

**REPORT OF THE
DEPARTMENT OF SOCIAL SERVICES**

**PRIVATIZATION STUDY
DIVISION OF CHILD SUPPORT
ENFORCEMENT**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



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**COMMONWEALTH OF VIRGINIA
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DEPARTMENT OF SOCIAL SERVICES

Clarence H. Carter
Commissioner

June 26, 1997

TO: The Honorable George Allen

and

The General Assembly of Virginia

The report contained herein is pursuant to the *Code of Virginia* Chapter 1054 §63.1-249.1 as approved by the 1996 General Assembly.

This report constitutes a summary and evaluation of full-service and collection privatization initiatives of the Virginia Division of Child Support Enforcement. The authority to enter into contracts on a pilot basis for fieldwork functions, as well as collection of arrearages, was given to the Department of Social Services in the above referenced *Code* citation. The *Code* requires a written report to the Governor and the General Assembly on the pilot privatization initiatives by July 1, 1997 and annually thereafter.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Clarence H. Carter".

Clarence H. Carter
Commissioner

PRIVATIZATION STUDY

DIVISION OF CHILD SUPPORT ENFORCEMENT

JULY 1997

This study of full-service and collection privatization initiatives of the Virginia Division of Child Support Enforcement was authorized by amendment to the Code of Virginia Chapter 1054 by adding section 63.1-249.1. This amendment requires by July 1, 1997 and annually, thereafter, a written report to the Governor and the General Assembly with a summary and evaluation of pilot privatization initiatives. This is the first report required by the legislation.

This report was prepared by the Program Evaluation and Monitoring section of the Division of Child Support Enforcement under the supervision of Terry A. Gates. Management oversight was provided by W. Douglas Moran, Deputy Commissioner of Operations for the Department of Social Services, and Nathaniel L. Young, Assistant Commissioner in charge of the Division of Child Support Enforcement. Key contributions were made by Rick Cooper, Manager of the Division of Child Support Financial Operations, and Pat Daniel, Agency Management Lead Analyst with the Division.

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PRIVATIZATION STUDY

DIVISION OF CHILD SUPPORT ENFORCEMENT

EXECUTIVE SUMMARY

Background

The 1996 General Assembly enacted an amendment to the Code of Virginia Chapter 1054 adding section 63.1-249.1 on "Child support enforcement private contracts". The amendment grants the authority, under supervision of the Department of Social Services, to enter into contracts on a pilot basis for fieldwork functions, as well as collection of arrearages. The amendment also requires by July 1, 1997, and annually thereafter, a written report to the Governor and General Assembly with a summary and evaluation of pilot privatization. This report is the first such summary and evaluation.

Methodology

Two child support offices, Chesapeake and Hampton, began operation in May 1994 under a contract with Lockheed Martin IMS. This study examines the first two full fiscal years of this operation, SFY95 and SFY96. In order to provide a meaningful basis of comparison, the combined performance of these two privatized offices has been compared to similar state-operated offices, Fredericksburg and Portsmouth. The offices are compared on a number of performance measures, cost-benefit, and customer perceptions. In a separate section, an evaluation of the Division's separate contract with GC Services for the collection of arrearages is given.

Performance Measures

Collections

In SFY95 the state-operated offices collected a total of \$18,229,896 in child support, \$1,390,259 more than the privatized offices which collected a total of \$16,839,637. In SFY96 the privatized offices collected \$21,271,108 in child support, \$1,147,817 more than the state-operated offices which collected \$20,123,291. From SFY95 to SFY96 the privatized offices increased total collections by 26% while the state-operated offices increased by 10%.

Because there are some differences in the caseload size, collections were also compared using both a collection per case and a collection per obligated case ratio. Based on collections per case, the state-operated offices had rates for SFY95 and SFY96 of \$749 and \$772, while the privatized offices had rates of \$656 and \$749. However, the privatized offices increased collections using this measure from the first year of operation by 14% while the state-operated offices increased by 3%.

Using collections per number of obligated cases (cases with child support orders), the figures for SFY95 and SFY96 for the state-operated offices are \$1,459 and \$1,481 and for the privatized offices the figures are \$1,484 and \$1,592. Using this measure, the privatized offices increased collections by 7.3% and the state offices by 1.5%.

