex-public officials have helped to shape federal child support law and policy and have generally been regarded as able, innovative administrators. Before joining private companies, they managed programs in states (Virginia, Massachusetts, Missouri and Washington) generally regarded as leaders in child support enforcement. To be sure, private companies do have the advantage of being able to recruit from a national pool of highly regarded public managers. Some state governments may not have this luxury, either because their pay scales are too low or because their capital cities are not considered desirable places to live. Nonetheless, the individuals who are today delivering improved results as private managers are almost all former government managers.

Second, it does not seem to make any difference whether a private company opens a new child support office with all new employees or whether it "inherits" public employees. In some of the states in which PSI operates, the state transferred to PSI's payroll all or most of the government child support employees. In other states, the purpose of the contract was to expand services, and PSI was discouraged from raiding the state staff of experienced child support employees. Regardless of whether a particular PSI office is staffed primarily by ex-government employees or almost exclusively by employees newly hired from the private sector, PSI offices quickly begin to out-perform government offices. PSI's performance edge is not related to whether its staff are former government employees.

Opponents of private contracting often assert that private companies achieve whatever competitive advantage they have by cutting the wages of their front-line employees, skimping on the service offered to the public, or both. Again, the facts do not support this argument. State agencies are usually sensitive to this issue, and if the contract involves transferring existing staff to a private company's payroll, states typically insist that the compensation package be substantially similar. Even without this requirement, private

companies need to pay market rates to attract quality staff. As Table 5 shows the salary and benefits of PSI front-line child support workers are virtually identical to the compensation packages of their government counterparts.

**Table 5. Compensation Comparison for Private and Public Child Support Workers**

<i>State</i>	<i>PSI</i>	<i>Public Agency</i>
Arizona	\$30,914	\$30,271
Georgia	29,829	30,537
Nebraska	30,570	28,196
Tennessee	26,817	26,180
Wyoming	25,587	21,236
<b>Weighted Average</b>	<b>\$29,425</b>	<b>\$28,902</b>

None of PSI's cost advantage, then, comes from reducing wages or benefits. Another possible source of advantage is to reduce staffing levels below what the public agencies provided. This might reduce overall service levels, but it could also increase the profit margin, because there might be only enough staff to work the easiest, most profitable cases. A comparison of staffing levels shows that this is not the case. (See Table 6).

**Table 6. Staffing Levels**

<i>State</i>	<i>Public Agency</i>	<i>PSI Bid</i>	<i>PSI Current</i>
Arizona	5	12	21
Georgia	25	40	49
Nebraska	57	62	72
Tennessee	18	25	45
Wyoming	20	23	46

In every instance, PSI's bid committed the company to higher staffing levels than what the public agencies were using, because the nature of the contracts gave PSI an incentive to increase collections. PSI staffing levels have also risen significantly over time, to enable the company to provide more service and work more difficult cases.

The partisan explanations—private sector employees and managers are inherently more talented and diligent than government bureaucrats, or private companies cut back on staff, wages, and benefits—do not stand up to examination and do not explain any of the significant performance and cost-efficiency advantages that private companies such as PSI enjoy. What, then, are the true sources of competitive advantage?

Having delivered the same service as a public manager and as a private manager, I have found that private companies have a significant advantage in five areas: technology, performance incentives, overhead, personnel flexibility and competition. Each of these areas is worth discussing in some detail.

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## Technology

Almost every human service agency has a huge caseload, and child support enforcement is no exception. The 50 states struggle with 20.1 million child support cases. It is impossible to manage such a caseload intelligently without modern technology. Computers can increase effectiveness by applying decision-rules to cases and determining which cases need which actions, and when. Computers can also increase staff productivity by eliminating the need to search through paper files for important data, and by automatically generating standard documents. Voice response systems can allow clients to access information about their own cases without speaking to a caseworker, thereby allowing caseworkers to spend more time actually working cases.

Private companies can and do identify specific applications where technology can improve productivity and quickly buy or build the necessary technology. In Nebraska, for example, PSI realized that a bare-bones case-tracking and document generation system would significantly increase caseworker productivity; the company developed and implemented such a system six months after starting operations.

The safest systems development path is a step-by-step modular one. However, government agencies usually do not have the same freedom to identify specific applications and design modular solutions. The nature of the government budget process encourages huge, cumbersome, costly, all-or-nothing solutions. Computer systems are normally purchased via special appropriations. In 1988, the child support enforcement system got its bite at the technology apple when Congress required that states develop comprehensive computer systems and agreed to pay 90 percent of the cost of building these systems. Unfortunately, the federally-mandated development process forced states to funnel all of their technology efforts into a single, monolithic, statewide system. Moreover, states were not even free to design a system to meet their particular needs. Instead, all states had to “transfer” a system from one of a handful of states that seemed to have the most advanced systems at the time, regardless of whether the transfer system was really suitable.

Because Congress was paying 90 percent of the systems development cost, with no cap, a process had to be devised to regulate spending. This took the form of Advanced Planning Documents (APDs). States were unable to spend any federal money on these systems until they submitted very detailed APDs, describing exactly what their systems would do, how much the systems would cost to build, and when those systems would reach major milestones. The process of compiling an APD was itself so complicated that most states hired computer consulting firms to do it, and it was not unusual for a state to need 18 to 24 months to hire a consulting firm, complete the APD, send it to Washington, receive comments, modify the APD and ultimately receive federal approval to proceed. In the interim, program and technology changes had most likely rendered the APD obsolete.

The contrast between how government and private contractors develop and use technology is highlighted by looking at PSI's Nebraska operation. With only a five year contract, PSI could not afford to spend months or years defining all of the tasks we wished to automate. Instead, the company focused on the most immediate and pressing needs; those needs, it thought, would generate the largest and quickest payback. The computer system PSI

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installed in six months in 1993, although rudimentary in many ways, provides staff with productivity-enhancing case management and document-generating capabilities that Nebraska government employees still do not have, and goes a long way toward explaining why PSI's Nebraska staff collect 40 percent more child support per person than their government counterparts.

Most states are now beginning to implement their new computer systems, and we can expect to see some productivity improvements. However, the fact that cost effectiveness declined during the nine-year development period means that, on a present value basis, these systems will never pay for themselves.

### **Performance Incentives**

All PSI child support enforcement employees are eligible to earn bonuses. Naturally, the bonuses are tied to actions that increase child support collections. By establishing more child support orders, tracking down more absent parents, and issuing more income withholding orders, front-line staff can earn bonuses of up to 10 percent of their base salary. Such bonuses are highly motivating. In its Nebraska office, PSI staff are divided into four teams, and if a team reaches its income withholding goal, everyone on the team receives a bonus. If at least two teams exceed the goal, the goal for the next quarter is increased. Although the income withholding goal has increased by more than 60 percent over a three-year period, PSI's teams consistently manage to reach or exceed the goal, driving collections ever higher. To increase income withholdings by 60 percent over three years, PSI staff have had to increase their productivity in this area by 17 percent annually. Compare this performance to the overall cost-effectiveness of the program, which has not increased at all over the last decade, and the powerful impact of performance incentives becomes clear.

Public agencies are usually unable to pay bonuses. Even more startling, public agencies are sometimes unable to establish quantifiable performance goals for line staff. In Massachusetts, collective bargaining agreements prohibit the establishment of quantifiable performance measures for child support employees, thereby depriving public managers of a very powerful productivity tool. As the old management saying goes, you can't manage what you don't measure. With government managers often unable to measure performance—much less reward it—it should come as no surprise that productivity is lower in government run offices.

### **Overhead**

At the turn of the century, most government agencies had very little in the way of checks and balances. George Washington Plunkitt (of Tammany Hall fame) took great advantage of this absence of controls and explained how he acquired great wealth on a small salary by saying, "I seen my opportunities and I took 'em."

Today, government employs a large administrative oversight structure to ensure that proper checks and balances exist. Opportunities for malfeasance have been greatly reduced, but at a significant cost. Take the rental of office space, for example. If a public agency needs to

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move to a new site, it must follow an elaborate process of determining how much space it needs, and of what quality. Its work is then second-guessed, modified and ultimately approved by a separate agency. After obtaining the necessary approval, the agency can develop what is known as a Request for Proposals (RFP). Typically, agency managers, facilities personnel, and lawyers are involved in developing the RFP, which specifies everything from how much space is needed, to the size and quality of the signage, to the number of bathrooms required. Notice of the RFP is usually published in a government publication devoted exclusively to these matters. Prospective landlords read the RFP and submit responses. After the closing date (usually about a month after the RFP is issued), a committee of public employees reads all of the responses and scores them according to a pre-determined formula that assigns points to factors such as location, quality of space, price, access to public transportation, etc. The highest scoring proposal is then forwarded to the appropriate oversight agency for approval. Once approved, the winning landlord is notified. It is not unusual for this process to take about a year and to involve 20 or more staff.

When a private company such as PSI wins a contract and needs to acquire office space, the process is much different. Typically, the company will call a commercial real estate broker and describe its general needs—how much space, price range and general location. A few days later the broker will call back with a description of half a dozen properties that meet the general criteria. After touring the properties, we pick one or two that seem most suitable, negotiate price, and sign a lease. The process usually takes about 10 days and involves two PSI employees, the contract manager and the facilities manager.

This streamlined process gives private companies an enormous advantage over public agencies. Public managers must go through the process described above, or something very similar, every time they want to purchase computers or equipment, hire staff or shift money from one budget line item to another. This elaborate system of controls triggers an administrative staff “arms race.” If you are a Commissioner of a line agency and you want to accomplish anything, you must have enough of your own administrative oversight staff to do battle with the staff of overhead agencies—fill out the necessary forms, write the RFPs, and respond to the endless requests for information from the state’s central personnel, budget, computer, and facilities departments. And the more administrative staff the line agencies have, the more staff the central overhead agencies need to process all of the requests from the line agencies. The Administrator of the Office of Federal Procurement Policy, Steven Kelman, says that “In the name of fighting corruption we have created a very over-bureaucratized, over-controlled, distrustful procurement system. We’ve gone way, way overboard.”

To estimate the cost of this administrative oversight apparatus, we can compare the “overhead” staffing of a private company (PSI) with a public agency (the Massachusetts child support program). In Massachusetts, 21 percent of total staff are in overhead positions, compared to just 8.8 percent at PSI. It is important to note here that Massachusetts operates what is widely regarded as one of the best child support programs in the nation, so I am not benchmarking PSI against a straw man. PSI collects \$321,868 per FTE, \$91,000 more than our public agency counterparts. If PSI had the same overhead ratio as the Massachusetts child support program, its collections per FTE would decline by \$37,000. More than 40 percent of PSI’s total productivity advantage, then, comes from having a much simpler

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overhead structure. If public agencies need to spend an additional 12 percent of staff on administrative oversight, and if we assume that expenses roughly follow staffing patterns, then nationwide, the excess administrative cost is about \$300 million annually.

This estimate of excess administrative staff does not allow for the fact that state child support agencies must maintain a policy making staff that private contractors do not require. It also does not account for the fact that if private contracting were to become widespread, states would need to hire staff to monitor contract performance. Together, these two factors might account for five percent of total staff. However, if private contracting were to become widespread, there would be fewer staff needed in central oversight agencies, largely offsetting the increase in staff needed to monitor private contractors.

### **Personnel Flexibility**

PSI's experience establishes that, for the most part, the quality of management and staff is not that much different between the public sector and the private sector. There are two exceptions to this general rule. First, public agencies find it more difficult to keep their most talented staff. Public agencies can almost never create promotional opportunities through rapid growth, and some talented employees, realizing their promotional opportunities may be blocked until others quit or retire, leave in search of greater opportunity. Other staff, especially those with technology expertise, can earn a substantial premium in the private sector and leave for more money. In most cases, government personnel systems simply lack the flexibility to provide the incremental opportunities and compensation needed to keep certain key employees.

At the other end of the spectrum, public agencies find it excruciatingly difficult to dismiss under-performing employees. The "progressive discipline" process (informal warning, formal warning, performance improvement plan, suspension and finally termination) can easily take more than a year. Many public managers, (and I was among them), often take the path of least resistance and tolerate, isolate or transfer such problem employees rather than put in the many hours needed to terminate them.

These two problem areas—the difficulty in keeping the most talented staff and the difficulty in dismissing the least talented—probably affect less than five percent of the total workforce. Nonetheless, losing a few high performers and dealing with a few chronic under-achievers can sap an organization's strength.

### **Competition**

The final source of advantage is the competitive nature of the private sector. The child support enforcement program has not improved its cost-effectiveness in 15 years, perhaps because public agencies have no incentive to improve productivity. For the most part, the federal government simply reimburses states—the more states spend, the more federal reimbursement they receive. Ron Haskins, staff director of the House subcommittee with jurisdiction over the child support enforcement program, notes that "even if states spend a

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deal of money on activities of dubious value in collecting child support, they can nonetheless count on 66-percent reimbursement from the Federal Government.”

Private companies are always searching for ways to improve productivity, lest they be overtaken by more productive rivals. This constant search for more productive ways of doing business is reflected in the structure of child support contracts. Most of these contracts are three to five-year arrangements, and competition typically forces a private company to reduce its percentage fee every year. In Nebraska, for example, PSI charged the state 15 percent of collections during the first year of the contract, but that percentage declined by half a point each year, until it reached 13 percent in the fifth year. This forces PSI to improve productivity by three or four percent each year or watch its profit margin evaporate. Three percent per year may not sound like much. But compounded over 15 years—the period of time in which there has been no overall improvement in cost-effectiveness in the child support program—this amounts to 56 percent. If the program were 56 percent more cost-effective, an additional 1.7 million families would receive child support each year, lifting many of them out of poverty and off the public assistance rolls.

### **Conclusion**

In a world of time limited welfare benefits, child support becomes a critical part of the safety net. For hundreds of thousands of families, regular, reliable child support payments will be absolutely necessary to supplement a low wage job. Also, if the absent parent works for a company with good health insurance benefits, these benefits can be extended to cover the rest of the family.

However, child support enforcement will not live up to its promise unless productivity improves significantly. At the current level of cost-effectiveness, \$3.59 cents collected for every dollar spent, our nation will never have a quality child support enforcement system. The GAO report and PSI’s experience suggest that private contracting can significantly improve cost-effectiveness. However, the move toward private contracting has been slow, with only 3 percent of child support enforcement staff under private management.

Few far-sighted child support enforcement directors are using private contracting as an important tool to improve productivity and increase collections. However, most states use private contracting only in one of two situations; when specialized expertise is needed or as a last resort. The best example of using private contractors to acquire specialized expertise is payment processing. Historically, most child support payments have been processed manually, at a local level. Highly automated, centralized processing is far more effective, as every bank, utility and credit card company has discovered. PRWORA now requires that states move to centralized payment processing. Because few child support programs have the necessary equipment or expertise, most states are choosing to hire private contractors to perform this function.

However, many of the full-service contracts have been issued as a last resort. In some cases, state staffing levels have been frozen, and child support directors have hired private companies as a way to cope with rising caseloads. In other cases, the local court or district attorney has decided to stop providing the service, and the state had no existing staff to

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perform the function, and thus had to turn to private contracting. If this continues to be the case, the use of private contractors will continue to grow, but it will grow slowly and private contracting may never be significant from a public policy perspective.

However, if Congress is serious about improving cost-effectiveness and program results, private contracting must be encouraged. The best way for Congress to do this is to move toward a funding system that rewards states for results, instead of simply providing open-ended cost reimbursement. Congress has already taken an important step towards this goal by requiring that the Administration develop a new incentive funding structure and report that structure to Congress. The federal Office of Child Support Enforcement, with the help of a number of state child support enforcement directors, has developed such a system. States will receive more incentive funding as they increase paternity establishment and collection rates and improve their cost-efficiency. Those states that lag behind in these measures will see their incentive payments cut.

This is already having an impact on states' willingness to privately contract. When Iowa, (one of the more performance-oriented states when it comes to child support enforcement) saw tougher federal performance standards looming on the horizon, hired PSI in 1995 to improve its paternity establishment rate. Under the terms of our contract, we were required to increase the paternity establishment rate from 63 to 75 percent. Since the Secretary of HHS announced that incentive funding will depend upon reaching specific performance targets, Ohio has also hired PSI to improve its paternity establishment rate, Missouri has issued an RFP to this effect, and the District of Columbia is preparing an RFP to hire a private contractor to take responsibility for paternity establishment.

Florida has just issued an RFP to hire one or more contractors to provide child support enforcement services to 271,000 backlogged public assistance cases. In explaining the rationale for this RFP, the Florida Department of Revenue states that "Due to Federal and State welfare reform time limitations placed on benefits...the Department must act quickly to collect the maximum dollars possible." As I mentioned earlier, 13 states have already responded to strict federal performance standards by hiring private companies to run their new hire reporting directories, and more states have indicated that they will soon do the same.

All of these states have analyzed the new federal performance requirements and concluded that private contracting can help them meet those standards. Given the inherent advantages that a private company has over a government bureaucracy, this is not a surprising conclusion.

Congress has already done much to improve the nation's child support enforcement system. By providing states with generous funding and prodding states to enact tougher laws, Congress has done its part to increase collections almost fourfold in 10 years. But while much has been accomplished, much remains to be done. With unemployment near a 30 year low and tax revenues rising faster than expected, Congress can continue to increase program funding at a rate double or triple that of inflation. But this cannot go on forever. Declining cost effectiveness has already eaten away some of the benefits of generous funding, and taxpayers are not getting all of the child support enforcement they are paying for.

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The best thing that Congress can do now is to keep states focused on results, not process. Congress should enact into law the Administration's proposed incentive funding system (contained in HR 2487, which the House recently passed). Congress should also hold fast to the performance standards and the deadlines outlined in PRWORA. States that doubt their ability to meet these standards will lobby for waivers, extensions and grandfather clauses. Congress should turn a deaf ear to these appeals. A number of states are already demonstrating that they have the talent and resolve to meet demanding performance standards. If some states can do it, all states can do it. This is especially true now that the marketplace has developed several companies, not just PSI, that have proven that they can help states make dramatic improvements in cost-effectiveness and paternity establishment rates, as well as more specialized applications such as payment processing and new hire reporting. The recent surge in performance-oriented RFPs is a sure sign that states are taking the new federal performance standards seriously and are beginning to marshal all available expertise, both public and private, to reach the new performance standards and create a child support enforcement system that works.

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**RESUME: ROBERT M. MELIA****CURRENT POSITION****Vice President      Policy Studies Inc., 1996 - present**

Melia directs PSI's New Hire Reporting offices in Minnesota and Virginia, and most recently in New Mexico, Wyoming and Arkansas. In Minnesota and Virginia, he has implemented turn-key solutions that encompass employer education, data entry, and customer service. Melia is also in charge of PSI's full-service privatized child support office in Omaha, Nebraska. This 75-person office is PSI's largest operation. Melia has also earned a national reputation for organizational innovation, reengineering, and cost control. He has recently developed a blueprint for the Oklahoma Child Support Enforcement Division, documenting how Oklahoma can cut its payment processing cost 45 to 50 percent. Melia was recently invited to testify before Congress, advising Congress on the best way to implement the child support enforcement provisions of the 1996 welfare reform law.

**PRIOR EXPERIENCE****First Deputy Massachusetts Department of Revenue, 1991 - 1995  
Comm.**

Melia served as primary advisor to the Commissioner, and had direct line authority over 1,100 staff in the child support enforcement program, tax administration research and development division, information services division, and tax policy analysis and internal audit units.

In this capacity, Melia directed the thorough re-engineering of the Massachusetts IV-D program to increase collections and improve efficiency. The heart of this effort was the development of an automated, centralized enforcement process which relied on new hire reports from employers and tax information from Department of Revenue files to automate collection of child support obligations. Melia led the effort to design and implement the program to collect new hire information from employers, and to use bank records to identify obligor's accounts.

Under Melia's direction the Department also doubled the number of child support orders it established, primarily do to a dramatic improvement in paternity establishment. Innovations that Melia directed in this area include: establishing genetic testing capability at Probate Courts, thereby eliminating the delay associated with scheduling these tests; developing an automated locate capability that scoured numerous databases for information on alleged fathers; and creating an in-hospital paternity establishment program that has achieved the nation's highest reported rate of voluntary paternity establishment. Melia also worked with the Massachusetts Legislature to

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obtain an objective non-cooperation standard, closely modeled after the standard proposed by the Clinton Administration.

Melia also directed a high visibility public relations strategy of arrests, extraditions and "10 most wanted" posters, leading to the state's enactment of the nation's toughest child support laws. Melia's efforts on behalf of the Massachusetts child support program led to several national awards. For example, in 1995, Melia was named one of ten outstanding state and local officials in the nation by *Governing* magazine and while under Melia's direction, the Massachusetts program received the National Child Support Enforcement Association's Most Improved Program Award.

