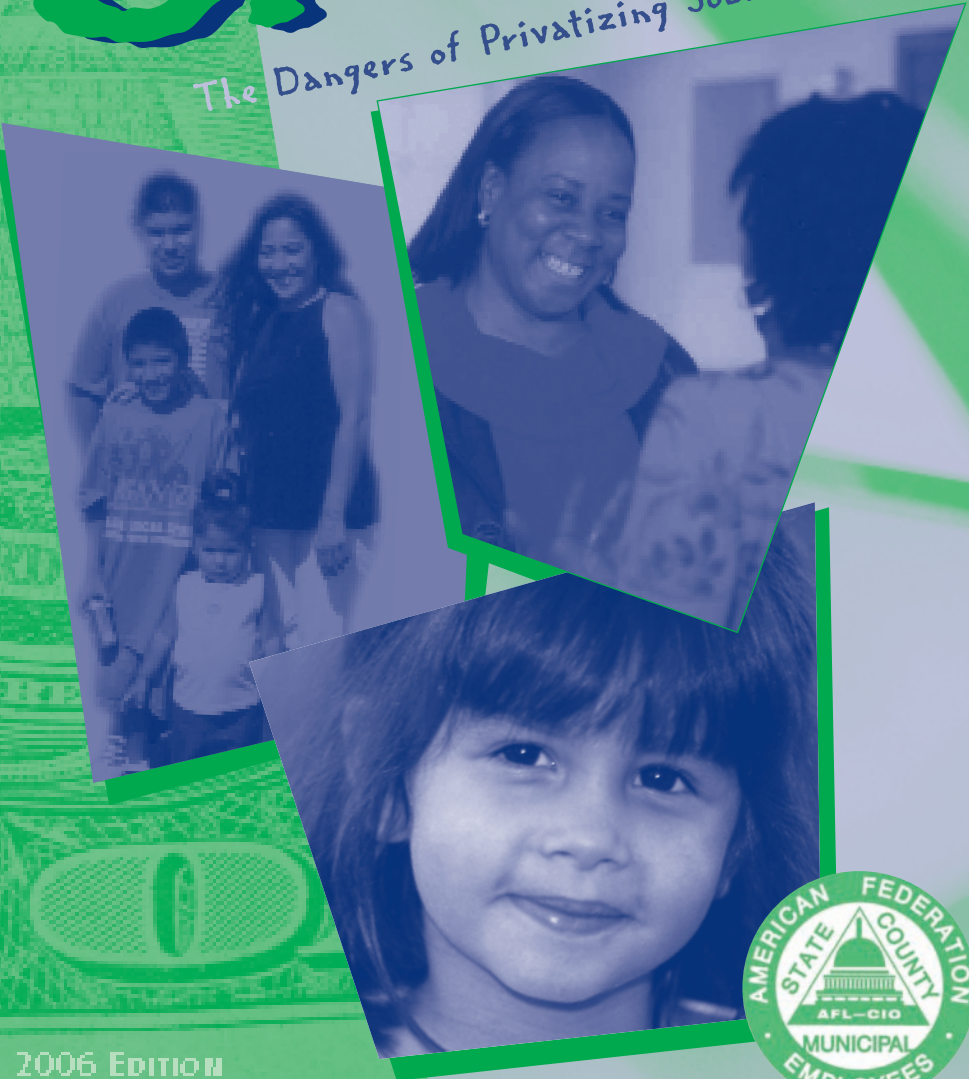


SAFETY NET

for

SALE

The Dangers of Privatizing Social Services



2006 Edition



Overview

SAFETY NET FOR SALE *The Dangers of Privatizing*

From the Great Depression to the Great Society and beyond, one of the core missions of government has been to provide a safety net for the poor and vulnerable. Government programs have helped families avoid major hardships, providing cash assistance and subsidizing food purchases and medical care, and have also encouraged self-sufficiency through counseling, job training and other services.