For the first ten months of SFY97 (July-April), the privatized offices have collected \$20,228,450 and the state-operated offices have collected \$18,455,101. The privatized offices collected \$1,773,349 more in child support. However, the state-operated offices continued to collect more per case and the privatized offices more per obligated case.

Paternity Establishments

For SFY95 and SFY96 the privatized offices established 2,368 and 2,116 paternitys, while the state-operated offices established 1,737 and 1,584. This represented a 10.6% decrease in the privatized offices and a 8.8% decrease in the state-operated offices. In the analysis of a sample of cases, the privatized offices scored higher in the combined audit criterion, Paternity and Support Obligation, but the state-operated offices had a higher rate of establishment of paternity when the noncustodial parent had been located.

Child Support Order Establishments

For SFY95 and SFY96 the privatized offices established 2,491 and 2,345 child support orders, while the state-operated offices established 1,885 and 1,932. This represented a 5.8% decrease in the privatized offices and a 2.4% increase in the state-operated offices. In the review of cases, the privatized offices established child support orders at a higher rate when the noncustodial parent was located, but there were more children with paternity as an issue in the cases from the state-operated offices and this was a factor in the difference.

Locations Made

For SFY95 and SFY96 the privatized offices made 10,648 and 9,571 locations of noncustodial parents, while the state-operated offices made 10,463 and 12,148.

This represented a 10% decrease in the privatized offices and a 16% increase in the state-operated offices. For the cases sampled from the offices, the privatized offices initiated locate inquiries in more cases, but there was little difference in the number of successful locates produced. An analysis of the noncompliance reasons cited for the major service criteria revealed that a greater proportion of the reasons in the privatized offices were a failure to complete locate actions at the District Office level.

Enforcement Actions

The privatized offices scored slightly higher on compliance with Federal Regulations in the latest case review but slightly lower in an earlier case review compared to the combined rating of all state-operated offices. A further analysis of a sample of cases revealed that the state-operated offices initiated actions more frequently and were more likely to collect money on a case when enforcement actions were required.

Cost Benefit

The total costs for the operation of the offices for SFY95 were: private - \$3,771,985, and state - \$4,643,579. The cost benefit for this period expressed as dollars collected for every dollar spent is: private - \$4.46, and state - \$3.93. The total costs for SFY96 were: private - \$3,781,751, and state - \$4,278,492. Expressed as dollars collected per dollar spent the figures are: private - \$5.62, and state - \$4.70. Under the current contract, therefore, the privatized offices are more cost effective than the state-operated offices. Virginia's contract does have one of the lower payment rates in the country and increases in future contract costs could change this conclusion unless there was a corresponding increase in the rate of collections.

Customer Perceptions

Based on a customer survey sent to custodial and noncustodial parents in January 1996, there was no significant difference in customer perceptions of the offices' performance in keeping the customer informed. However, the state-operated offices scored higher in courteousness, correctness of casework, and overall service delivery.

Conclusion

The privatization of full-service child support offices is a viable alternative which should continue to be used on a pilot basis and studied in order to evaluate its value for wider implementation.

PRIVATIZATION STUDY

DIVISION OF CHILD SUPPORT ENFORCEMENT

BACKGROUND

The Division of Child Support Enforcement awarded a contract to Lockheed Martin IMS in January 1994 to establish and operate two full-service child support enforcement offices in Chesapeake and Hampton. The new offices for these two localities were created with part of the caseload previously assigned to the Newport News and Virginia Beach District Offices. The privatized child support offices began operating in May 1994. This followed the final statewide implementation of APECS (Automated Program to Enforce and Collect Child Support), the state's child support collection computer system, by only a few months. Since all child support workers were relatively new to this system, there was a minimal difference between the state and private employees' knowledge of the automated system.