For his revenue responsibilities, he was responsible for plans that increased per capita tax collections 51 percent from \$4.3 million per employee in FY91 to \$6.5 million in FY94 (there was no increase during the previous four years). Melia developed computer programs that tripled the productivity of income tax auditors, allowing the department to complete its annual audit plan with one-third the staff normally required. He decentralized the budget system, allowing managers who came in under budget to invest the difference in information technology and training needs to successfully downsize and reengineer. In addition he formed self-directed teams empowered to make decisions formerly made by senior managers. These teams cut financial processing costs 33 percent, printing costs 25 percent, and sick leave use by 30 percent.

Melia also managed the 20-person internal audit unit. This unit performed management analyses of both tax and child support functions, and recommended ways to streamline business processes and improve productivity.

**Issues  
Director**

**Bellotti for Governor, 1990**

After serving as an unpaid advisor for several months, Melia joined the campaign full-time to direct all policy and opposition research and produce all policy papers and speeches. After the election, Governor-elect Weld asked Melia to run his fiscal transition team and develop the blueprint for eliminating a \$1-billion deficit. After completing this, he was offered a senior post at the Department of Revenue.

**Deputy  
Budget  
Director**

**Massachusetts Bay Transportation Authority, 1989 - 1990**

Melia was responsible for capital budgeting, cash flow (\$400 million annually) and buy/lease decisions. He helped absorb an unbudgeted, retroactive \$30 million wage settlement without reducing subway service by cutting administrative staff 15 percent, reducing overtime by 10,000 hours and saving \$10 million in health insurance and workers' compensation costs.

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**Associate  
Deputy  
Comm.**      **Massachusetts Department of Revenue, 1987 - 1989**

Melia managed the transfer of the child support enforcement program from the Welfare Department and 84 courts for the Revenue Department (handled union negotiations, leases, recruiting new managers). He managed 150 staff in the information technology, accounting, customer service, and training units, and helped lead the program to its two best years of revenue growth ever (up \$50 million), increasing collections on behalf of families on welfare more than in the previous 6 years combined.

**Deputy  
Bureau Chief  
Research**      **Massachusetts Department of Revenue, 1984 - 1986**

In this position, Melia was responsible for economic forecasting and policy analysis. He managed ten economists, programmers and lawyers, and directed the Department's first computerized audit selection project and identified \$54 million in unpaid taxes. He improved the accuracy of tax policy analysis by developing models that simulated the effect of such changes on actual tax returns. After analyzing ways of increasing child support collections, he was promoted to the number two job in the child support enforcement program.

**Budget  
Analyst**      **Massachusetts Department of Public Welfare, 1983 - 1984**

**Instructor**      **Carroll Center for the Blind, 1979 - 1982**

## **EDUCATION**

Master of Human Service Management, Brandeis University

B.A., University of Massachusetts

## **AWARDS**

*Governing* magazine's 1994 *Public Official of the Year*, 1994.

Ford Foundation *Innovation in Government* grant (awarded for reengineering the child support enforcement program and more than doubling the rate at which families leave the welfare rolls. Some 1,637 programs competed), 1993.

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American Management Systems/Carnegie Mellon *Achievement in Managing Information Technology* award (awarded for the nation's first successful integration of tax and financial databases with the child support enforcement case management system), 1994.

National Center for Public Productivity's 1994 *Exemplary State Award* (awarded for creating an improved wage reporting system that reduces the cost of tracking child support delinquents 93 percent and delivers \$72 million annually in revenues and savings), 1994.

Pioneer Institute for Public Policy's *Better Government Competition* (awarded for a paper on welfare reform), 1994.

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**WRITTEN DISCLOSURE**

There has been no federal grants nor contracts within this current federal fiscal year nor in any of the two previous fiscal years. The last grant/contract received was for research/consulting services in 1991. This was a second contract for the evaluation of the Child Access Demonstration Projects with a total amount of \$1,047,000, approximately.



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Mark A. Levy  
Executive Vice President

Mr. BARRETT. Thank you very much.

Mr. SHOLLENBERGER Good afternoon. My name is Bard Shollenberger. I'm the director of government relations with the Children and Family Services Division within Lockheed Martin IMS. I'm going to summarize my remarks as I know that my full testimony will be included in the record.

Let me first say, in the brief time I've had to look at the GAO report that was discussed on the previous panel, I think the remarks that I'm going to make as well as Mr. Melia and others on the panel are going to be reflective of what was included in the report, as well.

Lockheed Martin IMS is one of the leading providers of child support services in the Nation. To give you an idea, we currently operate 22 or 23, depending on this afternoon's occurrences, in about 17 States, Los Angeles County, as well as with the Federal Office of Child Support Enforcement. We currently collect about 11 percent of all the child support that's collected in the United States comes through a Lockheed Martin IMS operation. Let me also say that privatization of functions within human services and with child support is not a new phenomenon. It's been going on since the inception of the program. There is not one State agency that does its own blood tests or does its own paternity testing. This has been going on for a number of years. What's new is the so-called full-scale or full-privatization, as well as the number of specialized functions within child support in other programs that's getting increased attention.

Let me tell you a little about what we do in our area of work in child support. We began in 1991 and like all the other companies, our senior level employees, as well as the majority of our staff and project operations, are former government employees. The majority have worked in Federal, State, or local child support enforcement programs at one time or another. There's an obvious reason for that. That's where the expertise is.

We do a number of different functions, including centralized payment processing which is mandated now by the new welfare reform law. We do locations and collections, new hire reporting. Our contract with the Federal Government is to work to help establish the national directory of new hires, the Federal case registry and we're also involved in full child support privatization. And as others have told you, essentially we do what a State or local child support office does from top to bottom. There are a few exceptions to that. For example, in Los Angeles County we actually do the court work. We actually go to court with a client, representing the client. In other places we don't, it is dependent on the different contract. And they all are a little bit different.

You've asked why agencies are specifically turning to the private sector. I think you know some of the answers. But unlike welfare or the new TANF Program or Food Stamp Program where caseloads have dropped dramatically in recent years, child support caseload continues to increase dramatically. State and local agencies are finding it harder to keep up with the growing caseloads, particularly those backlogged cases that just don't seem to get touched, and they're not getting additional staff or staff positions funded through the State legislature.

In addition to those reasons, contracting with the private sector for past-due or other kinds of caseload collections allow current staff at a State or local level to concentrate their efforts on more labor intensive kind of casework activities, such as paternity establishment, support order establishment, and the like. And that's where their expertise lies.

There's also the belief by many agencies that their efforts to collect past-due support are not cost-efficient. There's also a growing recognition that many services can better be provided by the private sector and also, in the new welfare reform law, there are a number of requirements, including new higher reporting and centralized collections, that are, clearly, going to be more effectively provided by the private sector. Many States are obviously turning that way, as Mr. Melia has already said.

We believe that Lockheed, as well as other private sector companies, can do this kind of activity faster, better for more cases and at less expense than most State or local agencies. There are reasons for this: minimal risk, we're all held to performance standards; States or localities get what they pay for. They don't pay for process, they pay for results. We're held to compliance with all State and Federal laws and regulations. A State doesn't have that luxury to hold its local agency to those same standards.

Cost effectiveness is clear. I think Mr. Kucinich mentioned start-up costs. Many States, including the State of Virginia, where we operate two private offices, began not by turning over existing offices to the private sector but by asking the private sector to go in and establish new district offices. Our company this time the winner of that contract, actually absorbed all the startup costs. There were no initial costs for the State of Virginia. We're receiving essentially our repayment through collections.

The private sector has, obviously, additional flexibility. I think we've talked about management expertise that resides within the private sector, our technological advantages that can be brought to bear, as well as other factors.

The rest of my testimony really focuses specifically on some of the projects that we do, the cost effectiveness that was pointed out by GAO on some of our projects, and a look into the future. Obviously, as business people engaged in this area, we believe the future is bright and growing for privatization within child support. Thank you and I'd be glad to answer any questions.

[The prepared statement of Mr. Shollenberger follows:]

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**Testimony of  
Bard D. Shollenberger  
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LOCKHEED MARTIN IMS  
Children and Family Services  
1200 K Street, N.W.  
Washington, DC 20005  
202-414-3614**

before the

**UNITED STATES HOUSE OF REPRESENTATIVES  
GOVERNMENT REFORM AND OVERSIGHT COMMITTEE  
SUBCOMMITTEE ON HUMAN RESOURCES**

**“Social Service Privatization: The Benefits and Challenges to  
Child Support Enforcement Programs”**

**November 4, 1997**

Good afternoon Chairman Shays and Members of the Subcommittee. I am Bard Shollenberger, Director of Government Relations for the Children and Family Services division of Lockheed Martin IMS. The Senior Vice President and Managing Director of the Children and Family Services line of business is Audrey Rowe, former Commissioner of the Connecticut Department of Social Services. Harry Wiggins, the Vice President of Child Support Services, who was scheduled to be with you today, was called to one of our project offices last night and regrets that he is unable to be here.

I am very pleased that you are convening this hearing today to learn more about the privatization of child support enforcement programs. I am proud that you have selected Lockheed Martin IMS as one of your witnesses and I am happy to spend this time with you to address our work in the privatization of child support enforcement and our views on private sector involvement in improving these vital services.

Lockheed Martin IMS is the nation's leading private sector company providing services to federal, state, and local child support enforcement agencies. Currently, we operate twenty-two child support projects in seventeen states and Los Angeles County, as well as with the Federal Office of Child Support Enforcement. Our services range from full-service operation of entire child support enforcement programs to the operation of specific child support enforcement program functions. To give you an idea of the scope of Lockheed Martin IMS' efforts in this area, we currently collect approximately 11 percent of all the child support collected in the United States.

Let me also say that privatization of functions within human services and the child support enforcement program is not a new phenomenon. Contracting certain services has always taken place within these programs and the child support enforcement program has been the leader in the level of privatized program functions. What is more recent--and the cause of increased attention--is the growth of privatization to include entire programs--what is known as "full" privatization--as well as number of specialized program functions that are now operated by the private sector under contract with state or local child support enforcement or social service agencies.

Our fully-privatized Chesapeake and Hampton District Offices in the Commonwealth of Virginia were recognized two weeks ago by The National Council of Public-Private Partnerships as the Project Award Recipient for 1997 at its Eleventh Annual Conference in St. Louis. This is the first award given by this organization to a "social service" project and was selected award winner from more than thirty projects nominated. The Commonwealth and Lockheed Martin IMS are both extremely pleased with this award and the recognition given to the efforts made in both District Offices.

We are proud of our efforts working in partnership with the public agencies that have selected us to assist them in operating more successful programs. We believe that Lockheed Martin IMS as well as other private sector companies working in this area will continue to make vital contributions to the growing success of these programs and that increasingly public agencies will turn to the private sector for the provision of services.

#### **CHILD SUPPORT ENFORCEMENT SCOPE OF SERVICES**

The Children and Family Services (CFS) line of business within Lockheed Martin IMS was established in 1991. Our senior employees as well as the majority of our project staff have years of experience working in either state, local or federal human services. It is this experience and expertise that has in large part enabled us to become the premier provider of child support services for agencies throughout the nation. When these program experts couple their skills with the technology and management techniques available to them through Lockheed Martin IMS, the result is more efficient program operations, improved cost-effectiveness, and better service and results for program customers. Within CFS, the Child Support Services Division performs the following privatized services:

- **Centralized Payment Processing or Fiscal Agent Services** for six (6) states (New York, Massachusetts, Arkansas, Colorado, Hawaii and Arizona), the County of Los Angeles, and two jurisdictions in the State of Maryland;
- **Locate and Collection Services** currently in operation for the states of Connecticut, Florida and Utah;
- **New Hire Reporting Services** which handle the reporting of new employees within a shortened time frame. This new state program feature was mandated by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. We provide these services in the States of New York, Maryland, Colorado, and the District of Columbia;
- **Child Support Automated Systems** design and implementation in five (5) states and Los Angeles County, California;
- A federal contract through the Office of Child Support Enforcement to design, develop, and implement the **Expanded Federal Parent Locator Service** to incorporate a **National Directory of New Hires** and a **Federal Case Registry**, also mandated by the welfare reform legislation; and
- **Full-Service Child Support Privatization**—We currently operate two District Offices in the Commonwealth of Virginia (Hampton and Chesapeake) and full child support enforcement services in Baltimore City and Queen Anne’s County, Maryland. In addition, we have recently been awarded a full-service child support enforcement contract for the State of Florida.

#### **SPECIFIC SERVICES PROVIDED TO CHILD SUPPORT ENFORCEMENT AGENCIES**

- **Case Initiation** includes applicant interviews, document preparation, securing of data, establishment of automated and hard-copy case files, case analysis and prioritization, and referrals.
- **Paternity Activities** include obtaining existing and new parentage information, interviewing, securing consent orders, coordinating paternity testing activities, and preparing cases of adjudication.
- **Location Services** encompasses the utilization of our own nationwide location system as well as additional sources that locate home addresses, employment, miscellaneous information, and income and assets of a non-custodial parent.
- **Collection and Disbursement Services** provide streamlined and timely child support collection and disbursement including billing, receipt, payment identification and

processing, distribution of payments, monitoring, enforcement, notification, and reporting.

- **Automated System Support** includes automated system design, development, modification, enhancement, and implementation.
- **Medical Support Coverage** provides assistance with medical support coverage through the obtaining of case data and documents and additional activities to secure health insurance coverage for children from non-custodial parents.
- **Case Review and Adjustment of Support** offers expertise in the review of cases and the adjustment of child support orders.
- **Interstate Case Activities** include the provision of services and best practices to ensure that the exchange of data between states is accomplished in the most timely and efficient manner as possible. These cases are often the most difficult for state and local agencies to effectively manage.
- **Arrearage Collections** are provided to recover past-due support which assists states in recovering expended funds as well as aiding custodial parents who are in need of this unpaid support.
- **Customer Services** offer state and local child support agencies extremely efficient methods to receive, process, and respond to written and verbal contacts on child support enforcement cases and to keep interested parties informed and knowledgeable about the variety of services being provided.

**THE ADVANTAGES OF PUBLIC-PRIVATE PARTNERSHIP:  
WHY AGENCIES TURN TO THE PRIVATE SECTOR  
FOR CHILD SUPPORT SERVICES**

Unlike welfare (TANF) and food stamp program caseloads in recent years, the child support enforcement program caseload continues to grow at nearly phenomenal rates. State and local child support agencies are finding it increasingly difficult to keep up with growing caseloads with available staff and within budgetary constraints. Many states have found it difficult to obtain additional staff for child support enforcement services or additional financial support from their legislatures in recent years due to increased public pressures to “downsize” government. This atmosphere as well as a general growing interest in public-private partnerships have contributed to the increased number and scope of privatized services.

The most widely contracted service in the child support enforcement arena to date in addition to paternity testing services has been the collection of support payments. Most frequently, these contracts have focused on the collection of “past-due” support.

The reasons state and local agencies have turned to the private sector for these contractual services include:

- Rising caseloads and rising levels of uncollected past-due support;
- The inability to obtain additional state/local staff or resources;
- Contracting with the private sector for past-due or specific caseload sectors collections allows state/local staff to concentrate efforts on current collections or cases, or other program functions such as paternity or order establishment;
- The belief by many agencies that their efforts to collect past-due support are not cost-efficient;
- Recognition that many services can be provided by some private-sector contracts in a more efficient and effective manner ; and
- New program requirements mandated by the Personal Responsibility and Work Opportunities Reconciliation Act of 1996 may be more effectively provided in partnership with the private sector. These include New Hire Reporting and Centralized Collection and Disbursement of Support Payments.

Lockheed Martin IMS recognizes that in most instances, we possess the ability to provide certain services “faster, better, for more cases, and at less expense” than most state or local agencies can achieve. We have numerous advantages to State and local agencies which enable the achievement of more effective and efficient child support enforcement programs. Our ability to operate without the constraints faced by most public agencies, our staff of child support enforcement experts, and our ability to freely utilize proven management techniques and state-of-the-art technologies make it feasible for State and local agencies to attain greater program efficiencies by working in partnership with us. Several of the advantages obtained by state and local agencies working in partnership with Lockheed Martin IMS include:

- **Minimal Risk.** Private sector firms can be contractually bound to certain performance standards, backed by strict and enforceable financial penalties. For example:

--In Virginia, our full-service privatized offices in Hampton and Chesapeake are obligated to collect a specific sum of support each year. In addition, performance standards must be met for paternity establishment, support order establishment, location of non-custodial parents, and customer service.

--In Baltimore and Queen Anne's County, Maryland, performance standards are also in place for paternity and order establishment as well as for levels of collections.

--In New York, currently the largest privatized centralized collection and disbursement center in the nation, we are held to a 99.4% accuracy rate for processing child support enforcement payments—far exceeding federal regulations or industry standards.

- **Compliance.** Under privatization contracts, State and local agencies bind us to maintain full compliance with Federal, State and/or local laws and regulations. Financial penalties for failure to meet these standards are passed on to us, a recourse that is not available when the State and/or local agency fails to comply.
- **Cost-Effectiveness.** Our contracts with State and local agencies are almost always performance-based—either based on a fee as a percentage of collections or as a per transaction fee. These options are not available within the public sector. Therefore, under these partnerships, a state or local child support agency is paying only for results and not for process. Contracts are also frequently under the mandated scrutiny of the agency itself or by the State legislature which evaluates the contract on the basis of cost-effectiveness and other factors. If not proven to be cost-effective or capable of meeting performance standards, the contract may not be continued. Lockheed Martin IMS, as well as other private sector contractors, must always work to assure cost-effectiveness and performance of their programs which is not a normal course of action for public agencies. In New York, for example, an independent analysis of our child support collection and disbursement operation concluded that the State saved 46 percent by utilizing the private sector rather than continuing to process these payments on their own.
- **Start-Up Costs.** In many projects, private sector firms including Lockheed Martin IMS are required to absorb program start-up costs as a contractual condition so that a State or locality does not have to make an initial investment to implement a new project. This allows States or localities to pay for new projects or services through revenues generated by the project itself. Such is the case in the Commonwealth of Virginia where Lockheed Martin IMS won the contract to establish two new District Offices without any additional resources allocated by Virginia.
- **Flexibility.** The private sector is not subject to the same type of budgetary, procurement, and staffing constraints that can limit public agency performance. Lockheed Martin IMS, for example, is able to react quickly to changing circumstances such as caseload fluctuations or performance problems in a specific area by adding or reassigning staff to meet changes in demand. Program start-up can be achieved by the private-sector in a fraction of the time often required by State or local agencies.

In Virginia, for example, the opening of the two new District Offices was accomplished within 90 days of the signing of the contract, an accomplishment that the Commonwealth estimated would take nearly two years if it undertook the effort.

In Maryland, the Baltimore City and Queen Anne's County child support enforcement programs were transferred from state operation to Lockheed Martin IMS within 22 days of contract approval—a daunting challenge for anyone to achieve.

- **Management Expertise.** The private sector can bring specialized management and program expertise to the demands of State and local child support programs. Most private sector companies working in the child support enforcement area have within their ranks program and management experts—several of whom are with us today—who have the ability and flexibility that can be brought to specific projects when needed. As you may know, the child support enforcement program is vastly complex and demanding to administer. Changing statutes and regulations brought about by the recent enactment of welfare reform will make the program even more complicated. It has been difficult for public agencies alone to keep up with the increasing demands on the program and to retain the necessary management talent to achieve performance goals.
- **Technology.** In addition to the skilled personnel marshaled by the private sector, contractors are also able to readily and more skillfully bring needed and state-of-the-art technologies to child support enforcement program operations. For example, Lockheed Martin IMS' child support collection and disbursement program in New York State was one of the first and remains the largest of these operations in the nation. When first established in 1993, we brought to the program the most up-to-date processing equipment in order to successfully meet contractual performance goals. Since that time, we have replaced and/or added new technologies that enable the program to keep ahead of growing volume and to meet new program requirements and performance goals. The New York State Child Support Processing Center still attracts visitors from other State and local programs who wish to observe a state-of-the-art payment processing center that will soon be required in each state as part of the welfare reform legislation.
- **Employee and Career Growth Opportunities.** Current child support enforcement program employees in the public sector can often achieve employment opportunities and career growth in the private sector not always available in the public sector. At Lockheed Martin IMS, as well as in other private sector companies, child support enforcement workers are offered employment when a new project is begun since they are a major if not only source of experienced child support enforcement professionals. In Virginia, where we established two new District Offices under contract with the Commonwealth, there were no displaced workers from which we could draw a pool of experienced workers. In spite of this, we received more than 100 applications for

employment from current State child support enforcement staff who were interested in employment with us due to career opportunities. These two District Offices are staffed with approximately 65 percent former Commonwealth child support enforcement workers.

In Baltimore City and Queen Anne's County, Maryland, we assumed responsibility not only for all child support enforcement operations but also absorbed all former staff which was required under the State legislation authorizing the privatization program.