In the past decade there has been an aggressive effort to privatize much of this safety net, shifting responsibility for programs to non-government entities. Privatization has been attempted in cash assistance, child welfare services, child support collection, and job training and placement programs. Contractors have included large and small for-profit firms, as well as non-profit organizations.

The stated goal of privatization has usually been to reduce costs and improve services. The result has often been quite the opposite. The history of privatized social services is replete with cost overruns and service breakdowns. Meanwhile, critical decisions affecting our society's most vulnerable citizens have increasingly been based on short-term private incentives rather than long-term public interests.

AFSCME and its members embrace the goal of providing cost-effective, high-quality public services. When public sector managers and their employees work together toward this goal, service recipients, workers and taxpayers benefit, as numerous models of public sector innovation indicate. Public employers should treat workers as assets to develop, not costs to cut.

Eligibility Determination

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 repealed Aid to Families with Dependent Children, the federal cash assistance program, and replaced it with Temporary Assistance for Needy Families (TANF), a cash assistance program primarily operated by the individual states.

Before that, the core function of deciding who qualified for federal cash benefits had to be performed by public agency staff working under merit personnel systems. These systems were designed to create a professional civil service, largely protected from political whims.

Under the 1996 law, however, eligibility determination for TANF can be contracted out to private organizations. These organizations, which can include for-profit and non-profit entities, are not directly accountable to the public. In most states freedom of information and open records acts do not apply to contractors, making it difficult to determine how public funds are being spent.

Few states have actually privatized TANF administration, in part because of the merit system protections still in place for the related Food Stamp and Medicaid programs. The few states that have privatized TANF have done so only for specific regions, not the entire state. States that have experimented with TANF privatization have experienced problems and abuses.

And corporations have found a way to get around federal restrictions on privatized eligibility determination for food stamps and Medicaid; they now contract with states to pre-screen or predetermine applicants for eligibility. Both Texas and Florida have privatized prescreening for public benefits, closed public offices, and set up call centers using the 2-1-1 government information line where private contractor staff take initial applications and send them to the public agency for final certification. Many states are studying this model, frequently referred to as “modernization,” very closely. This model erodes the rights of applicants and the public nature of eligibility determination because the corporations determine whether an application ever gets submitted to a public agency. This model also assumes clients can take an active role in the process by using the Internet or a phone system. Access to benefits is threatened, especially for clients who are elderly or those with special needs.

The privatization of welfare eligibility determination, and food stamp and Medicaid predetermination, even on a small scale, represents a fundamental shift in delivering income support to low-income populations. Large, for-profit corporations may have strong financial incentives to turn away recipients or provide them with inadequate services, with little public oversight. Especially if contractors are paid set fees for program administration, they may see some services as avoidable costs, and cutting back may help their bottom lines.

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Child Welfare

Chronic underfunding, high caseloads and high-profile failures have plagued child welfare for many years and, predictable and sadly, avoidable tragedies have occurred as a result.

Partly in response to these problems, there are efforts to privatize child welfare functions and to substitute private settings for public custody of children whenever possible. Unfortunately, many of these efforts have compromised government accountability, while compounding the problems facing at-risk kids.

Florida privatized its child welfare system even though three of the initial five pilot studies failed. The state agency does initial child-abuse investigations, but once a child is in the public system, the responsibility for services transfers to a community-based lead agency. It was expected that local non-profit groups would take over the functions, but for-profit companies stand to make millions through their takeover of some of the non-profit agencies operating child welfare services in Florida.

Child Support Collection

The 1996 welfare law made key changes in efforts to collect child support from non-custodial parents. It required states to establish automated registries of child support court orders and to cross-reference them with employee lists so that parents owing support could be located and required to fulfill their obligations.

... many of these efforts have compromised government accountability, while compounding the problems facing at-risk kids.

Statewide computer systems were mandated to be in place by October 1, 1997. Many states contracted out this function but have had trouble with contractors, including cost overruns, poor performance and an apparent inability to deliver the promised services.