The similarity between the two groups was further enhanced by the fact that Lockheed hired a number of experienced state child support workers to staff the Chesapeake and Hampton offices. In fact, the Division's records indicate that 14 of 26 employees in 1994 and 10 of 26 employees in 1996 at the Chesapeake District Office were former state employees. The figures for the Hampton District Office were 8 of 32 in 1994 and 10 of 33 in 1996. Also, both District Managers, responsible for the day-to-day operation of the offices, are former state employees. Because the privatized offices hired many experienced workers, received support services from the Division of Child Support Enforcement, and effective management from Lockheed, it was possible to establish fully functional offices in a short time period. However, it is reasonable to assume that the privatized offices required some time to reach full potential. Because of this, it is likely that the data for SFY96 will more likely reflect the optimum performance of the privatized offices.

As a condition of the contract, the Division of Child Support Enforcement provided initial training for the Lockheed offices on using the APECS system, policy and procedures, and federal regulations. The Division support services, such as Training and Policy, have continued to be available to those offices.

Child support payments are processed through a centralized payment processing unit in Richmond, and the Lockheed Offices receive the distribution services of this unit. However, like state-operated District Offices, Chesapeake and Hampton do receive and deposit payments made at their offices. Also, as part of the contract, the State provides legal services for the child support cases worked by the Lockheed offices through the State's Attorney General's Office. The State also provides the computer processing services for APECS and other state computer systems.

The Division of Child Support Enforcement has monitored the contract with Lockheed in a number of ways. The two privatized offices were incorporated into the organizational structure of the Division's Field Operations. The offices are directly supervised by the Eastern Regional Office and have fully participated in management meetings. The Regional Office has supplied on-going support and direction for the offices. The Division has gathered performance data on the privatized offices from the beginning of the contract and this data is the basis for much of the analysis in this study. Also, as part of the privatization contract and in conjunction with the Division's practice of quality assurance reviews, the privatized offices have been evaluated for compliance with Federal Regulations.

The 1996 General Assembly enacted an amendment to the *Code of Virginia* Chapter 1054 adding section 63.1-249.1 on "Child support enforcement private contracts". This amendment was enacted and approved May 6, 1996. The amendment grants the authority, under supervision of the Department of Social Services, to enter into contracts on a pilot basis for fieldwork functions, as well as collection of arrearages. It also charges the State Board of Social Services with the responsibility of establishing guidelines for funding mechanisms and the Attorney General with the provision of legal services. Finally, the amendment requires by July 1, 1997, and annually thereafter, a written report to the Governor and General Assembly with a summary and evaluation of the pilot privatization. (See Appendix I for a copy of the legislation) This report is the first summary and evaluation.

METHODOLOGY

In deciding on the direction and methodology for this study, a review of existing literature was undertaken. To date, there has been little research into privatization of child support enforcement full-service operations. During the planning for this study, the General Accounting Office (GAO) of the Federal Government released a report on privatization of full-service offices in several states, including Virginia. A discussion of the findings of that report is included in this study. In the GAO study, the privately operated office of Hampton was compared to Portsmouth.

For the purposes of this study, it was decided that the study should focus on both of the privatized offices, Chesapeake and Hampton, in order to depict a more comprehensive analysis of privatization in Virginia. Since the purpose of the study is to depict the progress of the privatized offices, it was decided to measure the total, combined operations of Chesapeake and Hampton with two similar state-operated offices.

In order to select two state-operated offices, the combined caseloads of various offices were compared to the combined caseloads of Chesapeake and Hampton. Taking this approach provided an additional benefit in that it was possible to more closely match the caseloads. Since Chesapeake and Hampton are urban areas, other urban offices were given priority for the match. The combined caseloads of Portsmouth and Fredericksburg were found to most closely match the caseloads of Chesapeake and Hampton. Additionally, both Portsmouth and Fredericksburg are in urban areas.

In order to be as comprehensive as possible and because the State Fiscal Year is a common measuring period, it was decided to base comparisons on two full fiscal years, SFY95 (July 1, 1994 through June 30, 1995) and SFY96 (July 1, 1995 through June 30, 1996). Using two full years gives the advantage of allowing for a comparison between the two fiscal years on key performance measures. Also, in doing a detailed sampling of actual case records, the two year period gives a more accurate analysis of the work on the cases since many child support activities can take over a year to complete.