### **PROGRAM OPERATIONS**

#### **Centralized Payment Processing of Child Support Payments**

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 requires each state child support enforcement agency to operate a centralized, automated unit for the collection and disbursement of payments on child support orders enforced by the state and all orders issued after December 31, 1993 which are subject to wage withholding. Although many States implemented centralized payment processing either before the passage of welfare reform and others have implemented since then, the majority of states will be required to implement by October 1, 1998. States which currently process payments through local courts are given an additional year to meet the requirement.

Under the provisions of the Act, the State has the option of operating this unit itself or may choose to have a contractor operate it on its behalf.

As the prime provider of this service to states, we know that the State Collection and Disbursement Unit is not simply a payment and distribution center as is conducted under a typical "lockbox" operation or similar operation carried out by financial institutions (such as credit card payment processing) or by State taxing or revenue authorities. The Unit has many specific and unique features that require detailed knowledge not only of collections and disbursement but also of the child support enforcement program at all levels. The service provider must also understand the customers and users of the program including custodial and non-custodial parents, employers, state and local child support enforcement and human services personnel, and members of the judicial system.

The example of Massachusetts is a good case in point. In September 1992, Lockheed Martin IMS was awarded a contract by the Commonwealth of Massachusetts Department of Revenue to provide Lockbox and Banking Services for the Child Support Enforcement Division. The project was operated successfully for three years at which point the project went out for rebid by the Department of Revenue who had expressed a desire to have a commercial financial institution operate this program function.

In 1995, Fleet Bank, a Massachusetts-based firm, won the competition for the program submitting the lowest price and meeting the terms and conditions of the Department of Revenue. Fleet Bank, however, had problems with the program especially in the area of what is known as “exception payments”—those falling outside the bounds of normal commercial payment transactions. These “exception” payments are a common occurrence in child support enforcement payment processing and clearly ones that were not commonplace for the contractor. Performance problems in this area continued. After the initial two-year contract, both the Department of Revenue and Fleet Bank decided not to extend the contract into an optional year, and rebid the program, this time requiring specific experience in child support enforcement program collections. In August 1997, Lockheed Martin IMS was again awarded the contract in Massachusetts.

In this case, it is clear that a typical “lockbox” operation could not carry out the specific and unique functions of a State child support enforcement program in a manner that could improve program performance to successfully meet the standards required not only by federal statute and regulation but also by the customers of the program. Some of the unique features of a State collection and disbursement unit include:

- accurate and timely collection and disbursement of payments including check production and mailing
- generating established child support orders and printing notices of withholding to employers
- accurate identification of payments and posting to multiple accounts
- design and production of machine-readable bills and notices
- researching incomplete or inaccurate payments
- establishing linkages with state child support enforcement automated systems and with federal automated systems as appropriate
- providing electronic funds transfer services for obligor, obligee, employer and other payment sources
- furnishing parents with accurate records of payments and payment and account status
- providing prompt and timely service to customers including fully automated voice response systems as appropriate

--furnishing employers with assistance in wage withholding and payment submission

These unique functions as well as other child support enforcement program requirements, require a contractor with a thorough knowledge of and experience with the child support enforcement program and the collections and disbursement process in order to gain the full potential of the efficiencies gained by privatizing these program areas.

### **Full Privatization Services**

In addition to the distinct child support enforcement program services provided by Lockheed Martin IMS, we also provide Full Privatization Services. In these types of program service offerings, we establish and operate full service delivery sites and perform all child support enforcement program functions, including:

- Application for services
- Location of non-custodial parents
- Establishment of paternity and support obligations
- Enforcement of orders
- Review and adjustment of orders
- Customer services
- Public and employer outreach
- Payment processing

Depending on our client's needs and contractual arrangements, we either establish a new service delivery area or assume an existing operation. In either case we seek out and hire interested staff who are currently working in the program for the county or state office being privatized. These contracts are performance-based, with our monthly fee a percentage of total collections generated for the office.

As stated previously, Lockheed Martin IMS currently operates four full-service child support enforcement offices—two each in Virginia (established as new operations) and Maryland (assumed operations of existing offices). A summary of the Virginia project follows.

#### **Virginia**

In late September, 1993, the Commonwealth of Virginia issued a Request for Proposals to establish and operate two new District offices in Hampton and Chesapeake. After a three-week evaluation of bids, Virginia selected Lockheed Martin IMS in December and awarded the contract in January, 1994. We began the project on February 1, 1994. During the 90-day start-up period, we accomplished the following activities for the two new offices:

- lease, design, and build-out office space
- hire and train staff for more than 60 positions
- design and develop internal operating procedures and manuals
- produce videos and install automated voice response system
- design and implement case processing automation that augments and interfaces with State systems
- furnish, equip, and supply the operations
- conduct public and employer outreach
- assume entire caseload for a seamless transfer of child support enforcement responsibilities

In May, 1997 we completed the third year of our five-year contract. Highlights of our performance include the following:

- Exceeded the baseline collections of \$14 million for these offices by 84 percent; increasing to \$25.8 million during the third year.
- Collected a total of \$64.3 million through three years, 21 percent greater than our guarantee of nearly \$53 million.
- Operated at a 60 percent more cost-effective rate than State-operated offices, as reported by the U.S. General Accounting Office.

#### **THE FUTURE OF CHILD SUPPORT ENFORCEMENT PRIVATIZATION**

It should be no surprise to you, since we are businesspeople engaged in child support enforcement program services, that we believe the future is bright for continued growth in child support enforcement privatization. We do, and for a number of reasons.

First, caseloads in the child support enforcement program will continue to grow not only due to demographics but also as a result of more non-custodial parents entering the program to obtain services.

Secondly, States and localities will continue to face the same pressures which have already led to increased levels of privatization. Caseload growth, budgetary and staffing pressures, public calls for improved services and less government will continue and will lead elected officials and program administrators to look to privatization of programs in whole or in part as a solution to these pressures.

Next, successful privatization programs of recent years will in themselves lead to further projects both within states with existing programs as well as others. For example, the Commonwealth of Virginia currently has a pending proposal to privatize another district office and had plans for two additional privatization programs in 1998.

The new child support enforcement program requirements of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 has also led and will continue to lead to new privatization projects in a number of areas. These will include new collections projects, contracting of New Hire Reporting, and states seeking contractors to operate centralized payment and disbursement units and centralized case registries.

Our long-range plans at Lockheed Martin IMS have a continued focus on providing quality services in partnership with State and local child support enforcement agencies. We believe we are in an excellent position to continue our growth in this area and look forward to the challenges and the opportunities.

### **BARRIERS TO PRIVATIZATION**

**Perceived Fears**—Many perceived fears of privatization are gradually disappearing as successful privatization projects show that increased program effectiveness and efficiencies can be achieved without sacrificing quality of services, creating massive displacement of workers, or the loss of ultimate program authority residing in State or local governments. These fears and perceptions do take time to change—particularly in some areas of the country—but they are changing nonetheless.

**Labor and unions**—particularly those representing government workers—have led a charge against privatization that most recently came to a head over the planned privatization of welfare, food assistance and Medicaid eligibility services in the State of Texas. Although not directly affecting child support enforcement privatization, the campaign led by labor against privatization has been felt in the child support enforcement arena. While we believe that much of what has and continues to be said by labor and others opposed to privatization is at best misstated and at worse outright falsehoods, the threatened loss of service quality and standards, massive layoffs, and loss of State or local authority continues to be a barrier in some areas. It is our belief that successful projects will speak louder than words of the overriding benefits of privatization.

**Access to Information**—One current issue that threatens child support enforcement privatization particularly in the area of child support collections and State Collections and Disbursement units is the issue of access to information. The issue deals specifically with access by private contractors acting as “agents” of the state to information provided by the Internal Revenue Service. The Personal Responsibility and Work Opportunity Act of 1996 addressed this issue, at least in part, by explicitly allowing private sector companies under contract to the State access to IRS information including the non-custodial parent’s address and social security number and the amount of a tax refund withheld for past-due support. The provision did not, however, cover the amount and source of unearned income information currently being disclosed under the Project 1099 program. The solution is to specifically reference unearned income as is allowed currently under Project 1099.

Without this necessary amendment, the IRS claims it does not have the explicit ability to disclose this information to private contractors working with the States. This position clearly diminishes the efficiencies of privatization in this area as it forces States through additional steps in order to make the information available to its contractors.

This issue has been discussed with members of the House Ways and Means Committee and with members of the Senate Finance Committee over the past several months. The amendment is supported by the American Public Welfare Association and the National Child Support Enforcement Association as well as individual states and private sector companies engaged in child support enforcement services. We bring it to your attention today and hope that you can assist in overcoming this current barrier.

#### CONCLUSION

Chairman Shays and members of the Subcommittee, I again thank you for convening this hearing today. The more attention that is brought to child support enforcement program services and privatization, the more quickly the program can improve to better serve the custodial parents and children it is designed to assist. Let me also say that we are delighted in your personal interest in this subject, Mr. Chairman, and we look forward to working with you and your staff—Lawrence Halloran and Vincent Chase—as you move forward on this issue.

I have attached several program brochures and reports to my testimony today which provide additional details on some of our projects. I would also be happy to answer any questions you may have and can provide you with additional information which you may request. Thank you again for the opportunity to testify this afternoon.

Mr. SHAYS [presiding]. Thank you.

Mr. Hogan, you're next?

Mr. HOGAN. Yes, sir. Mr. Chairman and committee members, my name is Dave Hogan. I'm the president of the child support division for Maximus Co.

Mr. SHAYS. Can you put the mic a little—I'm sorry, yes, a little closer there?

Mr. HOGAN. That better?

Mr. SHAYS. That's good, thanks.

Mr. HOGAN. Good afternoon. I appreciate the opportunity to be here with you.

Mr. SHAYS. Thank you. Nice to have you here.

Mr. HOGAN. I joined Maximus in 1993. Prior to that time, I was the director of the child support program in the State of Washington and served in that capacity from 1988 until I joined Maximus. Maximus is a company established in 1972. Our mission is to help government serve the people. We work exclusively in the human service arena primarily with State and local governments and, on occasion, once for the Federal Government.

Maximus became active in the child support program in 1975 when Congress passed IV-D of the Social Security Act. Initially, Maximus was involved in evaluations of various programs operating throughout the country, providing technical assistance to county, State, and Federal Government and working in workload standards and performance evaluations.

We began privatization in 1992, one of the first companies involved in privatization of a full-service program, and that was in Anderson County, TN, Oak Ridge area. We now operate child support programs in 10 States. We have seven full-service projects and serve about 200,000 clients, and we have five specialty-function programs and we serve about 300,000 clients. In Montana, we provide the statewide customer service program for the State of Montana. We provide, in Kansas, enforcement services for about the eastern half of the State and in Cook County, IL, we now provide review and modification and wage withholding services. So, States have—some have pursued at the local level full service. Others have looked at a function and decided to privatize that. So, we do a variety—provide services to about a half a million clients, now, throughout the country.

The trend is currently to look at privatization as a tool in child support. Ever-increasing caseloads, higher standards of expectation, in many ways, from you folks in Congress to the States and counties to their operating child support—I think, none of us in the program are satisfied with the level of performance and, clearly, there's the need to improve the support of children throughout the country. There's an increased demand, I think, from the consumers and the customers of child support across the country, that they want their cases worked and they want them worked in a timely manner.

In many situations at the local or State level, there are restrictions on the number of public entities or positions that could be established, and sometimes, where this is authority, there's a lag in the ability to recruit and hire those staff. So, there's a gap of need from what can be provided throughout the programs and I think

that's—those are the primary drivers why State and local governments have looked to the private sector as—to add additional tools, additional resources to help improve the operations.

Some of the benefits in privatization have been touched on earlier. The contracts that we have are largely performance-based contracts. We don't get paid if we don't perform. We are responsible to the State and local government where we contract to comply with Federal case processing and audit standards and, if we don't meet those standards, we're responsible for any penalty the State might receive from the Federal Government. We have increased flexibility in the private sector in establishing offices, hiring and recruitment of staff, use of automated tools, and the like.

In Washington State, I was very fortunate. I was director there. They have, I think, a good program strongly supported by the government legislature but there's always a lag; how fast can you get FTE's approved by the legislature, work with the general service agency to get a facility, work with the data processing authority to get you computers ordered, and the systems, and the like. So, the rapidity in which we can address issues, both in setup and operations, I think, is a major advantage in the private sector.

Productivity improves through incentives for staff in child support as a program as opposed to, perhaps, others and child welfare, where there are measurements. You know how you're doing, and you'll be able to identify goals for staff—both for individual members and for teams—and have the ability to incentivize those staff to meet your goals. In situations where there is managed competition between public and private, I think that's very healthy, and also competition between companies. I think the program benefits from having competition and those, again, I think are positives.

Considerations for those States and the local government who have looked at privatization: I think one needs to take a careful look at your political environment and your operating environment. It may not be the right fix or the right solution for issues concerning the child support program in a given jurisdiction. There clearly needs to be an analysis of the service delivery and the approach of that jurisdiction. You fix a problem here and it causes another bubble of work someplace else in the system. They need to be very clear, the description of services, that are required in the procurement. In all the contracts we've had, and I think for my colleagues here, our competitive bid—we don't see very many, if any, sole source contracts who weren't in child support and I think States have done a good job. They share information with one another on various types of—I had a green light, a red light, and—

Mr. SHAYS. Yes, I know—[laughter]. And I am very distracted, I apologize. I should have left it on red but we wanted to go over. We're willing to let you go over a minute.

Mr. HOGAN. OK. I just have a few more comments.

Mr. SHAYS. Yes, that's fine. I'm sorry for—

Mr. HOGAN. I wasn't too sure if I had violated a protocol—

Mr. SHAYS. Strike that from the record, will you? [Laughter.]

How do you do that?

Mr. HOGAN. There's a late show here.

Mr. SHAYS. I'm giving instructions.

Mr. HOGAN. I was going to shut up if you wanted me to.

Mr. SHAYS. No, you keep going.

Mr. HOGAN. And I think the contracts that we see, a key part to, I think, any successful privatization effort is one, a carefully written request for proposal; a clearly structured contract where both Denver and the client have a clear understanding of what will be provided; and the ability to measure that. But I think those projects that are successful have that foresight and that planning has been done and there's a clear understanding up front what is the service and what's the cost and how will that be measured.

In summary, I would indicate, I think the privatization is another tool that child support programs have used to improve services. Thank you.

[The prepared statement of Mr. Hogan follows:]

Good afternoon. Mr. Chairman, members of the Subcommittee on Human Resources, and distinguished guests, my name is David Hogan, President of the Child Support Division for MAXIMUS, a publicly-held company headquartered in McLean, Virginia, and I thank you for this opportunity to present to you information on privatization of Child Support Enforcement services.

In my testimony this afternoon, I will present to you information on:

- o my background;
- o my employer, MAXIMUS, and its Child Support privatization experience;
- o the results, benefits and challenges of privatization for Child Support Enforcement services; and
- o what I think the future holds for privatization in this area.

I would like to introduce myself to you and, hopefully, this background information will help you evaluate my testimony. As I mentioned, I am the President of the MAXIMUS Child Support Division. I am also an attorney, and have been involved with Child Support Enforcement for over fifteen years. For five years from 1988 to 1993, I was the director of the Child Support Program in the State of Washington and since 1993 I have been employed with MAXIMUS. I'm proud that while under my guidance, the Child Support Program in Washington State received awards for outstanding performance and program innovations.

MAXIMUS was founded and began operations in 1975 with the mission of

"Helping Government Serve the People." Since that date, we have operated under the leadership of our founder and Chief Executive Officer, Dr. David V. Mastran. Throughout our 22-year history, we have experienced continued growth as a direct result of our relentless commitment to quality. MAXIMUS has a staff of over 1,600 experienced professionals and revenues of over \$127 million in Fiscal Year 1997.

We are experienced in working with federal and state programs including Child Support Enforcement, Aid to Families with Dependent Children (AFDC), child welfare, day care, juvenile justice, Medicaid, Supplemental Security Income, Food Stamps, General Assistance, Social Security, and Job Opportunities and Basic Skills (JOBS) training. MAXIMUS provides operating and consulting services for these programs. Our professional staff, including five former directors of statewide Child Support Enforcement programs, are managers with many years of experience in these programs. And project offices serve clients living in large urban counties to small rural areas.

MAXIMUS has experienced continued growth since our inception in 1975. This growth is a direct result of our continued contributions to human service agencies. We have expanded from one original corporate office in McLean, Virginia to 38 locations across the nation and in Cairo, Egypt and Buenos Aires, Argentina. Our corporate office is headquartered at: MAXIMUS Office Center, 1356 Beverly Road, McLean, Virginia 22101, Telephone: (703) 734-4200, Fax: (703) 734-4277.

**MAXIMUS** is organized into three major operating groups, the Government Operations Group, the Consulting Group, and the Corporate Group. The **MAXIMUS Government Operations Group** is organized into four operational divisions: the Managed Care Enrollment Division, the Welfare Reform Division, the Federal Services Division, and the Child Support Division. Highlights of the various services provided by each division within the group are as follows.

The **Managed Care Enrollment Division** provides individualized case management, enrollment, education, outreach, and training to welfare and other health and human service populations. **MAXIMUS** operates the largest managed care enrollment services contracts in the nation. This division currently is responsible for **MAXIMUS** managed care, enrollment, outreach, and education projects in Texas, Michigan, Vermont, Connecticut, and California.

The **Welfare Reform Division** provides a wide range of **JOBS** and welfare reform initiatives in states across the country. **MAXIMUS** is an industry leader in the design and operation of case management services for **AFDC** recipients, being the first private sector, for-profit firm in the nation to receive a contract to administer the new welfare reform legislation. We were also one of the first firms in the nation to assist state and county governments in implementing **JOBS** and other employment-related initiatives, and we have operated welfare-to-work programs in 24 locations around the country. This division currently is responsible for projects in Virginia, Maryland, Connecticut, Illinois, Wisconsin, and California.

The **Federal Services Division** provides a range of support services in the areas of health services, medical services, general social services, and other related client support services. Special areas of concentration include substance abuse treatment and referral, medical support and referral services, client referral and monitoring support, and client intake and assessment. This division has recently completed an \$87 million contract with the Social Security Administration to monitor drug and alcohol treatment of SSI beneficiaries.

The **Child Support Division** assists state and local government agencies in operating full-service and specialized child support projects. In addition to operating full-service child support offices, the division provides direct services for such functions as customer service, enforcement, and intake.

MAXIMUS has established a tradition of excellence in child support. Our staff have been providing child support services under contract since 1975. This time frame is important because it demonstrates the long-term commitment of MAXIMUS to child support. MAXIMUS contributions to the child support enforcement program over the years have been substantial. These contributions include the following.

- o **Conducted Numerous Child Support Program Evaluation Studies for the Federal Government:** MAXIMUS conducted early studies for the federal government while the program was being shaped, including the 1979 study of child support caseload dynamics, the 1982 study assessing the cost effectiveness of the Non-AFDC

Program, and the U.S. Congressionally-mandated "National Evaluation of the Child Support Enforcement Program" completed in 1984.

- o **Developed Case Prioritization and Incentive Federal Financial Participation (FFP) Formula for States:** Working with the federal Office of Child Support Enforcement (OCSE) in 1985, MAXIMUS developed case prioritization standards and funding formulas to calculate FFP incentives for states.
- o **Conducted Child Support R&D Projects Throughout the Nation:** From 1986 through 1991, MAXIMUS implemented innovative federally-funded Section 1115 research and development projects in states involving paternity establishment, child support guidelines development, order modification, and program management.
- o **Assisted States in Designing and Implementing Statewide Child Support Systems:** From 1986 through the present, MAXIMUS helped 14 state agencies design and implement statewide automated child support systems.
- o **Initiated the First Child Support Privatization Project:** From 1988 through 1990, MAXIMUS conducted a series of studies in Tennessee that led to the first privatization of a child support enforcement program in the nation.
- o **Conducted Conversions of Child Support Cases to Automation for Five States:** MAXIMUS reconciled case demographic and obligation data, and financial balances on some 624,000 child

support cases from 1988 through the present.

- o **Operates Child Support Programs:** MAXIMUS operates child support privatization projects in Tennessee, Mississippi, Montana, Colorado, Ohio, Massachusetts, Kansas, South Carolina, Illinois, and Georgia.

Accordingly, our firm provides services in five major areas.

- o **Child Support Systems Planning and Monitoring:** MAXIMUS has helped 12 states and one U.S. territory develop statewide child support enforcement system monitoring strategies, including Rhode Island, North Carolina, Oklahoma, Tennessee, Arizona, West Virginia, Connecticut, Hawaii, Louisiana, Massachusetts, Kentucky, Maine, and the U.S. Virgin Islands. In conjunction with systems monitoring, we helped these states re-engineer their child support enforcement programs to be compatible with statewide systems. We have assisted states with optical imaging systems and the latest technology. We have facilitated states with roll-outs of technology to their various district offices.
- o **Child Support Case Conversion Privatization Services:** MAXIMUS has conducted data clean-up and conversion projects for child support agencies in Rhode Island, Oklahoma, Massachusetts, Arizona, and Tennessee - more than 624,000 child support cases. In these states, we reviewed the cases, researched court records, recalculated arrearages, allocated and distributed

payments, interviewed NCPs, and entered data into automated systems.