Information Technology

Child support is one of several areas in which jurisdictions have sought outside expertise for information technology. State and local governments increasingly need to maintain complex data applications to track recipients of other programs as well.

In fact, technology is a major entry point for private companies into the social services “market.” While some firms have expertise not readily available in the public sector, governments should be wary of turning over their confidential records and information infrastructure to these firms. Jurisdictions may become vulnerable when they lose the ability to deliver services, and companies may capitalize on this when renewing contracts.

Technology usually results in staff cuts and, depending on how it is implemented, may impose barriers to services for the elderly, people with disabilities or language access problems, or people lacking computer skills. For instance, many states are now making automated systems central to their employment service functions (matching job seekers to available jobs, as well as training and counseling job seekers), so that personal contact with trained staff is hard to come by.



State and local governments must graft entire new bureaucracies onto existing ones, in order to truly monitor contractor behavior.

Unemployment insurance (UI) processing is also being heavily automated, with filing of UI claims increasingly done by phone or on the Internet. These methods may help some claimants and job seekers, but they put those most in need of hands-on help at a disadvantage. And, ironically, since computerized information can be processed anywhere in the world, many of the services meant to help those in need are being performed overseas.

Many states have outsourced work to companies that offshore the work, using subcontractors in other countries to answer calls from Food Stamp or welfare recipients with questions about their benefits. A 2005 survey indicated 31 states' contractors offshored the Food Stamp call center functions overseas, and 16 states' contractors offshored TANF work. Thus, a Food Stamp recipient in Virginia might have a question about her benefits answered by a worker in India. Two states have passed legislation prohibiting state outsourcing overseas while others have decided to bring back the work to the state.

State efforts to automate services usually mean heavy reliance on contractors, either to build and maintain computer systems or to actively manage programs. Although federal laws and regulations require that UI and some job matching functions remain publicly run, contractors have taken over many peripheral services or have even set up systems that directly compete with public services.

History of Privatization

Privatization is not a new idea. Governments have always turned to the private sector for some goods and services. Too often, though, privatization is characterized by corruption. Lucrative contracts often go to political allies, relatives or friends of public officials. Many of these contractors are not qualified to do the work or are all too willing to cut corners.


In addition, contractors have frequently attempted fraudulent and illegal practices, including:

- bid-rigging (arranging bids between firms to split up the market and limit real competition);
- low-ball bidding (setting bids artificially low to win contracts and subsequently raising fees);
- over-billing (charging too much, or charging for work not done).

These practices are difficult to prove or even to investigate. The need to watch for them means that state and local governments must graft entire new bureaucracies onto existing ones in order to truly monitor contractor behavior. The costs of these additional bureaucracies are another reason contracting often fails to deliver efficiently in the long run.

Privatization is dangerous not only when dishonest firms are involved, but also when honest firms, if given contractual incentives to do so, take actions counter to society's goals.

With social services, there are special reasons to be wary. How society's most vulnerable children and adults are treated reflects our core commitments, and with values such as these at stake, it makes no sense to subordinate public goals to the profit motive.



According to the National Government Finance Officers Association, reviewing and evaluating RFPs, writing and negotiating the contract, processing change orders and amendments to the contract, monitoring and evaluating vendor performance, dealing with disputes, and processing payments to the vendor can add up to 25 percent to the cost of the contract.

Driving Forces Behind Privatization

The forces driving privatization of social services fall into several categories:

Private Vendors Seeking New Markets

When the welfare reform law expanded the allowable roles of contractors, an enormous new market opened up. The public wants social services to reduce poverty and build self-sufficiency; firms in the welfare “business” see an opportunity to enhance sales and profits. Legislative changes enhancing the roles of companies do not happen in a vacuum, of course; on the contrary, businesses lobby long and hard for these changes.

A common tactic used to get a leg up in contracting is the “revolving door” between public agencies and contractors. Public social service employees, particularly top managers, are sought by contractors for their credibility in the field and their personal connections to decision-makers.

Corporations have developed new models for eligibility predetermination in an attempt to circumvent federal restrictions prohibiting the privatization of eligibility determination. In many states they are promoting this model as a way to “modernize” welfare systems.

Ideology

The prevailing view in our society, and one aggressively fueled by privatization’s advocates, is that the private sector knows best and can best deliver most services. However, this belief does not hold up for many government functions, particularly complex social services.

Firms in the welfare “business” see an opportunity to enhance sales and profits.

Indeed, the private sector has not met the needs of the poor nor provided them a reliable route to self-sufficiency; this is precisely why effective public programs, such as Head Start and Food Stamps, were designed.

Because of the loud chorus in its favor, privatization is often seen as an end in itself, and the goal of providing high-quality, cost-effective services to the public is ignored. Privatization is often advocated with no credible evidence that it will further that goal.

Frustration

Many public programs have been underfunded and understaffed for years, leaving service recipients, agency staff and the public dissatisfied. Contracting is sometimes seen as a “silver bullet” for these deep-seated problems or a way for government agencies to wash their hands of tough challenges.

Funding and staffing challenges remain, however, regardless of who runs programs. Meanwhile, the public sector retains the ultimate responsibility for service delivery.

Cutting Some Costs But Ignoring Others

Employers may use contracting as a covert way to downsize, cut wages and benefits, or dismantle civil service or union protections. The problem with this approach is that good wages and benefits translate into low turnover and stable workforces, while civil service and union protections mean fair and productive workplaces. Studies consistently show that seeing workers as assets to be developed, not costs to be cut, confers significant long-run advantages and that basic fairness and job security encourage employee innovation.

Even if money is saved on workers’ salaries or benefits due to privatization, costs are felt elsewhere. Indirect costs include lost tax revenues as wages fall, public money spent on health care for workers who no longer have health insurance, costs to workers themselves and their families, and costs to implement and monitor service contracts. Privatization advocates usually fail to account for such factors.



Spotlight on Maximus and Accenture

Maximus Inc. and Accenture Ltd. are the major corporations that operate privatized welfare systems. Below are descriptions of the companies and their track records in running welfare and other programs.

Maximus was founded in 1975. For its first 15 years, the company grew slowly but surely and took on larger contracts throughout the 1990s. Projects have covered information technology consulting, welfare-to-work training programs, benefit and reimbursement processing, child support collections, and “revenue maximization” (helping governments enhance their cash flow).

Maximus went public in 1997, selling stock on the open market. The company has continued to grow, largely by acquiring smaller competitors and by selling government clients a broader range of services.

Facts of Interest

- The CEO’s salary and bonus in 2005 totaled \$825,000 in addition to stock options worth \$410,000.
- Maximus’ total sales in 2005 were \$648 million. Net income (bottom-line profit) in 2005 totaled \$36 million.
- Website: <http://www.maximus.com>

For more stories on bad privatization deals, visit:

www.afscmeinfocenter.org/privatizationupdate

The Wisconsin Privatization Experiment with Maximus and Non-Profit Groups

Milwaukee County, with over 85 percent of Wisconsin’s welfare population, was the first place in the nation where core welfare services, including eligibility determination, were privatized. The state chose five private agencies, including two for-profit firms (Maximus and YW Works), to operate its welfare program, Wisconsin Works (W-2). Each agency was given responsibility for a specific part of the county.

Incentives in the initial contracts created serious problems. As a Wisconsin Council on Children and Families report put it, “The ... agencies ... operated with incentives similar to health maintenance organizations (HMOs). Like other ... W-2 agencies, these ... private organizations had a set budget. Seven percent of the contract amount was designated as ‘profit.’ Ten percent of what was not spent by the end of the contract, they ... could also keep as profit.” Any money spent to provide extra assistance to clients, in other words, came out of their bottom lines.