- o **Child Support Computer System Implementations:** MAXIMUS has also designed, developed, and implemented full-scale operational systems in our projects in Tennessee and Mississippi and specialized child support computer systems in Florida, Ohio, Massachusetts, Illinois, and Kansas. We have installed an imaging system and bar code system in our Colorado office, as well as information kiosks in Colorado and Ohio.
- o **Management Consulting Services:** MAXIMUS has provided child support management consulting services to 36 states, making this highly respected group one of our most recognized enterprises. In addition, we have conducted more policy studies and program evaluations for the federal OCSE than any other firm.
- o **Child Support Privatization/Program Management Services:** MAXIMUS provides child support privatization services in ten states. We currently operate full-service privatized child support offices in **Tennessee, Mississippi, Colorado, Ohio, South Carolina, and Georgia**, performing the full range of child support processes. In addition, MAXIMUS provides specialized services in **Montana, Massachusetts, Kansas, and Illinois**.

Data on our privatization contracts and projects are provided below.

<b>Project</b>	<b>Contract Period</b>	<b>Type of Contract</b>	<b># of Cases</b>	<b># of FTEs</b>	<b>Method of Payment</b>
Anderson County, TN	7/97 - 6/02	Full Service	4,200	18.75	% of Collections
Davidson, County, TN	7/93 - 6/98	Full Service	65,000	69	% of Collections
Hinds & Warren Counties, MS	4/94 - 3/99	Full Service	35,000	82	Fixed Price
State of Montana	8/95 - 6/99	Customer Service	48,000	13	Fixed Price
El Paso & Teller Counties, CO	1/96 - 12/00	Full Service	28,000	52	% of Collections
Hamilton County, OH	6/96 - 5/99	Full Service	23,000	33	% of Collections
Commonwealth of Massachusetts	9/96 - 8/98	Paternity Establishment	25,000	20	Fixed Price
Kansas City & Topeka Regions, KS	1/97 - 12/99	Enforcement	24,000	68	% of Collections
Conway Region, SC	5/97 - 4/02	Full Service	19,700	28	% of Collections
Cook County, IL	9/97 - 4/99	Income Withholding and Modification of Orders	200,000	109	Fixed Price
Augusta, Southern & Chattahoochee Judicial Circuits, GA	10/97 - 6/03	Full Service to Non-TANF Cases Only	37,700	55	% of Collections

MAXIMUS has been involved in delivering privatized Child Support Enforcement services for the past five years, and we fully expect to double this line

of business over the next five years.

With caseloads and demands for service increasing in an environment where public resources are limited or being consolidated, in our experience privatization has brought about the following:

- o Government agencies entering into performance-based contracts with private vendors;
- o Improved compliance with federal and state performance standards, with private vendors held accountable for audit results and penalties;
- o More flexibility in adding needed project resources, such as personnel or information technology, or responding to customer needs, such as expanded hours or additional service sites;
- o Higher program productivity through incentive-based management and cost efficiencies, collecting more child support for families and helping them become financially stable and less reliant on public assistance;  
and
- o Managed competitions between public and private operations bringing more services to the public.

On the other hand, we have also noticed some concern, hesitancy on the part of governmental agencies and employees, including their unions, on the issue of introducing a new service provider, in particular a private vendor strongly focused on cost-effective delivery of services and accountable under contract for results.

Human service programs and their delivery networks are long-standing and slow, resistant at times to a changing environment in which the communities they serve and the public officials elected to represent these constituencies are demanding changes and improvements. Therefore, but understandably, the introduction of a provider with an orientation on service and results into the service-delivery system represents, to some, a significant change; and change, at times, can be upsetting.

On balance, privatization is really another tool for government agencies to improve operations through healthy and challenging competition. Privatization, in effect, helps government managers achieve better results more economically. To make it work, however, government officials must ensure that the required structures are in place to measure vendor performance and hold a vendor accountable for results.

This ends my formal presentation and, once again, I'd like to thank you, Mr. Chairman, and the members of the Subcommittee on giving me this opportunity to share with you what we in MAXIMUS are doing in the area of privatization of Child Support Enforcement services. At this point, I am very happy to answer any questions you may have.

Mr. SHAYS. Thank you very much. My understanding is the first three of you are full service and partial service.

Mr. HOGAN. That's correct.

Mr. SHAYS. And that, Mr. Genova, you're partial service in—

Mr. GENOVA. We're collections, predominantly.

Mr. SHAYS. Right.

Mr. GENOVA. That's why I said that I was cleanup here.

Mr. SHAYS. You're cleanup.

Mr. GENOVA. Mr. Chairman, members of the subcommittee, thank you very much for this honor. Mr. Barrett, I'd like to just mention to you, I'll be at Lambo Field this Sunday, Packers against the Rams.

Mr. BARRETT. They are favored by 15, right?

Mr. GENOVA. Well, I don't know about that, but that's where I'll be.

Mr. SHAYS. Excuse me, your time is up.

Mr. GENOVA. OK. [Laughter.]

Mr. Chairman, I'm Peter Genova, senior director of child support programs for GC Services out of the World Trade Center, New York City. We're based in Houston, TX, and we recently celebrated our 40th anniversary of doing third party collections for both the private and public sectors. It was intriguing for me to return to a legislative body. I served 6 years in the legislature in New Jersey under Tom Kean and with Speaker Hardwick who was my running mate and I never heard of anyone bring up the matter of child support before.

Until I commenced work with GC Services, until that time, I did not know what it was to be a noncustodial parent until I became one—but, reverse, actually. I have custody of the children. So, I'm a custodial parent, I suppose, but it's so different in today's society to find a male having custody of the children. But I don't get child support. So, I can speak from experience but, yet, I can speak from years of working with GC Services and knowing what it's like for these people out there that are not receiving their payments, and what it takes for companies like ours and for the other companies that are represented here today to do public good on behalf of the citizens, the taxpayers, the children and the recipients in the child support community.

GC Services presently represents many States and counties, including Ohio. We've got nine counties that we're representing in the State of Ohio doing third-party collections for them. Our biggest contract to date is the State of Georgia. We've had Georgia since 1988 and we've just achieved \$100 million in gross child support collections for the State of Georgia. This is in addition to the efforts that they put forth in collecting past-due child support. We are used as a tool in their enforcement arsenal to bring dollars back to the Treasury that have either been lost or thought to be uncollectible.

Unlike my distinguished colleagues from the same market, we do third-party collections but we do subcontract for two full-service companies, policy studies in the State of Georgia, and for Maximus in the State of Georgia. We are the collection arm in a full-service collection arena.

What bothers me most about the critics in child support is they refer to the people who are doing this kind of work as people who are looking to take over jobs of the public sector and nothing could be further from the truth. When you're working hand in hand with child support divisions, like we do in Georgia, for example, it's not considered a privatized effort. It's considered a partnership. There are many criteria used to refer cases to our company and to the other companies that are established by State statute, guideline or by the RFP that is put forth. The program in Georgia has become so comfortable for the workers throughout the State that they refer the cases at their own discretion to us. There's no criteria. A case does not have to be a certain number of months in arrears or years in arrears to be referred to us. So, the program can work despite what the critics have to say about taking over and trying to move people out of their jobs. It's not really that way at all.

I've noticed in the comments of one of the presenters at the next section of testimony that reference was made to companies that take food out of the mouths of children and I might want to just add, as comments for myself and for the other three companies, that none of us participate in what they refer to as programs that take advantage of the recipient; where a company would come in and offer a certain percentage to take over a case and then, of course, be the recipients of a percentage of collections. We do it on a contingency basis. The other companies, they work on a contingency basis. Our revenue is derived from a percentage of collections that is contracted out for and agreed upon, and then, of course, the award is made. We are not private companies that go out and strike deals with recipients. We are not companies that take food out of the mouths of children whatsoever. We don't participate in those kinds of programs, none of us.

We work together. The type of work that we do get from our clients is very, very difficult work. We are not magicians. Some people think that because a private company is brought in, that we can collect the past-due arrearage or the moneys that are due. We generally get the worst cases that are out there. In fact, the cases that we get, with most of our contracts, where there's a child named in the order. By the time we get it, this kid is paying child support himself. That's how old he is. They're not ripe cases, they're not recent cases, they're not cases that are extremely liquidable in terms of turnover to us.

We work very, very hard and people might say, "why do you do it better than the public sector?" Well, that's all we do. We collect. We don't do anything else. We don't do what the State and county child support people have to do; all the various functions that I'm not sure who had mentioned, the functions that are required of a child support agent, from establishing to obligating to payment processing to enforcement. All we do is collect.

You might ask a typical child support worker in any State, in Ohio, in any county, how many phone calls can you make a day to a noncustodial parent in terms of trying to get money back from them? And they might say, one or two or three because they've got so many other things to do. Our collectors make 250 phone calls each a day. That's how many we're required to make and we've got 26 collectors on some of our files.

I'm sorry, Mr. Chairman. And I'll be more than happy to respond to any questions that you might have.  
[The prepared statement of Mr. Genova follows:]

MARKETING DEPARTMENT

**GC Services**  
The Teleservices Company

October 30, 1997

The Honorable Christopher Shays  
Chairman  
House Subcommittee on Human Resources  
U.S. House of Representatives  
Room B-372 Rayburn Building  
Washington, DC 20515

Dear Mr. Chairman:

I would like to take this opportunity to personally extend to you my most sincere thanks for inviting me to testify before your distinguished committee this afternoon. As a former member of the General Assembly in the New Jersey State Legislature representing 190,000 constituents in the 21st Legislative District of Union County, New Jersey, I look forward to this unique opportunity of returning to a legislative body and testifying on such an important issue like child support enforcement.

I presently serve as Senior Director of Child Support Programs for GC Services, the most successful and respected collection agency in the nation. The Nilson Report, the leading consumer payment systems publication, reported that in 1995, GC Services was the nation's top collection agency receiving nearly \$7.5 billion in referrals from its clients.

Founded in 1957, GC Services recently celebrated its 40th Anniversary representing both the public and private sectors in financial receivable management. Based in Houston, Texas, GC Services employs nearly 4,500 people nationally. There are presently thirty-two (32) GC Collection and Service Centers, thirteen (13) Marketing Offices and six (6) Systems Offices located throughout the United States.

In the area of child support enforcement, GC Services has more state and county child support collection contracts than any other collection agency. GC presently collects child support delinquencies for the states of Georgia, Virginia, California, New Mexico, Nevada, Illinois, Missouri, and for numerous counties in Ohio and Maryland. GC recently concluded a very successful "pilot" program on behalf of the State of North Carolina, and a statewide contract representing the State of Kansas. GC was also under contract with the Commonwealth of Massachusetts for nearly ten (10) years, and has recently been awarded contracts from Minnesota, Utah and the City of New York which will commence during 1998.

GC Services has been collecting child support delinquencies since 1987. We have been under contract with the State of Georgia since 1988, receiving our first referrals during the first quarter of 1989. This program started out as a "pilot" for the first four (4) years, eventually going out to bid at the end of this term. GC won the new solicitation and currently serves as Georgia's partner collecting child support.

On April 26, 1996, GC Services reached a milestone which is remarkable in our industry. We achieved \$100 million in total gross collections for Georgia's Child Support Program. Just imagine ..... \$100 million in collections by a private company that Georgia uses as another tool in its enforcement arsenal. As you can imagine, \$100 million is a lot of money. It could never have been collected if the State of Georgia had not supported GC Services' efforts. Not one job was lost due to this contract, and \$100 million was returned to Georgia's taxpayers, custodial parents and the children of Georgia.

As in Georgia, a milestone of this magnitude can also happen elsewhere by using a private company in a partnership capacity. Privatizing Third-Party collections is a winning concept for everyone. GC Services does not represent state or county jurisdictions in a Full Service capacity, however, we do serve as a sub-contractor in a collections capacity in Georgia for two (2) different Full-Service vendors.

There are numerous benefits to privatizing child support enforcement at the state and local levels of government. There are also challenges with respect to achieving acceptance of this concept, but we at GC Services believe that its time has come.

Private firms have the advantages of size, resources and expertise that allow them to quickly and effectively accept, process and collect large volumes of new business without disruption in its collection activity. Additionally, these firms have sophisticated systems and procedures, management experience and financial resources to ensure successful and professional approaches to delinquent child support accounts receivable.

The successfulness of a child support collection program by a private firm is measured by the amount of recoveries that are achieved. To be successful, collection firms must have the best trained collection and support staff - staff who are totally familiar with the needs of its clients. Remember, collection agencies "collect" only; they are not responsible for numerous time consuming functions required to be performed by child support agents. The "enforcement" function typically relates to "collections", and this is the area where the utilization of the private sector is most needed for program efficiency and compliance with Federal guidelines.

Acceptance of the private sector by the public sector is a great challenge when attempting to implement a privatized function in child support enforcement. The fear of jobs being lost to the private sector is a major concern of the child support community, but there should be no concern when Third Party collections are contracted out. Unfortunately, the word "privatization" has

become synonymous with "Full Service" takeovers, and it is important to recognize and understand that there is a mid ground partnership between the public and private sectors that does not threaten jobs; but, in reality, strengthens the ability of the public sector staff to do their jobs.

The public sector must acknowledge that it is difficult to obtain, through the traditional methods, allocation of new public sector positions and sufficient resources to do the job of enforcing child support. Today, the momentum toward reducing government is even more emphatic. Unfortunately, the need for services has not declined, but increased tremendously. In the early stages of GC's partnership with Georgia, it became necessary for their child support program to greatly expand its ability to serve child support needs without adding new positions. Growth of government was prevented in Georgia with GC Services being utilized as their enforcement partner providing a much wider range of collection assistance.

Some may ask, how does privatization result in finding more delinquent parents owing support and how does it improve collections of child support payments? First of all, the public sector must identify what they do best and then they must have the courage to identify what can be done more effectively by the private sector.

As previously stated, private firms have the advantages of size, resources and expertise that allow them to quickly and effectively accept, process and collect large volumes of new business. The sophisticated systems and financial resources of private firms lend to the ability to perform both professionally and successfully.

Collection work by the private firm will commence immediately upon receipt of the referred cases. All cases receive initial collection letters and will continue to receive letters throughout the collection cycle. These letters are used to compliment telephone collection attempts and skiptracing treatment. Please keep in mind that an outside private collection company does nothing else but concentrate on collections; they do none of the other functions which are expected of a child support agent. Time is on the side of the private company; no roadblocks and no detours; just collections.

Most state and county child support offices have the ability to offset taxes, utilize income deductions and ultimately incarcerate the non-custodial parent for non-payment. While private firms can not use any of these methods, most have years of experience in convincing non-custodial parents to pay. The ease or difficulty with which a private firm can locate or contact a non-paying obligor will have an effect on the recovery rate, therefore, private collection staff personnel take their jobs very seriously. They concentrate on collections!

Private firms employ collection staff who have a thorough knowledge of the differences between a child support obligation and a routine commercial debt. An advantage to the private firm employees is that they are able to track those owing past due monies - no matter where they are located - through a network of location services.

## Page 4. Testimony - Subcommittee on Human Resources - Continued

In the area of location, the process throughout the private sector is typically the same.

- Credit Bureau searches will be conducted including a social security number detection in order to develop either current or last known address;
- Telephone creditors and related financial institutions in order to ascertain the current location on the non-custodial parent and to determine if they applied for financial assistance that would fulfill their child support obligation.;
- Provide a National Change of Address (NCOA) search which notifies the private firm if the NCOA address is different than the one provided;
- Provide a surname search in a geographical area of the non-custodial parent;
- Provide a nearby/neighbor search;
- Provide a "Return Mail Verification";
- Mail a questionnaire to the custodial parent requesting the most current information on the non-custodial parent;
- Expand the application of a credit bureau watch program monitoring the bureau file of the non-custodial parent.

Numerous other methods are used to locate the non-paying obligor, but keep in mind that all of these efforts are directed towards payment of his or her court ordered obligation. Again, private firms "collect" only.

Performance and cost effectiveness of a privatized Third Party collection program pays for itself through the Federal incentives and Federal Financial Participation (FFP) reimbursed to the child support jurisdiction. It has been proven by so many past and current Third Party collection programs that these funding incentives have value when privatization is utilized.

Establishing orders for child support (judicially or administratively) is a function that states and counties do quite well. The relationships that exist in most jurisdictions between state and county child support enforcement agencies are strong and should be strengthened even further with a public/private sector relationship. Everyone wins with this type of program if worked the right way.

Page 5. Testimony - Subcommittee on Human Resources - Continued

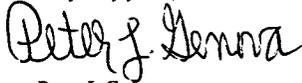
Collections should not have to be performed by the state or county CSE staff. Most successful partnerships, to date, have demonstrated that by working in a partnership- states and counties benefit greatly by outsourcing the collection function; thus, permitting the state/county to re-deploy its current staff to core functions such as establishing orders. Based on published results, this has illustrated a dramatic increase in collections; an increase in orders, but with the state/county still managing the effort.

Many times when a jurisdiction goes "Full-Service", the vendor finds themselves in almost an identical situation as the previous state/ county staff. Namely, too few resources - plus, the problem of setting up what amounts to a new program. For this and other substantiated reasons, it is the opinion of GC Services that Third Party collection programs are the most productive to the government jurisdiction in terms of performance and cost effectiveness.

In conclusion, we at GC Services have learned that state and county employees view vendors assisting them with child support collections as their ally rather than a threat to their jobs. More money is available which is always encouraging to those involved in the program. There is a definite role for the private sector in child support enforcement nationally, and we at GC Services believe that this type of "partnership" offers the optimum in maximizing the very best talent from both the public and private sectors.

Thank you.

Very truly yours,

A handwritten signature in black ink that reads "Peter J. Genova". The signature is written in a cursive, flowing style.

Peter J. Genova  
Senior Director  
Child Support Programs

PJG/gs

Mr. SHAYS. Great. Thank you very much. I'd like to just defer to my colleagues and then I'll come back. Mr. Barrett.

Mr. BARRETT. Mr. Melia, you talked about the advantage, or your recognition that we all understand that there's problems with the technology that causes problems in the public sector. I'd like you to go into that a little more, what is the advantage that you have, what you see as the problem in the public sector, and why that's not a problem for you.

Mr. MELIA. Sure. If you look at the, sort of, history of how the child support systems have been developed and there's actually been, if you really want to get into it, a very good testimony on this subject taken by the Ways and Means Committee, Subcommittee on Human Resources, that sort of documented step-by-step what went wrong and why we got to where we are now. But, the essential elements were the Family Support Act of 1988 drove all 50 States into the marketplace at the same time for advanced case-work systems and there simply was not the capability to build 50 systems at the same time.

I know because when I directed the Massachusetts child support program, I was trying to hire a company that was trying to build, you know, five systems at the same time and they were shuttling people around the country, you know, they were spending Monday in California and Tuesday and Wednesday in Massachusetts and then that program was back on the plane. We just couldn't deliver them all at the same time. That was compounded by the fact that the program is underlying—very complex.

It's just some of the distribution roles and deciding where money goes and when it's retained by the government to pay welfare debts and when it goes to families and what happens when, you know, a mother has children by more than one father. I mean, if you diagrammed the flows of the money here, you know, you'd start at this corner of the room and the diagram would go all the way around the room and it's very difficult to program something like that. Add on top of that to the fact that the Federal office of the child support decided very early on that States could not be free to build their own systems but they had to pick from what seemed to be probably the four or five most advanced systems in place at that time and transfer them, regardless of whether or not they were really transferring a really suitable prototype or not. But you put all those things into the pot and it goes a long way toward explaining, you know, why we're—

Mr. BARRETT. So, you don't use one of those systems?

Mr. MELIA. We use them when the States have them but we have a contract, we got a contract in 1992 or 1993 in Nebraska to run the child support programs for Omaha, NE, and the surrounding areas. It amounts to about a quarter of their State's caseload. So, we would go in and we would interview all the employees and say, if we could get you something in 6 months, what would make the biggest difference to your ability to collect child support? We go on interviewing them all and we come back with, you know, five good ideas. Then we send them to our programmers and they scratch off two of them as these two are just too complicated and this third one, over here, is just too risky, but these two things, people tell us, would make a lot of impact on their ability to collect

child support, they're not too expensive, we can implement them in the short term, that's what we do.

Mr. BARRETT. So, you develop your own software.

Mr. MELIA. Yes. So, 6 months after we came into Nebraska, employees who were working for our company had a rudimentary case tracking system that could produce documents. It would be basic word processing stuff, not too complicated, but it would do our information from the right kind of programs, plug in the names, plug in the amounts due, print the letters—

Mr. BARRETT. OK.