The contractors had every reason to cut corners and cut welfare rolls. Contractors also seemed to have complete latitude in how they spent taxpayers’ money; in fact, they used it in many troubling ways, including generating out-of-state business, paying a Broadway singer to perform for a handful of welfare recipients, holding employee parties and paying for hotels and meals for top executives. There is no evidence that the privatized system is an improvement.

- The 2005 report of Wisconsin's non-partisan Legislative Audit Bureau (LAB) found that the W-2 program failed to improve service delivery (Financial Management of Selected W-2 Agencies, State of Wisconsin Legislative Audit Bureau, July 2005.)
- Eight years after the W-2 program started, there is no data to measure the success of the program or whether it's meeting one of its main goals, to get participants into a job where they can pay their rent, buy food and support their children. The recent LAB audit found that only 20 percent of former participants earned more than the poverty level in the year after they left W-2.
 - Between 2002 and 2004, Maximus gave \$700,000 in bonuses using W-2 money. Maximus refused to release enough information for state auditors to judge whether the bonuses were a permissible expenditure of public funds. Finally, after the state demanded the information, Maximus reported that more than \$41,000 in bonuses given to executives was paid by state and federal dollars, which violated state policy (<http://www.jsonline.com/news/state/aug05/345954.asp>).
 - Three Milwaukee County W-2 private agencies — Maximus, United Migrant Opportunity Services and the Opportunities Industrialization Center of Greater Milwaukee — failed to win automatic renewal due to poor performance. Maximus appealed the state's denial of automatic contract renewal and eventually had its contract renewed.

Only 20% of former participants earned more than the poverty level in the year after they left W-2.

Accenture, Ltd.

This consulting powerhouse, formerly Andersen Consulting, has its roots in the giant accounting firm Arthur Andersen. The parent firm began to differentiate its consulting operations from traditional auditing in the 1950s, but the consulting side did not see major growth until the 1970s and 1980s. In 1989, the auditing and consulting divisions were designated Arthur Andersen and Andersen Consulting, respectively, and became separate units of Andersen Worldwide.

Website: <http://www.accenture.com>

Throughout the 1990s, a feud developed between the two halves of Andersen Worldwide. The feud went before an International Chamber of Commerce arbitrator; in 2000, the arbitration proceedings resulted in a complete split between the divisions. Andersen Consulting had to pay Andersen Worldwide \$1 billion to sever its ties (less than the parent company claimed it should get). On January 1, 2001, Andersen Consulting became Accenture.

Facts of Interest

- The salaries of five of its top officers totaled \$11.7 million in 2005 — an average of over \$2 million each. This compensation does not include large stock options, the value of which is difficult to calculate.
- Accenture's worldwide sales in 2005 totaled \$15.5 billion. Profits totaled \$940 million.
- In 2005, The U.S. General Accounting Office identified Accenture as one of the four largest federal contractors that incorporated offshore tax havens as a way of lowering corporate tax liability (*Washington Technology*, Feb. 26, 2005).

Accenture's Track Record

- When Texas contracted with Accenture for enrollment in its Children's Health Insurance Program (CHIP), enrollment plunged to its lowest level since 2001. Although there have been programmatic changes, part of the reason for the drop was staffing shortages. Many families applied for CHIP but Accenture never processed their applications (*Houston Chronicle*, March 1, 2006).
- Colorado's Department of Labor and Employment Services had a \$39 million contract with Accenture for a computer system. In November 2005, the state declared that Accenture was in breach of contract and launched negotiations to resolve the matter. Accenture originally demanded an additional \$19.9 million to finish the project, but reduced its demand to \$9.8 million when the state balked. Finally, the state dumped the company after pouring \$35 million into a computer system that does not work (*Denver Post*, Dec. 31, 2005).
- In 2005, Colorado canceled another \$10.5 million contract with Accenture for a voter-registration computer system after spending \$1.5 million, deciding that continuing work on the contract would be "throwing good money after bad" (*Denver Post*, Dec. 1, 2005).
- In 2004, Florida canceled three information technology contracts with Accenture worth more than \$250 million. One of the contracts was for help-desk services that the state's chief information officer said "weren't addressing the needs of the various agencies the way they should have been" (*Tallahassee Democrat*, Aug. 20, 2004).
- In 2003, the New York state comptroller described a child welfare system

designed by Accenture as "a high-cost, incomplete system that did not meet the needs of [its] users" (Correspondence from the New York state comptroller to John A. Johnson, New York Office of Children & Family Services, Sept. 18, 2003).

- An Accenture contract with the Canadian province of Ontario to redesign its welfare system was called "the mother of all sweetheart deals." The original deal would have allowed Andersen to make \$180 million. By 2002, the cost of the project had swelled to \$246 million. The provincial auditor criticized Accenture because its "billing rates were substantially higher than the corresponding amounts charged by the (Ontario) Ministry of Community, Family and Children's Services" (Auditor's Report: Ontario Works, 2002). In 2004, Ontario closed its Accenture-designed call centers because they were "frustrating for applicants" (http://www.polarisinstitute.org/corp_profiles/public_service_gats/corp_profile_ps_maximus.html#Anchor-538).
- In 2001, Ohio fired Accenture from its Ohio Works project. Accenture designed Ohio Works, a computer system to help people find jobs, but the system was difficult to use (*Cleveland Plain Dealer*, Dec. 12, 2001). Arnold Tompkins, the former head of the agency that contracted with Accenture for Ohio Works, pleaded guilty to violating the state's revolving door law. After pushing through the \$60 million Ohio Works contract without competitive bidding, Tompkins went to work for Accenture as a \$10,000 a month consultant (*Columbus Dispatch*, Nov. 2, 2001).

AFSCME Alternatives to Social Services Privatization

As the needs of low-income and working families change, public service delivery systems must change as well. That is why AFSCME and its members cooperate with state and local government employers to implement innovations in the way public agencies do business.

Public agencies and unions are working together to improve both the quality of public services and employees' work lives, using labor/management partnerships. When employees and unions are viewed as resources and partners, rather than impediments or costs to be cut, both sides can make the long-term commitment needed to provide the best value to the taxpayer.

The following are examples of AFSCME members working with management to improve service quality and working conditions.



State of Ohio and Ohio Civil Service Employees Association (OCSEA)/AFSCME Local 11

The Quality Services through Partnership (QStP) program has solved problems since 1993.

In 1993, Ohio launched its Quality Services through Partnership initiative, to improve the delivery of public services through labor/management cooperation. QStP provides a rigorous problem-solving framework, which individual teams use to identify needed improvements and develop innovations.

A team in the Bureau of Workers' Compensation improved the timely return of injured workers to the job. Most injured workers returned to work on a Monday, regardless of when they were ready to work. Now, injured workers return on the first day they no longer have a medical restriction preventing that. It was projected that the reduction in lost work days saved over \$975,000 the first year and could ultimately save over \$6 million annually to employees and/or the Bureau of Workers' Compensation when fully implemented.

Ohio's QStP initiative produced cumulative state government savings of more than \$350 million in its first 10 years of operation.

Ohio's quality initiative is driven by a labor-management group, the Ohio Quality Network, which meets monthly to discuss best practices around the state and plan quality events.



Cuyahoga County, Ohio: Department of Children and Family Services and AFSCME Local 1746 (Council 8)

Collaborative efforts have improved outcomes and dramatically reduced social worker turnover.

The purpose of the Cuyahoga County Department of Children and Family Services is to assure that children at risk of abuse or neglect are protected and nurtured within a family and with the support of the community. The department handles the largest of its kind in Ohio, 30 percent of the state's total number of children in government custody. The department historically has suffered from bad press and high turnover of staff. It also has a mixed history of labor relations.