Mr. MELIA [continuing]. Get them out, save hours of time. The State employees still don't have that. This is 6 years after, now, almost 6 years after our contract. So, they've been 6 years without significant enhancements that could have augmented their productivity. That goes—

Mr. BARRETT. And what percentage of your advantage do you attribute to that?

Mr. MELIA. Maybe a third.

Mr. BARRETT. OK. Let me move on, if I could. Thank you. Mr. Shollenberger, you mentioned that you felt that your company was more effective in cataloging the new hires, if I recall that correctly. Why is that? Is that correct?

Mr. SHOLLENBERGER. Not exactly. We're not as, I think, as vast as PSI in terms of—

Mr. BARRETT. But more than—I think your reference was in contrast to the public sector, is that—

Mr. SHOLLENBERGER. Yes.

Mr. BARRETT. OK.

Mr. SHOLLENBERGER. What I referred to, I think, was the new requirements of the welfare reform of last year which will require every State to have a new hire registry. I think the task, when you lay creating another registry, while most States are still putting up the basic automated systems, there are other new requirements on—actually, they'll be changing their system if it's already up and running. They'll have to make functional changes—just to really—as well as the other factors I mentioned, which lends to the fact that these new hire registries as well as centralized payment processing are going to be contracted out. We've seen the results in that many of the States that have already moved that way. There are virtually only a few States that are planning or currently doing this on their own.

Mr. BARRETT. And how many contracts do you have?

Mr. SHOLLENBERGER. We have 22 or 23 contracts in 17 different States.

Mr. BARRETT. And, what is the longest contract of those contracts?

Mr. SHOLLENBERGER. The longest that we currently have, I believe, we got in 1992.

Mr. BARRETT. OK. Have there been jurisdictions where you began contracting but you are no longer contracting?

Mr. SHOLLENBERGER. Yes. One, I think, notable one that's in case, we call it, centralized payment processing, Massachusetts. And we had it for 3 years, lost it to a Massachusetts-based bank after 3 years, 2 years ago. And one of the reasons was Massachu-

setts was looking for a financial institution to take over that project. That was the case—Fleet Bank, in Massachusetts, won that. They discovered, as well as the State of Massachusetts, that they were not capable of the requirements of the child support enforcement program.

Mr. BARRETT. Are there any States or jurisdictions where you're in your second contract renewal?

Mr. SHOLLENBERGER. We're in—second contract renewal.

Mr. BARRETT. What I'm driving at—my question to the GAO was my concern about an increase in costs after the first contract. What's been the increase, if you are in the second term, I guess, from our—

Mr. SHOLLENBERGER. I can look back and get that answer back to you. The only thing I can think that's equivalent is in a lot of these fully-privatized offices or longer term collection efforts that the cost of the contract generally decreases in the out years rather than increases, if that's an indication of what you're getting at—

Mr. BARRETT. I'm sorry, say that again?

Mr. SHOLLENBERGER. In any typical longer term collection contract, meaning 3 years or perhaps longer, or in a full-scale privatization, the cost that a company would charge a State, essentially, winning that contract, would be reduced over the cost—over the length of the contract. So, say, in the first year, it might be 10.5 percent of collections or 11 percent of collections, in the 4th or 5th year, it might be down to 9 percent or 9.5 percent.

Mr. BARRETT. OK. I think my time is up. So, I may come back.

Mr. SHAYS. Mr. Allen.

Mr. ALLEN. If I could just follow up on the question Congressman Barrett was asking, I think part of what he was getting at was the problem of, if you have a company that comes in—say you've got a contract for 3 or 4 years. You finish that contract. By then you are, you know, if you have a comprehensive set of services, you are the State system, essentially. At that point, you're in a competitive—you have, I would argue, an extraordinary competitive advantage over other companies and so, are any of you aware of, you know, how to evaluate—is there any place we can look around the country to get information related to that particular issue?

Mr. MELIA. Yes, there is. I know that policy studies has bid on two re-bids of existing contracts and I will send you the comparative prices. I know that one of them, the price went down over, you know, for the second year. The other one I'm not—I wasn't terribly involved with. I'll send you that stuff. And there are some—several—some of the biggest privatized fully—full service privatized sites are coming up for re-bid in the next, you know, 6 or 9 months, so this is an empirical question. And my colleagues can speak for themselves, but once you're in, as we are probably—you know, we operate full service in six States and—

Mr. SHAYS. If the gentleman would suspend, there is a bill on the floor of the House that I am opposing so I need to get to the floor. I apologize and as soon as that bill is concluded, I am going to come back. But, unfortunately, it's not an apology, though. It's just a statement of fact. [Laughter.]

I'm sorry to interrupt. Thank you.

Mr. BARRETT [presiding]. Go ahead.

Mr. MELIA. The thought that you can get in accounting and then develop a really overwhelming edge, I think, is not going to be the case. Once you operate in half a dozen or a dozen States is, as all the three main companies do—I mean, yes, child support systems differ but they don't differ that much. And once you learn how to run it in a dozen places, you can go into the 13th place and you're not clueless. So, it's not that big of an edge. I mean, we're competing now against these two guys in Virginia and they're established in Virginia and we're not. But that has not precluded us from trying to compete with them and vice-versa in places where we're established. If anything, I think the market is getting more competitive and not less.

Mr. ALLEN. Could I just ask one more question about—State and local governments have immunity and you don't. How do you take, I mean, it may be too early to start getting sued for—at least by the people you work with. I mean, it's probably not too early to get sued by people you contract with but, in terms of the services that you're providing, if you understand what—the variety of people, you know, let's suppose you do something that costs someone a job and, at that point, that person, who would have—could not sue a State agency trying to collect money from them might be able to sue you. How does that affect your costs? Do you take it into account?

Mr. MELIA. When we act as an agent for the State, you know, if we go—let's say we revoke your hunting license. You're in Maine, and we revoke your hunting license and it turns out that we have the wrong Mr. Allen and you sue.

Mr. ALLEN. You're looking at big damages. [Laughter.]

Mr. MELIA. Well, we're acting as the agent of the State, so the State, that we work for, unless they can establish that we were so negligent that under the terms of our contract that we ought to pay the penalty, the penalties will normally float through to the State. The types of penalties that companies are on the hooks for are generally performance criteria. We have a contract in Iowa and they said, here's a caseload, 60 percent of these cases have paternity established. At the end of your contract, you have to get it to 75 percent. If you don't reach 75 percent, for every percentage point underneath, you owe us some money back. But the type of event that you were suggesting which is a wrongful action against a noncustodial parent typically is not a major issue in the business.

Mr. ALLEN. It's not a major issue because the State or local immunity is passed on to you simply because you contract for the State?

Mr. MELIA. Yes, to the extent that they are immune. I mean, in most places, I think, you know, it's very difficult to sue the States.

Mr. HOGAN. If I could just add to that, Congressman. The number of contracts we have require specific liability coverage and we are an independent contractor. So, we would be liable in the case if we took your license wrongfully and there were damages associated with that. A number of States now have contractual provisions that the company would—the vendor would be responsible for those costs.

Mr. ALLEN. OK. Thank you.

Mr. KUCINICH. I have a couple of questions to anyone on the panel. What is—the information that you gathered to hunt down people who aren't making their payments. Where do you get it from?

Mr. HOGAN. As an agent of the State or county, we're allowed access into the same data bases that the child support agency has, so much of the information comes from the child support systems that are tied into the department of motor vehicles, corrections data base, and the like.

Mr. KUCINICH. Now, once you have those data bases, do you—let's get out of the child enforcement business for a moment.

Mr. HOGAN. OK.

Mr. KUCINICH. Now, you have a data base.

Mr. HOGAN. Well, we have access to the data base.

Mr. KUCINICH. You have access to a data base. Having access to that data base, you can gather—pick off whatever you need to make a collection, right?

Mr. HOGAN. That's correct, sir.

Mr. KUCINICH. Do you sell your data bases to other firms?

Mr. HOGAN. Absolutely not. We're—

Mr. KUCINICH. Those are secure?

Mr. HOGAN. Yes. There's absolute confidentiality—

Mr. KUCINICH. Do any independent contractors have access to those data bases?

Mr. HOGAN. We have access as the agent or the contractor—

Mr. KUCINICH. Do you subcontract out use of data base?

Mr. HOGAN. No. Can't—

Mr. KUCINICH. So, there's total security on those data bases.

Mr. HOGAN. Yes. We sign confidentiality statements. All employees are required to sign confidentiality statements and that data is very sensitive.

Mr. SHOLLENBERGER. The same is true with us.

Mr. KUCINICH. OK. Does everyone here agree with the security? OK, I'd like to ask the gentleman from Lockheed Martin a couple questions. I've been looking at some reports on your work in the State of California and I understand that you were awarded a contract to develop a data base system which would link the State's 58 counties and connect them with data base agencies such as motor vehicles, and you were to develop a computer system known as SACSS to be used by 57 counties.

There's an independent verification and validation vendor, Logicon, which is hired by the State and they're reporting over 1,400 problems, the information I have, that is plaguing this system. And I understand that you have six counties that have officially stopped using this system, including San Francisco and San Benito and that two counties are using it but are announcing plans to get off, Ventura and Placer. And furthermore, reports out of the Sacramento Bee suggest that, as a result of failure to meet Federal deadline for automating California's child support program, the State is at risk of losing millions in Federal reimbursement funds with a maximum penalty of \$3.7 billion in welfare funds at stake. Here's the article I'm referring to. I'm wondering if—who do you think should be held responsible and should the taxpayers of California pay for the failures of Lockheed Martin?

Mr. SHOLLENBERGER. That's a long introduction to a short question, I guess.

Mr. KUCINICH. My hunting license hasn't been revoked, Mr. Melia.

Mr. SHOLLENBERGER. I can—I don't know all the specifics that you refer to and I'd be glad to get you the latest information that I have.

Mr. KUCINICH. If I may, sir, Mr. Chairman, you come to a congressional committee to testify—

Mr. SHOLLENBERGER. Yes, sir.

Mr. KUCINICH. On the merits of privatization.

Mr. SHOLLENBERGER. Yes, sir.

Mr. KUCINICH [continuing]. Now, I've been supplied with volumes of information here which suggest that the privatization plans for your work in the State of California have not quite been effective, and, as a matter of fact, according to the Sacramento Bee, this computer fiasco could cost the State of California dearly. You mean to tell me that you don't have any response to that at all, categorically?

Mr. SHOLLENBERGER. I can tell you that as we're meeting today, that State and Lockheed officials are negotiating on working out details on further resolution of continuing the system. This has been an ongoing problem, sir, and we are well aware of it and have been continuing to work with the State and the counties of California.

Mr. KUCINICH. So, do you accept the responsibility, does your company accept the responsibility for the systems that are not working?

Mr. SHOLLENBERGER. We're accepting the responsibility of working with the State and the counties to the point that we can. I can't tell you the level of responsibility, what the liabilities are, I can tell you that our contract with the State of California is still calling for the development of a statewide system that would link all of the counties as well as the county of Los Angeles, where we built a successful system, together to meet the requirements of the Federal law. And, you know, that's where we stand. If the State of California, at some point in time, decides that they no longer want to work with Lockheed Martin to continue that, then whatever liabilities, I'm sure, would be negotiated at that point in time. I'm sorry I don't have more specifics on where we are with the 1,400—it's a daily—it's a number that changes daily that Logicon reported. All I can say is we—I know that we are meeting today with them to work out specifics.

Mr. KUCINICH. All right, in Ventura country, that's also on your system?

Mr. SHOLLENBERGER. Yes.

Mr. KUCINICH. One child support official has said that the system that you've developed doesn't respond consistently. For example, one month somebody owes \$20,000 and the next month a zero balance appears.

Mr. SHOLLENBERGER. Yes, sir.

Mr. KUCINICH. How do you promote a system that has those kinds of—

Mr. SHOLLENBERGER. All I can say is—

Mr. KUCINICH [continuing]. Problems?

Mr. SHOLLENBERGER [continuing]. That we have been working to correct those problems, to correct those inconsistencies, and we will continue to do so as long as we're under contract with the State of California to build a system.

Mr. KUCINICH. Lockheed Martin has contracts with several local Texas work force boards to perform work-related activities for Federal job training programs.

Mr. SHOLLENBERGER. Yes, sir?

Mr. KUCINICH. Are you familiar with that?

Mr. SHOLLENBERGER. Yes, sir.

Mr. KUCINICH. And are you making a profit on that?

Mr. SHOLLENBERGER. Yes, sir; we are.

Mr. KUCINICH. And can you provide us with some kind of data that would show how cost-effective that has been?

Mr. SHOLLENBERGER. I can certainly do that.

Mr. KUCINICH. Also, last year, Governor Bush of Texas sought to privatize the State's welfare system—

Mr. SHOLLENBERGER. Yes.

Mr. KUCINICH [continuing]. And I guess you're familiar with that. Your company hired a number of State officials to help lobby and win that contract. I think Mr. Evans and Mr. Shelley, according to my information, were directly involved in writing privatization legislation. How do you respond to charges that people feel that you're just kind of buying your way into the Texas government by hiring people that are close to the administration?

Mr. SHOLLENBERGER. I'm not aware—

Mr. KUCINICH. You hired the Lieutenant Governor's assistant, Mr. Bresnen, you hired Governor Bush's Deputy Human Services Commissioner, Claudia Langguth, you hired Governor Bush's Employment Commission Administrator, Bill Grossenbacher. Is it just you're out looking for good people and they happen to be in Mr. Bush's administration?

Mr. SHOLLENBERGER. I think we're always looking for good people. I can tell you that my company, as well as the other companies sitting here, have the highest ethical standards. I don't know the specifics of Evans and Shelley, who you referred to. I know their names, that's the best I can say, but, in any case, whatever people are hired are subject to not only our internal ethics code but the ethics code of the State or the Federal Government in which they're working. And whether that's a time limited requirement, or whatever the case may be, that's what we adhere to, sir.

Mr. KUCINICH. You mentioned earlier that Lockheed Martin established new offices in Virginia and didn't use existing public infrastructure, right? I heard you say that. Is that correct?

Mr. SHOLLENBERGER. The two offices we established in Virginia were essentially two new district offices that did not exist before.

Mr. KUCINICH. But your work in New York, you did take over an existing public infrastructure, is that correct?

Mr. SHOLLENBERGER. Our work in New York involving centralized payment processing, essentially what we did was establish in Albany a centralized location where all previously collected—child support that was collected by the 58 social service districts was collected in one place.

Mr. KUCINICH. Aren't you using, though, a State-developed and operating—

Mr. SHOLLENBERGER. We are using and linking with—

Mr. KUCINICH [continuing]. State software?

Mr. SHOLLENBERGER [continuing]. A State-developed automated child support system, yes, sir.

Mr. KUCINICH. OK. Thank you very much. Thank you.

Mr. BARRETT. Mr. Hogan, I have a couple of questions for you, and this, I think, sort of along the lines that Mr. Kucinich was addressing in terms of making sure that the system is a clean system. My understanding is that there was a situation in West Virginia involving Kenneth Roberts. Are you familiar with this situation?

Mr. HOGAN. Yes, I am.

Mr. BARRETT. The information I have is that there was a scheme in which he would be paid \$5,000 monthly by Maximus in exchange for project information while he was a project director for West Virginia's Department of Health and Human Services, that he would receive \$2,500 bonuses from Maximus for contracts, and, ultimately, be eligible for \$100,000-salaried position when Maximus obtained the child welfare services contract. He pleaded guilty to wire fraud, one of the indictments, 11 counts and sentenced to serve some time in prison. Is that—am I stating that correctly?

Mr. HOGAN. Those are not the facts of the case, but I could—

Mr. BARRETT. Could you share with us?

Mr. HOGAN. The person you mentioned approached Maximus as a consultant, and the chairman in West Virginia indicated to our company he was not officially associated with the agency. As that procurement was being developed and going through the bid process, we were given cause of concern he may, in fact, have been involved with West Virginia in some official capacity. We identified that issue and blew the whistle, if you will, turned him into a procurement agency, withdrew from the procurement. He was later indicted and was found guilty. So, we were a victim in that circumstance. We had information that he was not in any way associated with the procurement nor a State official and it turned out not to be the case and then we turned him in and withdrew from the procurement.

Mr. BARRETT. And you voluntarily withdrew from that or was there any pressure from—

Mr. HOGAN. There was discussion with a procurement officer on, my understanding that, of how best to proceed and he—it was a joint decision between us and the procurement agency that it would be best for us not to pursue the procurement.

Mr. BARRETT. Have you had any other similar incidents?

Mr. HOGAN. Not to my knowledge, no.

Mr. BARRETT. OK. I still need a little help in understanding exactly what companies do. I think Mr. Genova gave us a good description of his. For example, do you have attorneys on your staff who go in and actually argue the cases to establish child support?

Mr. MELIA. Yes. In States where we run the so-called full service operations, we do. I'll give you sort of an example of what one of our larger offices looks like in Omaha, NE. It's got about 75 people. It's organized into five teams of about a dozen people each. One member of each of those teams is an attorney. There's usually a

paralegal to prepare documents and there are probably eight or nine caseworkers, you know, a receptionist, a clerical assistant. They do—we hired many of them from the State of Nebraska and the Douglas County staff when we began to transition the program to policy studies. So, they do—you know, if you walked into our office and you spent a couple hours there, and then you walked into another office that was publicly run, in many respects, you'd be hard pressed to tell which is which. I mean, they look a lot the same. The functions are exactly the same because the State is hiring us to do exactly the same function.

Typically, they are staffed better because one of the reasons that States decide to privately contract areas and pick a particular area is they don't pick areas where the program is going relatively well. They, of course, pick the areas where they're having the most difficulties collecting money, where they may be having some difficulties for whatever reason staffing properly or there are managerial problems and, because of civil service inflexibilities, they can't do anything about it. That tends to be the reason. But we look—you know, unless you spent a long time there, you wouldn't know whether you were in a private office or a government office.

Mr. BARRETT. Does Nebraska have automatic withholding?

Mr. MELIA. Yes.

Mr. BARRETT. So, the typical case that you're brought into is one where what, I mean, if there's—again, I'm showing my ignorance as to how the system works. But you have a situation where the noncustodial parent is not working or the wages are not being deducted?

Mr. MELIA. Well, when we came in, of course, there was a barrel of, you know, 50,000 cases and they span the gamut. And now, every month, you know, we probably get a couple hundred new cases. Some of them are quite straightforward. You know, a party is divorced, she knows exactly who he is, and, where he's working. The child support order may be already in place and we just have to enforce it through wage withholding. That's quite simple. Others—

Mr. BARRETT. But I thought, isn't that automatically done?

Mr. MELIA. It's automatic wage withholding in the sense that the judge does not have discretion, so when you bring the case in front of the judge to establish a child support order, there's a little box down at the bottom where the judge has to check, put in a wage withholding as soon as you can find this person's employer. But, somebody still has to find the person's employer.

Mr. BARRETT. OK.

Mr. MELIA. And then someone has to do the mechanical work, or the paperwork, to contact the employer and make sure that their wage assignment is implemented.

Mr. BARRETT. So, when you get a percentage, do you get a percentage of all cases or only those where there's a problem? In other words, we have all the cases in Douglas County, NE, every single one, where a family comes to the government for help. Now, we act as the government as far as child support is—

Mr. SHOLLENBERGER. It's a percentage of the total amount collected.

Mr. BARRETT. But, if you have a case that didn't come into the system, if you have an amicable divorce—

Mr. MELIA. No, we have nothing to do with that.

Mr. BARRETT. You don't touch that. No, OK. Again, I'm showing my ignorance.

Mr. HOGAN. Private cases we don't see. There's only those cases that come under the child support program, the IV-D program under the Federal act, either through application or they've applied for TANF benefits.

Mr. BARRETT. Do you think that the new hire directory is going to help your work or do—

Mr. HOGAN. Yes.

Mr. BARRETT [continuing]. You think it's too bureaucratic in nature? Is that something you all support?

Mr. HOGAN. Yes.

Mr. SHOLLENBERGER. Yes.

Mr. MELIA. Yes.

Mr. BARRETT. Will it put you out of business?

Mr. HOGAN. No.

Mr. BARRETT. Too bad. I mean, I don't mean that personally but I would love to see not having the problem.

Mr. HOGAN. That would be another useful tool. I think it's a pretty good program.

Mr. SHOLLENBERGER. Like Congressman Bilirakis' legislation, it's another tool. I'm not that familiar with all the specifics and you all raised some very good points about it but, in concept, States and localities, the programs, need more tools and the last welfare reform bill provided many more of those.

Mr. BARRETT. OK. Congressman Kucinich.

Mr. KUCINICH. I just had a question for Mr. Melia, is it?

Mr. MELIA. Yes.

Mr. KUCINICH. I note from looking at your résumé you've had a distinguished background in public service in the State of Massachusetts and with all of your experience in the private sector—actually, you've had more experience in the public sector than the private sector.