In 2000, the department director and local union president were determined to improve the department's public image, service quality and working conditions. They were successful. Two important accomplishments were deploying highly experienced and skilled workers to answer the hotline — a crucial contact point between the public and the department — and reducing turnover among social workers. Turnover had been nearly 30 percent but was cut to under 10 percent. The child death rate has been cut in half. Community stakeholders have been engaged in a variety of ways through nine neighborhood advisory boards. New ties have also been cultivated with the police force, which now collaborates more closely with the department.

Key Public Sector Roles

The models described above have built on the key roles the public sector plays in social service provision — roles which are undermined by privatization:

First, to ensure all recipients fair and equal access to services, the gatekeepers for all services should be public entities. Federal law requires this for the Food Stamp and Medicaid programs. States and localities should retain this role whether or not required by federal law

Second, public agency case managers should be responsible for their clients from beginning to end. This is especially important where there is a patchwork of public and private providers, and clients could get lost between the cracks. Private case managers lack a view of the “big picture” and do not have overall responsibility for program success in any case.

Third, public agencies should always be responsible for ensuring due process for clients when conflicts concerning service delivery arise. Private firms may lack knowledge of or interest in client rights and may see the appeals process as detracting from profits.

Fourth, public agencies must be responsible for ensuring oversight, measuring performance and evaluating programs. To leave this to private companies is essentially to abdicate the governmental function entirely. When services are privatized, the need for careful oversight is greatly expanded.

Conclusions and Recommendations

Debate about the public and private sectors should focus on the ultimate goal of providing cost-effective, high-quality public services. This is a difficult goal to achieve. State and local governments should not shed services in hopes of minimizing this burden, nor should they vainly search for “silver bullets” to solve long-standing problems. They should be wary of simple cost-benefit analyses of complex problems; this is especially true of studies produced by firms with a stake in the process or by groups that believe in reducing government at any cost.

The mission of serving poor children and at-risk families should not be subject to the profit motive and other influences that corrode the social safety net. Rather, this mission should remain a core public function, responsive to democratic principles and accountable to elected officials.

AFSCME members and their state and local government employers have embraced new and innovative ways to provide cost-effective, value-added public services to assist those in need. The workers on the front lines of social services stand ready to carry their mission forward in the future.



Glossary

Child Support Enforcement (CSE):

The collection of child support payments from non-custodial parents. States must centralize efforts to collect and distribute support payments to ensure that children are financially supported by their parents.

Child Welfare:

A wide range of social services that includes abuse and neglect investigations, foster care, family preservation and adoption. Child welfare agencies historically have operated in both the public and private sectors.

Food Stamps:


A nutritional assistance program for low-income families to augment food purchases. It's funded by the U.S. Department of Agriculture and run by states.

Medicaid:

Medical assistance program authorized under Title 19 of the Social Security Act and jointly funded by federal and state governments. It is the primary source of health care coverage for low-income families with children, low-income elderly and the disabled.

Outsourcing:

Delegating non-core jobs from internal production within a business or government to a contractor specializing in that operation. A related term, offshoring, means transferring work to another country and paying an outside firm based overseas to handle internal office func-



tions. Offshoring was first done in the data-processing industry and has spread to other areas, including telemessaging, radiology and call centers.

Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA):

Federal law that created the Temporary Assistance for Needy Families (TANF) program, a block grant that permits states to privatize all core welfare functions, including eligibility determination. The law, commonly called welfare reform, imposed a lifetime limit of five years for benefit recipients and increasingly required work activities (with some exceptions in both areas).

Privatization:

Shifting public functions from government agencies to the private sector. Sometimes a distinction is made between total privatization, or turning over government assets to the private sector, and contracting out, or turning over specific government services to the private sector.

“When for-profit institutions have contracts to carry out services – particularly human services – there is a perverse incentive to degrade the quality of those services, to select risks [and] select out difficult cases ... When it’s in the public sector, there’s a sense of common ideals ... that nobody is getting rich off of it.”

— Robert Kuttner, *The American Prospect*



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