Mr. MELIA. That's right. Yes, sir.

Mr. KUCINICH. Is that true?

Mr. MELIA. Yes.

Mr. KUCINICH. After all your experience in the public sector, are you ready to say that the public sector cannot perform these kinds of functions that you're now performing in the private sector?

Mr. MELIA. No, I mean it absolutely can perform. It's a question of efficiency. The thing that I have—that struck me most upon making the transition to the private sector was how much faster many of the overhead functions can be performed. If—I mean, I've opened or supervised the opening of five child support offices in the past 6 months and, of course, one of the things you need to do is look for office space. It takes me—I'm involved with one other person. It takes from the time we win a contract to the time we sign a contract with a landlord a week and there's two people involved, me and somebody else in my company. Total hours expended on this thing might be 15 hours. I opened a dozen child support offices in Massachusetts or moved them when their lease expired. Lead

time, 12 to 18 months. Number of people involved in various State agencies, 20 to 45. Hours, hundreds and hundreds and hundreds and hundreds. Multiply that by all the, sort of, the backroom things that you have to do to keep an organization going, everything from buying pens to procuring computer systems to putting people on the payroll to monitoring sick leave usage.

It's all much more complicated in government. So, we need fewer people. I forget who asked me about technology and what advantage—what percent of our advantage we attributed to the ease of implementing technology and I said about a third. It's another third or perhaps a little more to the fact that overhead is much easier and therefore a much smaller percentage of our staff and budget is devoted to overhead functions in the private sector. Managing in the public sector, I can say from 10 years of experience, I mean, the law basically presumes that I'm a crook and that if I wasn't hemmed in, by selection committees and review boards and people whose approval I had to get, that I would do things that, you know, constitute misfeasance. All those things are expensive. All those things mean you're spending money on activities that don't collect money for kids.

Mr. KUCINICH. You know, it's, again, I appreciate your testimony today, but it is interesting when you have the background that you have in the public sector and you go to the private sector and—but we still find that, as some people transit to the private sector, efficiencies, which you say would be forthcoming, are not necessarily evident. For example, you know, the volume of information we've gathered with respect to Lockheed Martin, I mean, as you go into the public sector, and you take over that business, it isn't as though all the problems are suddenly solved. I mean this is what we have to let people know, that if you go to privatization, you're not necessarily solving problems. There is—there are some difficulties that might be inherent in any system and it's not because the public's operating. It's just systemic difficulties.

Mr. MELIA. Yes.

Mr. KUCINICH. Is that correct?

Mr. MELIA. That's absolutely correct and it's particularly evident in distinguishing between sort of two main things that the committee has been talking about. One is sort of operating a fairly stable child support program and, you know, running the real operations under a 3-year contract or a 5-year contract under which the various companies have been pretty successful. And the other one is, you know, developing computer systems and those—every single State and every single company involved in doing those have had enormous difficulties. If it was just one company or two companies that tried it, well, you—sure, you could point the finger at them and you could say they're doing something right. But, every single firm—Deloitte Touche, Anderson, IBM, UNISYS—the biggest and best names in American systems development have all screwed up in developing child support systems in every single State.

I think, you know, only two States or three States met the original 1995 deadline to have these systems in place. So, you can't say, well, there's five States that are incompetent and one or two contractors. It's an underlying systemic problem that you try to—the law said you had to get somewhere where there was not the infra-

structure in the industry and there was not the knowledge to build 50 child support systems by the date that the law required them.

Mr. KUCINICH. I just think that it's healthy in these hearings if we can suspend the mythology which equate public with bad and private with good because you're simply offering a service that may or may not work and the government provides a service which may or may not work. Those of us in government have the responsibility to make those systems work which I take is what you did in Massachusetts, Mr. Melia, from what I read.

It's just that what I think we need to do as we inspect this problem, Mr. Chairman, is to be able to approach it without an inherent bias against the public sector continuing in this because I understand—see, you're here to testify but, you know, it's a marketing tool as well. In some cases, that—you know, you may be marketing a situation that may be against your best interest.

For example, Lockheed Martin, California, you have some difficulties. However, I just have a problem with the idea of privatization being promoted without regard to a hard analysis of the underlying problems that may be inherent in a system, notwithstanding whether it's operated by the public sector. I just wanted to—that's my little commercial. Thanks.

Mr. BARRETT. Thank you, Mr. Kucinich. Thank you very much, gentlemen.

Our fourth panel has two witnesses, Mr. Trom and Ms. Jensen, I believe. If you're both here, if you could step forward, please.

[Witnesses sworn.]

Mr. BARRETT. Let the record reflect that both witnesses have responded in the affirmative.

Ms. Jensen, if you'd like to begin.

**STATEMENTS OF GERALDINE JENSEN, PRESIDENT, ASSOCIATION FOR CHILDREN FOR ENFORCEMENT OF SUPPORT; AND CHARLES TROM, DIRECTOR, CHILD SUPPORT DIVISION, VENTURA COUNTY, CA**

Ms. JENSEN. Thank you. I appreciate this opportunity to be here. I'm here today to represent the 35,000 ACES members who are families entitled to child support enforcement services. We are representative of the families whose 29 million children are now owed \$40 billion.

The receipt of child support payments for our members when it is joined with available earned income allows 88 percent of them to be free of the welfare rolls. It allows our low-income working poor members to stay in the job force long enough to be promoted and gain better pay. Lack of child support means poverty and welfare dependency. Statistics show that only 20 percent of the 40 child support cases receive payments, even though the dollar amount collected is at an all-time high. These increases appear to be because of higher caseload and use of the child support guidelines which call for a greater amount to be paid. Many States have set up contracts with private companies based solely on increasing dollars collected. Companies who are profit-driven go after parents who are paying to get them to pay more support, rather than going after those who do not pay at all. ACES believes all parents should pay their fair share, rather than getting a few to pay more.

ACES was hopeful that privatization would be the solution that our families so desperately needed. Unfortunately, we have not found this to be true. Instead, we have found that vendors get paid and children still don't get paid. Private companies that operate full service child support offices collect the same or less than their State counterparts. For example, in Nebraska, PSI operates the Douglas County agency. They have 45,600 cases. Of these, 9,857 receive a payment for a 22-percent collection rate. The cost is \$15 million. In the 97 other Nebraska counties, run by the government for a cost of \$10 million, they have about 100,000 cases. Their collection rate is only 1 percent less at 21 percent.

In Mississippi, Maximus operates child support agencies in Hinds and Warren Counties for \$4 million. The caseload is 35,000 of which 3,385 received payments. This is an 11-percent collection rate. The collection rate for the rest of Mississippi is 14 percent.

In Maryland, Lockheed Martin IMS operates a full service agency in Baltimore City and Queen Anne's County. The cost is \$70 million. The caseload is over 214,000, but only 24,000 families receive a payment, or an 11-percent collection rate. The Maryland government agencies have a 23-percent collection rate.

Lockheed also operates full-service agencies in two counties in Virginia for a cost of \$7 million. The caseload is 31,000; they collect on about 8,000 cases for a 23-percent collection rate. The government agencies in Virginia also collect on 23 percent of the cases.

Low collection rates are a concern but so is price gouging. Our concern is that Lockheed in Maryland is receiving seven times as much money per case as they receive in Virginia providing exactly the same services. We have reports where bids have been placed by a contractor in Nebraska and Ohio and then the same contractor was hired to implement the bid. We have situations where one vendor is hired to monitor another vendor in several States. And we have many reports where private companies hire State employees who run the agencies and determine who works for their agency and, soon thereafter, those States are putting in contracts with those companies. And that happened in Massachusetts with PSI. It happens with Maximus in several States; Florida, Arizona, Delaware, Georgia. And it happened with Lockheed in Virginia.

We would like to know who is responsible to monitor the fairness and the effectiveness of the contracts. In a GAO report about the automated child support systems, they found that the Federal Office of Child Support did a very poor job monitoring the vendors. In fact, that's how States spent \$2.6 billion for computers. We only have 17 States with certified systems in place. Over 40 percent of the caseload continues to lack computerization. The provisions of the 1988 Family Support Act and last year's welfare reform cannot be implemented because the computers are not in place. States now want to be allowed to let individual counties have their own computers. ACES opposes taxpayers paying for more computers which will be magically linked together by the same vendors who sold them systems that don't work.

We've also found problems with privatization where they hire companies having access to private data, such as IRS and Social Security data. We feel that this is not a good system and that most Americans would be very uncomfortable if they knew that a private

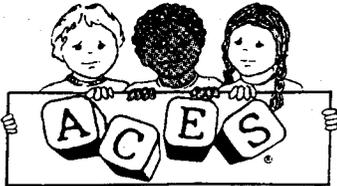
vendor could look up their IRS and Social Security earnings and income information. Many of our members have problems with the private vendors acting as barriers to receiving services. They can't tell when they go to an agency that it is not a government agency. Like they said, they very much look the same, but in reality, they might be dealing with a situation where PSI is under contract but then they subcontracted to GC Services. We believe there should be posters in all agencies telling people which government agency is in charge so they can contact them if they have problems.

Another group that our members have had problems with are private collectors who have families sign contracts and then they take 20 to 50 percent of their support payments. The going rate for doctors who use private collectors is only 10 to 15 percent and many of our members have been ripped off by these private agencies. Overall, the private companies and the government have done a poor job to help our children.

Major reform is needed of the child support system. We would ask you to consider supporting H.R. 2189 which is sponsored by Representative Henry Hyde and Representative Lynn Woolsey. It sets up establishment of the orders with the States and has enforcement done just like we collect FICA taxes and, no matter what happens with the current tax system and the scrutiny it's under, we will still need a system to collect Social Security. We also support H.R. 399 which will keep government benefits and grants away from those who don't meet legal and moral child support obligations. We would like to see it amended to leave out means-tested benefits and expanded to include the current practice where doctors who owed \$30 million in child support receive millions in Medicaid funds.

Only the public school system affects more children than the child support system. It is time that we make children a priority in this Nation and make them as important as taxes. Thank you.

[The prepared statement of Ms. Jensen follows:]



The Association for Children for Enforcement of Support, Inc.

**WRITTEN TESTIMONY OF GERALDINE JENSEN,  
PRESIDENT OF THE ASSOCIATION FOR CHILDREN  
FOR ENFORCEMENT OF SUPPORT, INC. (ACES)  
HUMAN RESOURCES SUBCOMMITTEE OF THE  
HOUSE GOVERNMENT REFORM AND OVERSIGHT COMMITTEE  
NOVEMBER 4, 1997**

Good Afternoon, I am here today to represent 35,000 ACES members who are clients of State Title IV-D child support enforcement agencies. We are representative of the families whose 39 million children are owed \$41 billion in unpaid child support. We have banded together to work for effective and fair child support enforcement. ACES has surveyed our membership to gather information from families as they make the transition from welfare to self sufficiency. We have asked welfare recipients about the actions taken or not taken by child support enforcement agencies that have assisted them to become self sufficient. Collection of child support when joined with available earned income allows 88% of our membership to get off of public assistance. Collection of child support enables our low income working poor members to stay in the job force long enough to gain promotions and better pay. The collection of child support means our membership can pay the rent, utilities, buy food, pay for health care and provide their children educational opportunities. Lack of child support most often means poverty and welfare dependency.

Annually, we produce a report entitled the *Status of Child Support Enforcement in the U.S.* In this report we use statistics supplied by state government to the U.S. Department of Health and Human Services. We look at each state's total number of the cases and the number of cases receiving payments to determine the collection rate. We include those cases that need paternity and/or child support orders established in the total since state IV-D agencies are required to provide families these services under federal and state laws. In our last report, which was based on 1996 statistics, we found that only 20% of the cases opened at a IV-D child support enforcement agency received payments. This poor collection rate is occurring at the same time states report record increases in the dollar amount of child support collected. This is due to higher case load and higher child support order amounts in the period following the implementation of child support guidelines. Child support guidelines have caused a consistent increase in the amount judges or administrative hearing officers order to be paid. This is because child support payments are based on a mathematical formula rather than the old method often used by judges which was \$25 for one child, \$50 for two children, \$75 for three children, no matter how much the non-custodial parent earned. The average ACES member with two children has experienced an increase from \$40.00 to \$80.00 per week. The use of guidelines

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began in 1989, they were optional and it was not until about 1993 that judges were required to follow the guidelines or states could lose federal funding. This is when we began to see a significant increase in the dollar amount collected.

Many states currently have contracts with private companies based on commissions being paid on the amount collected. We have found that this results in these private companies placing more resources and energy into getting those who are paying to pay more rather than pursuing those who do not pay at all. This often leads to loud complaints from non-custodial parents who have been meeting all of their obligations to pay support and provide good quality parental time with their children. They feel the system is picking on the good guys rather than chasing the bad guys. ACES believes the highest level of resources and energy should be placed on getting all parents to pay their fair share rather than on getting a few to pay more.

STATE CONTRACTS WITH PRIVATE COMPANIES SHOULD NOT BE BASED ON INCREASED DOLLAR COLLECTION BUT RATHER ON AN INCREASE IN THE NUMBER OF CASES RECEIVING PAYMENTS.

We looked at several projects states have undertaken to improve their child support programs in hopes of finding a model that all states could use. ACES was hopeful that privatization would be the solution our families so desperately in need, but unfortunately, we have not found this to be true. For example, Policy Studies Incorporated (PSI) runs the full service IV-D office in Douglas County, Nebraska for a cost of \$15.7 million. They have a caseload of 45,600 of which only 9,857 cases received a payment for a 22% collection rate. In the other 97 Nebraska counties the IV-D agencies run by the government had a 21% collection rate. In Arizona, PSI operates child support agencies in two counties, Yavapai and Santa Cruz, for a cost of \$3 Million. The total caseload in both counties is 10,100 of which 1,777 cases received a payment which translates into a 17% collection rate. The Arizona state run agencies have a 14% collection rate.

In Mississippi, Maximus operates full service IV-D agencies in Hinds and Warren counties, for a cost of \$4 million. The caseload is about 35,000 of which 3,385 cases received a payment. This is an 11% collection rate. The Mississippi counties whose child support program is run by the government agencies have a 14% collection rate. In Tennessee's four judicial districts run by Maximus at a cost of \$2.3 million, we found the over all Maximus collection rate was 11% compared to 14% for the whole state.

In Maryland, Lockheed Martin IMS operates a full service IV-D agency in Baltimore City and Queen Anne's County at a cost of \$70 million. The caseload for both agencies is 214,299 of which 23,979 cases receive a payment, this is a 11% collection rate. Agencies operated by the government in Maryland average a 23% collection rate. In Virginia, Lockheed Martin IMS operates full service IV-D agencies in Chesapeake and Hampton Counties, they are being paid \$7 million. The caseload is 31,161 of which 7,767 receive a payment for a 23% collection rate. The other Virginia counties operated by government agencies have a 23% collection rate. We are concerned not only about the poor collection performances but with the apparent price gouging. Lockheed Martin IMS is receiving seven times as much money in Maryland as Virginia for doing exactly the same type of work. Who is responsible for monitoring contracts states have with private vendors? A June 1997 GAO report entitled *Child Support Enforcement - Strong Leadership Required to Maximize Benefits of Automated Systems* found that the Federal Office of Child Support did a very poor job monitoring

what was happening with private vendors who had contracts for the statewide child support computers. The same thing can happen when states hire private vendors for child support enforcement services. The states have already spent \$2.6 Billion on broken and non-existent automated child support enforcement tracking systems. As of today only 17 states have certified systems, half of these are only partially certified. Ten other states have asked to be reviewed to be certified and the remaining states are no where close to having statewide computer systems in place. Children have now been waiting for 13 years for states to get computerized. Almost all of the provisions of the Personal Responsibility and Work Opportunities Reconciliation Act, such as; new hire reporting, professional and driver's license suspension, cannot be implemented due to the lack of computerization. The states have received the federal funding to put the computers in place, the private vendors have been paid but because at least 40% of this caseload remains uncomputerized the children have not been paid. The children are the reason for all this government spending and all of these contracts with private companies. It appears to us that government and private companies are the beneficiaries not the children.

Another problem we have noticed is that private vendors appear to vary prices charged for the same services provided. PSI charged Ohio, \$22,130, PA - \$34,190, WV - \$20,082, SD - \$11,800, AR - \$10,000 and RI - 7,000 to review and update their child support guidelines. States seem to be unaware of the usual market price for services rendered. This information is needed to negotiate contracts.

ACES members in all of the states utilizing private companies for child support enforcement report problems identifying that a private company was responsible for action on their case. They also experienced the inability to find the government agency responsible to monitor the private company to voice a complaint of problems with the contractor. Attached to my testimony is a list of states who have contracts with PSI, Maximus and Lockheed Martin IMS. Families who report little or no action or incorrect action on their cases by private vendors cannot determine who to hold accountable. If the family is lucky enough to be able to determine which government agency hired the vendor, the state agency often tells them there is nothing they can do because the case has been turned over to a private company.

Another expensive and worrisome practice is when states hire one vendor to monitor another vendor's performance. For example: Massachusetts paid Lockheed Martin IMS \$13.2 million for a computer system and paid Maximus \$1.9 million to monitor the Lockheed Martin IMS contract. Oklahoma paid PSI \$1 million for work on the computer and then paid Maximus \$102,000 to monitor PSI's contract. We are concerned that having one vendor monitoring contracts of another, gives both vendors an incentive not to complete the contract on budget and on time. Cost overruns and not meeting deadlines has been a repetitive problem found with vendors on state automated child support enforcement systems.

**THERE SHOULD BE SYSTEM WITHIN HHS TO MONITOR, REVIEW AND AUDIT CONTRACTS AND SERVICES PROVIDED BY PRIVATE VENDORS TO ENSURE THAT PRICE GOUGING AND INEFFECTIVENESS IS NOT PAID FOR BY THE TAXPAYERS.**

ALL CONTRACTS WITH PRIVATE COMPANIES SHOULD INCLUDE A REQUIREMENT THAT CLIENTS ARE GIVEN WRITTEN NOTIFICATION AND NOTICES SHOULD BE POSTED AT THE PRIVATE AGENCIES OUTLINING THE CLIENT'S RIGHTS. THESE NOTICES SHOULD INCLUDE THE GOVERNMENT AGENCY NAME, ADDRESS, AND PHONE NUMBER TO CONTACT IF THEY HAVE A PROBLEM WITH THE PRIVATE COMPANY.

THE FEDERAL OFFICE OF CHILD SUPPORT SHOULD ENSURE THAT STATES KNOW THE AMOUNTS PAID BY OTHER STATES FOR SPECIFIC SERVICES SO THAT THEY CAN DETERMINE IF COMPETITIVE BIDS HAVE BEEN SUBMITTED.

FEDERAL PROCUREMENT REQUIREMENTS SHOULD ENSURE THAT THE SAME COMPANY THAT WRITES THE REQUEST FOR PROPOSALS IS NOT THE SAME COMPANY THAT WINS THE BID. (This occurred in Ohio and Nebraska)

Another group which is cashing in on the children are private collection agencies. They advertise to custodial parents that "we can collect your child support" Many desperate families seek their help to find a way to put food on the table only to find they have been ripped off by con artists who collect application fees from the parents then vanish into the night. Others have encountered private collectors who collect some money from the non-custodial parent but never send it on to the mother and children. We have members who report the private collection agencies are taking 30-50% from the child support collected when the going rate for collecting unpaid bills for doctors is only 15%. We have a member whose only support came from the paternal grandmother. She lost this help because the private collector repeatedly called the grandmother at work to obtain information about the non-custodial parent. Now the grandmother's job is in jeopardy, she has been the only family member besides the custodial parent providing for the children.

Another member from California whose children were owed \$60,000 went to a private collection agency. Nothing was done on her case so she canceled her contract in writing. She came to ACES and learned how to collect the back support. When she was due to get the \$60,000 the private collector notified her that she owed him his 30% of the arrearage, even though the contract had been canceled. The private agency even tried to foreclose on her house to get his portion of the \$60,000, luckily he was unsuccessful.

Another member had a private collector find the non-custodial parent's source of income to be Social Security Disability. The child was entitled to a social security check that was more than the child support order. The private collector got a court order that stated the amount greater than the support order was considered payment on arrears and therefore the private collector was entitled to 30% of the child's social security dependents check. Currently there are no regulations which govern the activities of private collection agencies who are collecting child support. In fact in 1994, the United States Court of Appeals for the Fourth District in Mabe vs G.C. Services found that child support payments are not debts encompassed within the scope of the Fair Debt Collection Practices Act. This means that private companies and private collection agencies are not required to adhere to the requirements of the Fair Debt Collection Practices Act. This decision has been upheld in several other 1997 federal court cases.

**ALL PRIVATE COMPANIES AND COLLECTION AGENCIES DOING CHILD SUPPORT COLLECTION SHOULD BE SPECIFICALLY INCLUDED AS BEING SUBJECT TO THE FAIR DEBT COLLECTION PRACTICES ACT.**

In addition to the lack of improved collection rates, price gouging and “rip offs” there are serious privacy issues involved in privatizing the child support enforcement agencies. I testified at a hearing on privacy held by the FTC earlier this year to support the use of social security numbers to locate absent parents. There were many privacy concerns expressed by organizations and citizens to the FTC, especially when this information made its way onto the Internet. We must carefully approach who has access to confidential social security and tax information. We do not think it advisable for private companies to have direct access to individuals' IRS and Social Security earnings information. This is personal financial information that might be subject to misuse.

ACES, along with lawyers for divorced spouses and government enforcement organizations, have found that databases of credit header information that permit searches using a deadbeat parents' known social security number are an extremely positive and useful means of finding deadbeat parents. However, giving a corporation unfettered access to information about individuals' earnings in IRS and Social Security records would make truly sensitive financial information more broadly available than we believe most Americans would feel comfortable with. Private enterprise in this nation is designed to make a profit. The temptation to cash in on this confidential IRS And Social Security income information data would be difficult if not impossible to regulate. Having government act as the gate keepers of this confidential information about income and assets is a realistic expectation of the citizens. Government can regulate access among its employees, set up safe guards and restrict access to only those with a legitimate child support enforcement purpose.

**PRIVATE COMPANIES SHOULD NOT BE GIVEN DIRECT ACCESS TO IRS, SOCIAL SECURITY CONFIDENTIAL DATA. THIS SHOULD REMAIN AVAILABLE ONLY TO GOVERNMENT IV-D CHILD SUPPORT AGENCIES**

The success and assistance that some private companies provide to the government child support agencies in locating absent parents is needed. There are many legitimate, needed and beneficial uses of privatization of some government services. The issue appears to be which services are appropriate to be privatized and which should remain within the government as part of the public trust.

ACES has found some private child support enforcement services very effective and beneficial to families. Especially central payment registries run by banks who collect and distribute payments. The Massachusetts system works very quickly and accurately. Our members report their arrearage records are kept correctly and they can count on regular checks being processed. Georgia has a long positive history of turning over public assistance arrears only cases to private companies who are paid only if they collect on the case. This has recovered millions of dollars owed to the state. Use of private companies to act as consultants for improvements in the child support system to set up better procedures for establishing paternity and developing new hire registries has been effective in some states.

THE FEDERAL OFFICE OF CHILD SUPPORT SHOULD SEEK EVALUATION OF PRIVATE VENDORS BY STATE GOVERNMENT. THIS INFORMATION SHOULD BE PROVIDED TO ALL STATE IV-D AGENCIES TO ASSIST THEM WITH DECISION MAKING INVOLVING HIRING PRIVATE COMPANIES TO ENHANCE THEIR CHILD SUPPORT ENFORCEMENT SYSTEMS.

Unfortunately, private companies and state governments' best efforts have done little to impact the system wide problems with child support enforcement. Cases are still back logged in local court system six months to a year, paternity establishment is still taking three years on average, even with 90% federal funding for genetic testing. The average child support case is delinquent within six months of the order being issued and it takes another six months before any type of agency begins to act to enforce payments. Children continue to go to bed hungry and wake up homeless because their single parent is unable to earn enough on her own to completely support the family. Low income non-custodial parent continue to pay support that benefits the state government and rarely finds its way to their children. And a crisis is close at hand. When their three year welfare benefits end, families will not be able to survive on minimum wages or slightly better jobs. Child support payments will be needed for them to survive as a family. We anticipate large increases in the number of single parents who will be forced to place their children in foster care or will work two or three jobs leaving the children to raise themselves.

Non-payment of child support is one of the few solvable social problems we have. If we collected child support via payroll deduction just like we do FICA taxes the collection rate should increase to 58%. If we added a system to collect child support from self-employed non-payors just as we do self-employed social security taxes, we would increase the collection rate to 85%. We can do this if Congress enacts HR 2189, Uniform Child Support Enforcement Act of 1997 sponsored by Rep. Henry Hyde and Rep. Lynn Woolsey. This bill sets up a system to collect child support just like we do FICA taxes This is a perfect time to consider this idea. The tax system is under scrutiny and a new system could be built to ensure that child support is as important as taxes, while making sure citizens could resolve problems with the IRS and Social Security Administration. The Social Security Administration is one of the few government agencies that has an effective and functioning computer system. It would be cheaper and more effective to have Social Security add to their system then to continue to give states money to put computer systems in place. Currently the computer are not designed to connect to other states and therefore will not assist 40% of families who have interstate cases.

PLEASE SUPPORT H.R. 2189 AND H.R. 399.

HR 399 will help families entitled to child support by not allowing those who fail to pay child support to receive federal government benefits. We would hope that the language of the bill could be amended to include means tested benefits and expanded to include automatic attachment of federal funds paid out. For example: the medicaid payments that an Inspector General's recent report found was being paid to doctors who owed \$30 million in unpaid child support.

Thank you for your concern and efforts for children entitled to child support. It is long past due the time to set up an effective and fair national child support enforcement system. Only the public school system in this nation affects more children than the child support enforcement system. Please take action to make children as important as taxes.

State	Vendors	Amount Paid	Dates of Service	Services Provided
AL	No vendors were hired			
AK	No vendors were hired in the last two federal fiscal years			
AZ	Maximus	\$5,870,959	3-22-91-7-15-93	Financial Reconciliation, extraction of demographic data, data entry of demographic data, data conversion documentation
	Policy Studies Inc	\$3,010,770 through 9/97	3/1/94-2/28/98	Full service child support office including establishment of paternity, establishment of child support and medical support orders, enforcement of child support/medical support orders, collection, debt management, receipt and credit of child support payments, interstate case processing, review and adjustments of existing cases, legal representation of the Department in IV-D cases and bankruptcy cases, provision of statistical information.
	Lockheed Martin IMS	\$95,654 through 8/97	5/1/97-4/30/97	Centralized payment receiving and posting services

State	Vendors	Amount Paid	Dates of Service	Services Provided
AR	Lockheed Martin IMS	\$3,578,146 \$5,291,988	10/1/95-6/30/97 renewed unit 6/30/98	Centralized payment unit and posting services
	Policy Studies Inc	\$650,000	10/1/97-6/30/99	New Hire Reporting database
		\$10,000	8/16/96-10/1/97	Review and recommendations of AR's child support guidelines
	Maximus	\$64,349.36	7/14/97-10/15/97	Development of AR's Advance Plan Document which details the changes to the automated computer system due to welfare reform implementation
CA	Lockheed Martin IMS	\$47,000,000 of <sup>a</sup> \$100,000,000 contract	12/92-present	Development of an automated child support computer system
CO	No response			
CT	Lockheed Martin IMS	\$106,350	10/1/95- present	Collection of arrears
	Maximus	\$150,000	1/1/96-6/30/97	Feasibility studies for: (1) outreach, (2) Parent's Fair Share, and (3) non-AFDC privatization

State	Vendors	Amount Paid	Dates of Service	Services Provided
DE	Maximus Policy Studies Inc	\$129,969 \$4,600 \$74,488	8/15/90-2/7/91 1/1/94-3/31/94 4/1/96-9/30/96	Develop policies and procedures manual Consultant on regulatory development Consultant on legislation implementation
DC	No response			
FL	Lockheed Martin IMS	\$6,151,804	12/15/95-12/14/97 16% of what they collect, option to renew through 1998	Location and collection services
GA	Maximus Policy Studies Inc	\$ \$8,536,813	10/1/97- 6/1/94- 4/1/96- 7/1/94-7/1/96	Full service child support services for non-TANF clients in Augusta, Columbus, and Valdosta, GA Full service child support services for non-TANF clients in Fulton County Full service child support services for non-TANF clients in Cobb and Dekalb Counties Location services
GU	No vendors were hired			

State	Vendors	Amount Paid	Dates of Service	Services Provided
HI	Maximus	\$2,874,132.89	9/11/91-present	Monitors the activities of the contractor who has been contracted by HI to develop and implement the automated child support system. Provides resources in functional areas such as conversion, testing, and deliverables review.
	Lockheed Martin IMS	\$9,103,447.23	12/20/97-present	Complete the design, development, and implementation of the automated child support system contract that was defaulted by the original system contractor-Network Six.
		\$3,821,883.22	10/1/93-present	Provide lockbox and customer service as required under the terms and conditions of the contract entered into with the CSEA.
ID	Maximus	\$346,168.45	10/24/96-7/31/97	Assess current business practices to identify changes necessary to PRWORA, identify business partners that need to be included in the planning and implementation of welfare reform requirements, research laws and practices in other states related to their implementation of welfare reform, identify implementation options for the state, assist in developing legislation necessary for implementation of welfare reform, assist in developing implementation work plans, assist in a complete rewrite of the state procedures and reference manual.

State	Vendors	Amount Paid	Dates of Service	Services Provided
IL	Maximus	\$813,448 payment through 9/97	6/23/97-2/21/99	Income withholding and support order modification
	Lockheed Martin IMS	\$861,939	11/1/94-12/31/97	Private collection services for collections of past due child support
IN	No vendors were hired			
IA	Policy Study Inc	\$990,000 \$2,100,000 \$175,000 per month	1/1/96-6/30/97 7/1/97-6/30/98 1996-2001	Development and management of a statewide customer service unit Paternity and order establishment services in 3 offices in IA
KS	Maximus	\$2,200,000 through 8/97 has been paid	1/1/97-present	Provides enforcement services for 8 of the 31 judicial districts while state employees provide establishment services in those districts. The amount of money paid to Maximus is based on their bid of a percentage of amounts collected. The bid varies from district to district.
KY	No vendors were hired			
LA	No vendors were hired			
ME	No response			

State	Vendors	Amount Paid	Dates of Service	Services Provided
MD	Lockheed Martin IMS	\$70,130,820	7/1/97-6/30/97	Privatized full child support services in Baltimore City, and Queen Anne's County
		\$1,979,208	7/1/97-6/30/00	New Hire reporting database development
		\$795,754	11/1/97-10/31/97	Debt collection
MA	Policy Studies Inc	\$647,935	5/2/94-8/31/96	Design and implement a Paternity Acknowledgment Program in hospitals and birthing centers in MA
		\$4,776,742	9/1/92-10/1/95	Lockbox and banking services
	\$160,705- 20% of collected	11/12/92-5/11/96	Collection services for delinquent arrears only child support cases	
	\$13,200,000	4/15/93-12/31/97	Design, development, and implementation of COMETS (Commonwealth of Massachusetts Enforcement Tracking System), MA's automated child support computer system	
	\$1,954,108	1/15/92-12/31/97	Contract monitoring and quality assurance during the development and implementation of COMETS	
	Maximus	\$2,903,290	8/16/96-8/15/98	Cooperation Compliance Intervention Contract - Contractor shall interview custodial parents to obtain information about identity of non-custodial parents to establish paternity and child support orders.

State	Vendors	Amount Paid	Dates of Service	Services Provided
MI	No response			
MN	No response			
MS	Maximus	\$344,500 per month	4/1/97-3/31/99	Child support enforcement activities for Hinds and Warren Counties
MO	Maximus	paid \$391,650 since 4/1/97 average of \$70,000 per month	4/1/97-present	Consulting services
MT	Maximus	\$1,006,990 \$1,362,044	8/1/95-6/30/97 contract renewed for another two years 7/1/97-6/30/99	Implementation and management of MT's customer service unit
NE	Policy Studies Inc	\$15,774,642	3/93-present	Full service child support enforcement agency in Douglas Co
NV	Maximus	\$35,000	12/96-10/97	Review and recommendations of NV's child support provisions for their welfare reform implementation plan
NH	No vendors were hired			
NJ	No response			
NM	Policy Studies Inc	\$239,706	10/1/97-9/30/98	New Hire Directory development

State	Vendors	Amount Paid	Dates of Service	Services Provided
NY	Policy Studies Inc	\$3,000	1996	Provided one day training to staff on paternity acknowledgment process
	Lockheed Martin IMS	\$20,000,000	1992-present	Performs centralized collections and disbursement unit as well a new hire registry
NC	Maximus	\$421,996	Unknown	Consultant on development of automated computer system regarding data conversion
ND	No vendors were hired			
OH	Policy Studies Inc	\$54,884	6/1/92-12/1/92	Review of OH's child support guidelines
		\$22,230	12/18/96-6/30/97	Review of OH's child support guidelines
		\$2,839,987	11/1/97-6/30/99	Implementation of centralized paternity registry to provide data entry of paternity affidavits, declarations, and court entries
OK	Policy Studies Inc	\$54,487	3/25/97-7/24/97	Evaluation of OK's child support enforcement customer service program and made recommendations for improvement
		\$31,739 pending pmt		
		\$87,194	10/4/96	Analysis of OK's payment and disbursement system and made recommendations for conversion to centralized payment processing
		\$1,063,484	8/24/94-8/23/95	Child support system development
	Maximus	\$102,000	8/24/95-12/23/9	Child support system development contract monitor

State	Vendors	Amount Paid	Dates of Service	Services Provided
OR	Policy Studies Inc	\$23,000	88-91	Monitoring and evaluation of pilot project for periodically reviewing and updating OR's child support orders
		\$5,000	93-94	Study of OR's child support guidelines formula and recommended amendments and revisions
		\$16,334	93-94	Study and report on estimating the benefits of collecting interest on child support arrears
PA	Policy Studies Inc	\$34,190	5/1/97-12/31/97	Federally mandated child support guidelines study
	Lockheed Martin IMS	\$77,705,261	6/1/93-until computer is installed 1 yr warranty	Automated child support computer system development and implementation
PR	No response			
RI	Policy Studies Inc	\$7,000	6/1/97-6/30/97	Assist with the revision of RI's child support guideline-update of tax tables and income and expense forms
SC	No response			
SD	Policy Studies Inc	\$11,800	1996	Drafted SD's new child support guidelines

State	Vendors	Amount Paid	Dates of Service	Services Provided
TN	Maximus	\$2,306,834-% of collections	7/1/92-present	Full service child support establishment and enforcement services for the 7 <sup>th</sup> <b>Judicial District</b> except collection and disbursement which is done by the statewide automated computer system.
		\$10,067,015-% of collections	7/1/93-present	Full service child support establishment and enforcement services for the 20 <sup>th</sup> <b>Judicial District</b> except collection and disbursement which is done by the statewide automated computer system.
	Policy Studies Inc	\$4,939,318-% of collections	7/1/91-present	Full service child support establishment and enforcement services for the 10 <sup>th</sup> <b>Judicial District</b> except collection and disbursement which is done by the statewide automated computer system.
		\$469,184-% of collections	7/1/97-present	Full service child support establishment and enforcement services for the 21 <sup>st</sup> <b>Judicial District</b> except collection and disbursement which is done by the statewide automated computer system.
		\$1,464,833-% of collections	1/1/95-present	Full service child support establishment and enforcement services for the 27 <sup>th</sup> <b>Judicial District</b> except collection and disbursement which is done by the statewide automated computer system.
		\$2,847,708-% of collections	2/1/92-present	Full service child support establishment and enforcement services for the 29 <sup>th</sup> <b>Judicial District</b> except collection and disbursement which is done by the statewide automated computer system.

State	Vendors	Amount Paid	Dates of Service	Services Provided
TX	Lockheed Martin IMS	\$7,000,000	1/1/93-6/30/97	Contracted for child support collection services- Lockheed was paid a percentage of collections
UT	Lockheed Martin IMS	FY96/97 \$96,454.22 14.95% on the dollar	12/1/94-9/1/97	Child support AFDC arrears only case collection
VT	No response			
VI	No response			
V/A	Policy Studies	\$2,000 \$1,900 \$500 \$414,115 \$7,446,204	6/92-9/92 4/95-5/95 8/96 1/97-1/99 2/94-1/99	Consultant services Consultant services Registration fees New Hire reporting Operation of two full service offices
WA	No vendors were hired			

State	Vendors	Amount Paid	Dates of Service	Services Provided
WV	Maximus	\$97,621.35 \$132,275.99	1995 1996	Consulting services to facilitate the transition of the OSCAR system from NSI to the state
	Policy Studies Inc	\$20,082	1996-1997	To provide expert guidance in review and alteration of the existing child support guidelines
		\$1,738,160.04	1997	To establish and operate a full service child support enforcement office to serve Kanawha County, WV
		\$73,000	1997	To perform the analysis of the financial process of the Child Support Enforcement Division, including the financial component of the OSCAR child support enforcement system.
WI	No vendors were hired			
WY	Policy Studies Inc	FY96 \$2,110,543.01 FY 97 \$2,398,719.80 FY98 \$398,666	6/19/95-present	Full child support services in three of the nine judicial districts in the state. They provide services in the local offices for intake, locate, establishment, enforcement, and modification and are required to use the automated statewide system.



The Association for Children for Enforcement of Support, Inc.

ACES, the Association for Children for the Enforcement of Support, does not, and never has received any federal funding for any of our programs or projects.

*Geraldine Jensen*  
Geraldine Jensen  
President

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### **GERALDINE JENSEN**

Geraldine Jensen has over thirteen years of experience as President and creator of ACES, Association for Children for Enforcement of Support, Inc. a national non-profit organization. Ms. Jensen has lectured across the U.S. for professional associations, universities, colleges and other organizations. Through her work she has testified before the U.S. Congress, has been featured on national TV programs, radio shows, and major U.S. publications. In March 1995, ABC aired the made-for-TV movie "Abandoned and Deceived", depicting Ms. Jensen's life and the creation of ACES.

Ms. Jensen's activist work has led to her being appointed by President Bush to the U.S. Commission on Interstate Child Support, named to the Federal Child Support Advisory Committee by the U.S. Department of Health and Human Services, appointed to the Ohio Governor's Commission on Child Support Enforcement, and to the Ohio's Joint Legislative Domestic Relations Task Force.

#### Experience

Author of 'How to Collect Child Support' Longmeadow Press, 1991. Has written and produced many manuals, guidebooks, news articles and papers; oversees and assists in the publication of ACES newsletters and publications.

Established a national organization which works with 35.00 members. ACES provides over 100.000 families per year with information and assistance.

Manages a staff of nine, plus over 4,500 volunteers and an annual budget of over \$500.000.

Raises funds from membership, private foundations, major donors and special events.

Develops and manages programs within the organization.

Plans, manages and carries out 'How to Collect Child Support' seminars throughout the country.

Provides organizing assistance to over 350 local grassroots chapters of ACES.

Develops and participates in news conferences. and has conducted hundreds of interviews for all forms of media.

Developed timeframes for government child support agencies to follow as part of Child Support Advisory Committee.

#### Awards

Elizabeth B. Boyer Award, Women's Equity Action League, 1997  
 Gleitsman Citizen Activist Award 1996  
 YWCA of Greater Toledo - Woman of Achievement 1996  
 Urban All-American, 1994  
 Martin Luther King Award 1990  
 Ohio Women of Achievement Award 1989  
 Susan B. Anthony Award, NOW Education and Legal Fund 1989  
 Ohio Women's Hall of Fame; Ohio Governor's Award 1989  
 Jefferson Award for Community Service, Junior League, 1988  
 Citizens Advocate Award 1987

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Mr. BARRETT. Thank you very much. Mr. Trom.

Mr. TROM. Chairman Barrett and committee members, good afternoon. My name is Stan Trom. I'm the director of the child support division in Ventura County, CA. I'm honored today to be here representing Ventura District Attorney Mike Bradberry and the California District Attorney's Association. In this capacity, I am speaking on behalf of California's 58 elected district attorneys.

First, I've worked in this field for approximately 25 years, 3 years in private practice, and I served two terms as the elected district attorney in Ventura, CA. California prosecutors recognize that privatization of child support services has met with some success in a limited number of jurisdictions throughout this country. We do not, however, believe that it is a panacea for solving the inherent difficulties and challenges associated with the collection of child support in California. Privatization does raise some concerns and let me explain why.

In California, locally elected district attorneys provide the best means to deliver the service. District attorneys are directly accountable to the electorate for any failure of the IV-D program. They possess the unique combination of administrative, investigative, and prosecutorial authority necessary to perform this difficult public service. The inherent difficulties of this program are reflected in the fact that of California's 2.2 million open child support cases, about 48.5 percent or about 1 million cases are extraordinarily difficult cases to collect because the absent parent is either out of the State or country, in jail or in prison, or on welfare or other public assistance, or there's no information on where the parent is. Thus, a sizable portion of California's child support cases present significant collection obstacles and would not be pursued if analyzed on a simple profit-loss basis.

California prosecutors recent experience with a private vendor in the automation area represents a second reason for our concern about privatization in California. California contracted with the private vendor in 1991 for the development of its statewide automated child support system, SACSS. Now, some 6 years later, after an expenditure of over \$100 million, this system is widely viewed as a failure. The State of California has given the vendor a notice to correct the deficiencies. It is an unknown if negotiations between the State and the vendor will result in a supplemental contract or lead to litigation.

Both Ventura and San Francisco converted to SACSS on November 1, 1996. That's about 1 year ago. We were the largest and the last counties to join the system. From its inception, district attorneys complained that the system simply didn't work. San Francisco County left the system in May and Ventura announced in June that we intend to leave the system. Statewide, only 13 counties continue to fully use SACSS. They collectively represent only 4.3 percent of California's caseload. When Ventura and Placer Counties leave the system, there will be only 1.7 percent of California's caseload on that system.

The problems with SACSS are extensive and have a profound negative impact on our ability to deliver services. The most pressing problems involve the fundamentally flawed accounting system. For example, in one recent case, and this occurred on September

3, the system took an arrears balance of more than \$17,000 and changed it to zero. Then, when a payment came in, it showed a credit balance on the account. This exact problem has occurred in more than 190 cases in Ventura County alone.

A critical test of this system has been its impact on our ultimate goal: the collection of child support. Ventura County has historically experienced child support collection increases that have ranged from 12 to 18 percent annually. During the first year on SACSS, our collection increase was only 2 percent.

More importantly, in the last 2 months of our operation, our collections have actually decreased compared to the comparable period last year. We are convinced that the problems associated with SACSS are solely the responsibility for this decline in our rate of collections.

From the outset, SACSS was viewed as an effort in privatization that involved a partnership amongst the vendor, the State, the Department of Social Services, and district attorneys. While we acknowledge that all of these partners bear some responsibility for SACSS' failure, we believe the vendor bears the lion's share because they deliver product. The vendor's complete inability to correct system defects that were first identified more than a year ago, in our view, evidences their failure to build and implement an effective system. An independent validation and verification firm, that's been mentioned here, Logicon, hired by the State reached a similar conclusion.

California's prosecutors have greatly appreciated Congress' efforts to strengthen the child support program. My written testimony outlines our desires in areas where we could work collectively together to create additional improvements. Thank you for the opportunity to address this problem and I'd be happy to answer any questions.

[The prepared statement of Mr. Trom follows:]

TESTIMONY OF  
C. STANLEY TROM  
VENTURA COUNTY DISTRICT ATTORNEY'S OFFICE  
CHILD SUPPORT DIVISION DIRECTOR  
BEFORE THE  
HOUSE OF REPRESENTATIVES  
GOVERNMENT REFORM AND OVERSIGHT HUMAN RESOURCES SUBCOMMITTEE  
TUESDAY, NOVEMBER 4, 1997

Chairman Shays and Committee Members, good afternoon. My name is Stan Trom and I currently serve as director of the Child Support Division in the District Attorney's Office of Ventura County, California. Thank you for the opportunity to testify on the issue of privatization in the child support arena. I am honored today to be here representing Ventura County District Attorney Michael D. Bradbury and the California District Attorneys Association. In this capacity, I am speaking on behalf of California's 58 elected district attorneys and over 2,400 deputy prosecutors statewide.

As prosecutors, we recognize the privatization of child support services has met with some success in a limited number of jurisdictions throughout this country. We do not, however, believe it is a panacea for solving the inherent difficulties and challenges associated with the collection of child support in California. Privatization does raise some concerns and let me explain why.

First, in California, locally elected district attorneys provide the best means to deliver this service to the children and families that depend upon child support payments. Unlike a private vendor, district attorneys are directly accountable to the electorate for any failure of their IV-D program. Moreover, district attorneys possess the unique combination of administrative, investigative, and prosecutorial authority necessary to perform this difficult public service. Child support collection is unlike any other type of debt collection service typically performed by private vendors. It is a program that must ideally combine debt collection, customer service, law enforcement investigation, and criminal prosecution to ensure maximum effectiveness. Figures relating to California's child support caseload reflect the inherent difficulties associated with this important public service:

- A recent study revealed that of California's 2.2 million open child support cases, 48.5 percent, or approximately 1 million cases, are virtually impossible to collect because the absent parent is out of the state or country, in jail or prison, on welfare or other public assistance, or there is no information upon which to search for the parent.
- Notwithstanding these difficulties, last year California child support collections increased by 19 percent, which translated into \$1.1 billion collected for the year, or \$21 million per week. Over the last five years, child support collections have increased by 54 percent in California.

A sizable portion of California's child support cases present significant collection obstacles and would not be pursued if analyzed on a simple profit/loss basis. While we recognize that contracts with private vendors could compel pursuing these cases, we believe the volume of difficult cases in California would make it impractical for a private vendor to do so.

California prosecutors' recent experience with a private vendor in the automation area represents the second reason for our opposition to privatization. As you know, federal legislation enacted in 1988 required every state to implement a single, statewide child support computer system. In California, the Department of Social Services contracted with a private vendor in 1991 for the development of its statewide system known as SACSS. Now, some six years later after the expenditure of over \$100 million, this system is widely viewed as a complete failure.

As a consequence, the State of California has given the vendor a notice to correct deficiencies in the system. At the current time, the state and vendor are engaged in contract negotiations. It is unknown at this time whether these negotiations will result in a supplemental agreement or lead to litigation.

In an effort to comply with federal law, Ventura County converted to SACSS on November 1, 1996. San Francisco County, which has a comparable child support caseload to that of Ventura, converted to SACSS on same date. In doing so, San Francisco and Ventura Counties became the largest counties to implement SACSS and joined the other 21 counties that implemented the system over the preceding 12 months.

From the inception of SACSS, district attorneys in converted counties have complained the system simply does not work. As a result, San Francisco County left SACSS in May of this year to return to their preexisting system. District Attorney Michael Bradbury announced in June that Ventura County would abandon the system as soon as a suitable alternative could be found. Statewide only 13 counties continue to fully use SACSS.

The problems with SACSS are extensive and have a profound negative impact on our ability to deliver services. The most pressing problems involve the fundamentally flawed accounting system. As you know, the ability to accurately track child support payments and corresponding disbursement is a core function of any successful child support program. Regrettably, the SACSS accounting system cannot be relied upon.

For example, in one case the system took an arrears balance of more than \$17,000 and changed it to \$0. The system not only eliminated the debt, but showed a credit balance when the next payment was received. This exact problem has occurred in 190 other cases. The system also incorrectly holds some payments received so that they cannot be disbursed to the families rightfully entitled to receive support. This most recent *receipts on hold* problem has yet to be corrected, even though it was first identified in June of this year.

A critical test of this system has been its impact on our ultimate goal: the collection of child support. Ventura County has historically experienced increases in child support collections that ranged from 12 to 18 percent annually. During our first year on SACSS, our collections increased by only

2 percent. Most importantly, in the last two months our child support receipts actually decreased in comparison to the same period last year. We are convinced that the problems associated with SACSS are solely responsible for this decline in our rate of increased collections. Moreover, we understand other SACSS counties are experiencing the same SACSS-related collection problems.

From the outset, SACSS was viewed as an effort in privatization that involved a partnership among the vendor, the State Department of Social Services, and district attorneys. While we acknowledge that all of these partners bear some responsibility for SACSS failure, we believe the vendor bears the lion's share because they delivered a flawed product. The vendor's complete inability to correct system defects that were first identified more than a year ago, in our view, evidences their failure to build and implement an adequate system. An independent validation and verification firm hired by the state to assess SACSS reached a similar conclusion.

Notwithstanding our concern about federal or state legislation in the privatization area in the wake of welfare reform, California prosecutors recognize that congress and state legislatures have an important role in ensuring the IV-D program's success. Indeed, we have greatly appreciated congress's efforts to strengthen this program and adopt incentive standards to ensure delivery of the best possible child support services. To assist our efforts to do a better job in collecting child support, California prosecutors would welcome additional federal legislation in several areas:

- First, Congress wisely made the failure to provide child support a federal crime. Unfortunately, the state legislature in California, despite our repeated requests, has

refused to enact a similar felony offense under California law. California prosecutors would welcome efforts by Congress to encourage state legislatures to make the failure to provide support a felony crime. This single change in the law represents an important symbolic recognition of the seriousness of one's failure to provide for his or her children. Moreover, it is a change that would directly enhance our ability to enforce child support obligations by eliminating the artificial barriers that state lines and national boundaries often present to effective child support enforcement.

- Second, laws affecting child support automation must be updated to reflect significant improvements in the state of technology. The requirement that states adopt a single, statewide automated system is currently being interpreted by the Health and Human Services Agency to mean one system and one vendor. This unduly narrow interpretation prevents states from using modern technology to save automation costs by interfacing existing computer systems that serve the public well.
- Finally, contemplated changes in incentive funding and penalties for failure to meet the automation deadline are like the sword of Damocles hanging over the head of California's child support program and the families we serve. We recognize that there must be a penalty for failure to meet the automation deadline and that incentive formulas must change to ensure fairness in funding for all states. California prosecutors have a great interest in these issues and look forward to working

cooperatively with Congress to devise a solution next January that will encourage, not hinder, effective child support enforcement in California.

It has been a great honor to be here and present testimony on this subject today and I thank you for this privilege. I would now be happy to answer any questions you may have on this subject.

Mr. BARRETT. Thank you very much.

Mr. Towns.

Mr. TOWNS. Thank you very much. Let me begin by first thanking both of you for your testimony. Mr. Trom, in your testimony you indicated the problems with the Lockheed Martin system were extensive. Can you tell me if the problems have impacted your ability to get payments to the families?

Mr. TROM. Yes, they have. Another problem we've had is that payments get placed on hold. We try to eliminate the technical problem and the hold and the system just recaptures the money and it doesn't go out to the families. Now, that doesn't happen in all payment, but it happens in enough payments where we're concerned that families who we receive money for don't immediately get their payments. And that is—that currently happens in our system, even though we've been on it for over a year.

Mr. TOWNS. Thank you. I'd like to go back to—over a few points in your testimony. You said that 23 counties have tried the program developed by Lockheed Martin for child support enforcement. Can you tell me, if all those counties are continuing to use this system or have some abandoned it, are the counties remaining—are they staying because they are just extremely satisfied?

Mr. TROM. Well, there currently are 13 counties on the system that fully use this system. Ventura county is the largest county on the system. We have about 37,000 cases. We've announced our intent to leave. So, we're on the system, but we're not satisfied. The next largest county is Placer with around 18,000 cases. They're still on the system and they're not satisfied. There are several other counties in that same position. We have a difficulty once on the system in transferring to another environment. So, we're not staying on the system because we're satisfied, we're staying on the system because we haven't been able to get off.

Mr. TOWNS. You're stuck?

Mr. TROM. Yes.

Mr. TOWNS. Ms. Jensen, do you foresee any privacy concerns in using the IRS to collect child support?

Ms. JENSEN. No, because people already know that the IRS has your income information on file and that they keep it confidential, so that will give them a sense of security. Also, we've had payroll deduction in place in most States since 1990 working quite well and so, most Americans who are paying are used to the support being payroll-deducted. It would allow us to get to the rest of the Americans who don't pay their support and also be able to collect through Social Security, self-employment taxes from people who are self-employed.

Mr. TOWNS. I guess I want to ask both of you this: Do you believe that there may be special requirements and sensitivity and knowledge in the social service area in general and the child support area in particular that are not possessed by private companies?

Ms. JENSEN. One of the concerns that we have is if a private company is in charge of intake and then is paid by collections, so they get a commission, that people may not ever get their case open because they would say, well, this is someone we can't ever collect for or they might be put on the back track because they can't get any money off of that person's case. And it might be true

that that might be a difficult case or it might only be \$50 a month that they'll ever collect for that family but, for many low-income families, that even small payment is very important and much needed.

Mr. TROM. I think there is special sensitivity in this area. That's not to say that private companies couldn't train their employees to that sensitivity. I think the larger issue is the large volume of marginal cases that take extraordinary resources and the question is, who is willing to put those resources in when you're looking at a profit motive?

Mr. TOWNS. I see the red light is on. Let me just ask this one more—there's some concern about a revolving door between State social service agencies and private companies that obtain State social service contracts. Are either of you troubled by this and do you see any particular risk or benefit that may result from the personnel exchange?

Mr. TROM. I have not experienced that. In California, we have limited privatization so I can't personally comment on that. I don't know of anybody personally who has transferred from either government to private industry or private industry back.

Mr. TOWNS. Right.

Ms. JENSEN. We've certainly seen quite a few of the State directors and people who were high up in management go to work for the private companies and then seen those private companies get a contract with that State, so that we don't see many States that have a moratorium between the time that you go to work for the private vendor and when you can interact and it would seem like there should be some kind of rule or regulation. We also see that they offer them a lot more money and it kind of creates a brain-drain on the government where we lose people who are good just because they're offered so much more money.

Mr. TOWNS. Very quickly, let me just—OK, what do you believe about the withholding of Federal benefits to someone who is delinquent in child support payments? I guess you heard the testimony earlier today. What are your views on that?

Mr. TROM. Personally, I think in the child support field, you have to adopt every remedy you can to collect child support. The issue is what are—how do you implement that remedy and I think, with that particular bill, there are probably some details to be worked out. But the general principle of intercepting government benefits to people who owe child support is one that I would advocate enforcing that principle but working out a fair way to implement that.

Mr. TOWNS. Ms. Jensen, you want to comment on that? Thank you.

Ms. JENSEN. We're also very supportive of the concept. We have some concerns about means-tested benefits, like TANF and SSI, that they should be excluded. And then also that the way it's currently worded would not expand to that recent finding of there were doctors who received Medicaid money for taking care of patients and they owed \$30 million in child support. So, in one way it needs to be expanded, in another way narrowed. But, overall, we have a system right now, when you sign up for a student loan, you check off a box that you have signed up for the draft, and it seems

to me that we should at least have a box that they check off that they're current in their child support obligations.

Mr. TOWNS. Let me thank both of you. You've been extremely helpful to me. So, I want to thank both of you for your testimony. On that note, Mr. Chairman, I know I have nothing to yield back but I yield.

Mr. BARRETT. Thank you, sir. [Laughter.]

Ms. JENSEN, what is your group? I'm—

Ms. JENSEN. ACES, the Association for Children for Enforcement of Support, is made up of families who are owed child support payments. We have 350 chapters in 48 States, 35,000 members. And we are the main users of the IV-D child support agencies around the country because our average member only earns about \$12,000 a year.

Mr. BARRETT. You're exclusively a families group, is that correct?

Ms. JENSEN. Right, families who are owed support payments.

Mr. BARRETT. OK. You heard the testimony from the panel before you. What, if anything, sort of jumped out at you where you thought no way, or I disagree with that?

Ms. JENSEN. I think the thing that jumped out at me most was when they were describing how they very much look like the government and that's true and that causes families the biggest problems because if you go into the agency, you don't know it's a private vendor and it's not the government and if you have a problem, you go to them to complain and you don't know you could call up your State child support or welfare agency and report them. And, it seems to me, in a country where you walk in a fast-food restaurant and there's a sign that says operated by "X" company and a phone number, that we should do at least that much for families who go into this agency for help with their child support case.

Mr. BARRETT. I'm sorry, so you're saying that we should say that it's a private agency or not have the private agency do it?

Ms. JENSEN. Well, I think that if you're going to use a private agency, at the very least people should be notified. And then, I think, the next decision is you have to decide what you use private agencies for. We found that full-service just isn't any better than the government and just as an additional barrier.

Mr. BARRETT. What is the barrier? What's the additional barrier?

Ms. JENSEN. Well, if you go there for help and you don't get help because only 20 percent of the people are getting payments, whether its the government or a private agency, you don't have anyone to hold accountable, where, if it's the government, you at least can vote against the person who is running the agency. But, against a private vendor, you just don't have any power as a citizen, especially as a low-income citizen.

Mr. BARRETT. OK. Mr. Trom.

Mr. TROM. In response to your question, the most interesting thing I thought about the panel was Mr. Melia's comment that one of the three advantages that the private industry had was technology. My county had an effective child support system 1 year ago and the private vendor's technology have set up backward. So, I don't necessarily agree that technology is an advantage that private industry has. Certainly, it negatively impacted us. It's clear technology is needed to move this program forward. Anybody can

see that with a massive number of cases. But we need technology that works and there's no benefit to where the source of technology is. You just need somebody that makes it work.

Mr. BARRETT. Did Congress make a mistake by requiring all the States to have the technology?

Mr. TROM. Absolutely. I think that the mistake was that everybody had to have one system and it had to be one system statewide and you had to transfer a system. So, I think absolutely that was a mistake.

Mr. BARRETT. Ms. Jensen.

Ms. JENSEN. I don't believe that that's the problem as much as the vendors know that they don't have to meet the deadline if the deadline was moved back from 1995 to 1997, they're now believing they can get it moved back again. When we talked to the vendors, they tell us that cost overruns are just normal and part of doing business with the government. Lockheed told us, for example, that while they had the same problem with the Los Angeles computer as with the SACSS system, and they just got more money from the Los Angeles Board of Commissioners and they fixed it. So, if California would just give them more money, they'll fix it, too. So, we see a lot of people using this as a cash cow and using an excuse because we all had to do it at the same time.

Mr. BARRETT. Well, I want to thank you both. It's been a long afternoon and I realize that you've sat through a lot of the hearing but I want to share Mr. Town's sentiments. I think that you've been very, very helpful and I think that the committee has gained from your testimony. Thank you for being here today.

Mr. TROM. Thank you.

Mr. BARRETT. That closes the hearing.

[Whereupon, at 4:56 p.m., the subcommittee was adjourned subject to the call of the Chair.]

[Additional information submitted for the hearing record follows:]

November 11, 1997

The Honorable Christopher Shays  
Chairman  
Committee on Government Reform and Oversight  
2157 Rayburn House Office Building  
Washington, DC 20515-6143

Dear Mr. Chairman:

Thank you for the opportunity to testify at last week's hearing regarding the use of private contracting to deliver social services. We at Policy Studies Inc (PSI) are justifiably proud of the performance we have achieved for the states in which we provide privatized child support enforcement services. At the present time these services are provided by PSI to fourteen states.

At the hearing Ms. Geraldine Jensen, of ACES provided both verbal and written testimony concerning Policy Studies Inc's (PSI) contracts to provide the full range of child support enforcement services for Douglas county, Nebraska and for the Arizona Counties of Yavapai and Santa Cruz. Douglas County includes the city of Omaha, and has the largest caseload of any county in Nebraska, whereas both of the Arizona Counties were underserved from distant state administered offices until the contract with PSI established local County offices for the first time. We would like to correct some of the impressions left by Ms. Jensen about PSI's operations and performance.

With regard to Omaha and Douglas County, in 1992, the year before PSI assumed responsibility for the caseload, Nebraska IV-D officials estimated that they had a nearly 15 year backlog in paternity establishment in Douglas County. The program established just 486 paternities in 1992. PSI established more than 6,500 paternities in the first four years of the contract, effectively eliminating the backlog, and has established 1,561 paternities in the first nine months of 1997.

This increase in paternity establishment has enabled us to more than triple the number of child support orders established each year in Douglas County. This year, we will collect approximately \$34 million in child support, compared to \$13 million in 1992 before PSI assumed responsibility for the operations.

Finally regarding Douglas County, Ms. Jensen stated that the cost of the PSI contract to the State of Nebraska is \$15.7 million. This figure is the total cost for the first four and one half years of the contract, an average of about \$3.5 million per year. The actual charge to the state is 13 percent of collections. Based on our internal analysis, this is considerably below the State's own cost to run the child support enforcement program in other jurisdictions in Nebraska.



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Similarly for Arizona, the cost figure of \$3 million provided by Ms. Jensen is a total cost for three and one half years, an average of less than \$1 million per year. We do not have comparable costs for the state run program in Arizona because of the multiple administrative structures in use. We do know that PSI has been successful, based on audits conducted by the state, in bringing program operations in the two counties into compliance with federal standards for the first time. In the first three years of our contract with Arizona PSI increased collections from \$1.8 million to more than \$3.7 million in the two counties for an average increase of 35 percent per year.

Two other elements of Ms. Jensen's testimony require response. She points out that the amount PSI has charged states for guideline review varies and she goes further to suggest that this should not be the case. In fact, Mr. Robert Williams, PSI President, is acknowledged to be the national expert on the subject and has been personally responsible for PSI's guidelines consulting work for more than 40 states. The amounts charged has differed simply because states have requested different levels of services, ranging from simple updates of tables, to detailed analyses, reports, and legislative testimony. States have expressed a very high level of satisfaction with PSI's work in this area.

Ms. Jensen asserts that private companies put more emphasis on increasing collections from paying cases than they do on obtaining collections from non-paying cases. As exemplified by our paternity establishment record in Omaha, PSI does not and will not engage in the type of "skimming" that is being alleged. We provide services to the entire caseload as demanded by federal and state requirements. PSI could never have achieved the performance that we have in terms of either collections or establishment if we operated as she suggests.

I hope this information will help committee members develop an accurate understanding of the role that private contracting can play in developing effective child support enforcement programs. Policy Studies Inc would be pleased to provide the Committee with additional information at any time.

Sincerely,



Robert Melia  
Vice President  
Policy Studies Inc.

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