In comparing caseloads, the major characteristic used was the type of case, Temporary Assistance to Needy Families (TANF), Medicaid Only, and non-TANF. The chart below gives the breakdown for the three case types at the start of the study period, July 1, 1994.

DISTRICT OFFICES	TANF	MEDICAID ONLY	NON-TANF	TOTAL
CHES/HAMPTON	11,095	2,920	11,653	25,668
FRED/PORTSMTH.	10,789	2,508	11,030	24,327

As the chart above illustrates, the caseloads of the two combinations were similar at the start of the review period. In order to evaluate whether the caseloads remained similar during the review period, the caseloads were again compared at the end of the two year study period, June 30, 1996.

DISTRICT OFFICES	TANF	MEDICAID ONLY	NON-TANF	TOTAL
CHES/HAMPTON	9,965	3,920	15,987	29,872
FRED/PORTSMTH.	9,460	3,956	14,161	27,577

Although it is impossible to find offices that match exactly in caseload composition, these two combinations of offices match to a degree sufficient for comparisons of casework and performance.

PERFORMANCE MEASUREMENTS

The Division of Child Support Enforcement uses a number of measurements to evaluate performance. While some measures reflect the level of activities produced by District Office personnel, two measures are generally accepted to quantify the overall effectiveness of the offices: Collections and Paternities Established. Collections are usually considered the most important outcome of Division activities. Obviously, the primary objective of the Division is to deliver dollars of child support to its customers. The main consideration in including paternities established as an outcome measure is to capture the potential social benefit of paternity establishment, regardless of the amount of child support collected.

In evaluating the performance measures of the privatized and state-operated offices, it must be understood that the results are not solely dependent on District Office performance. For example, collections also reflect the ability of the Division to certify cases for tax offset and to generate automated locate and enforcement actions. The general assumption is that these centralized processes are applied equally to the District Offices and, therefore, it should be possible to compare offices using performance measures. For example, tax certifications and automated locate inquiries are generated automatically from the APECS system based on the information on the system. It does not matter which District Office is assigned the case.

While collections and paternities established are considered the primary performance measures, other measures are often considered in order to gain a total picture of the District Offices. It is also possible for short-term gains to be achieved in collections and paternities established while neglecting the activities which ensure future collections growth. The primary measure to be considered in this regard is the number of new child support orders established.

The establishment of new orders is a vital activity in the growth of the base upon which collection activity rests. For the same reason, the number of locations made is a measure of the level of activity and the effectiveness of that activity in locating addresses, employers, and assets. Locate is a prerequisite for the establishment of paternities and new orders, as well as the enforcement and collection of child support.

In order to portray a fair and complete analysis of the Chesapeake and Hampton District Offices, all four performance measures are given with comparisons between these two offices and the two selected state-operated District Offices, Fredericksburg and Portsmouth.

Since no two District Offices are identical in caseload composition, ways of equalizing the comparisons have been sought. One method is to express performance measures in terms of the percentages of goals obtained. For both collections and paternity, goals based on a percentage of increase were set at the beginning of each fiscal year. The degree of success which a District demonstrated in meeting these goals reflected its relative ability to increase collections and paternities established. Another method is to express the performance measures in terms of per case figures. Whenever possible, several different methods of describing the results are presented.

COLLECTIONS

The chart below gives the total TANF collections, Non-TANF collections, and Total Collections for the four District Offices for SFY95.

SFY95	TANF	NON-TANF	TOTAL
CHESAPEAKE	\$1,246,013	\$5,464,411	\$6,710,424
HAMPTON	\$2,012,755	\$8,116,458	\$10,129,213
PRIVATIZED TOTAL	\$3,258,768	\$13,580,869	\$16,839,637
FREDERICKSBURG	\$1,618,998	\$8,492,965	\$10,111,963
PORTSMOUTH	\$2,186,457	\$5,931,476	\$8,117,933
STATE-OP. TOTAL	\$3,805,455	\$14,424,441	\$18,229,896

The combined collections of the two state-operated offices were higher by \$1,390,259.

Goals were set for TANF Collections for SFY95. The table below gives the percentage of SFY95 TANF Collections Goal attained by the four District Offices.

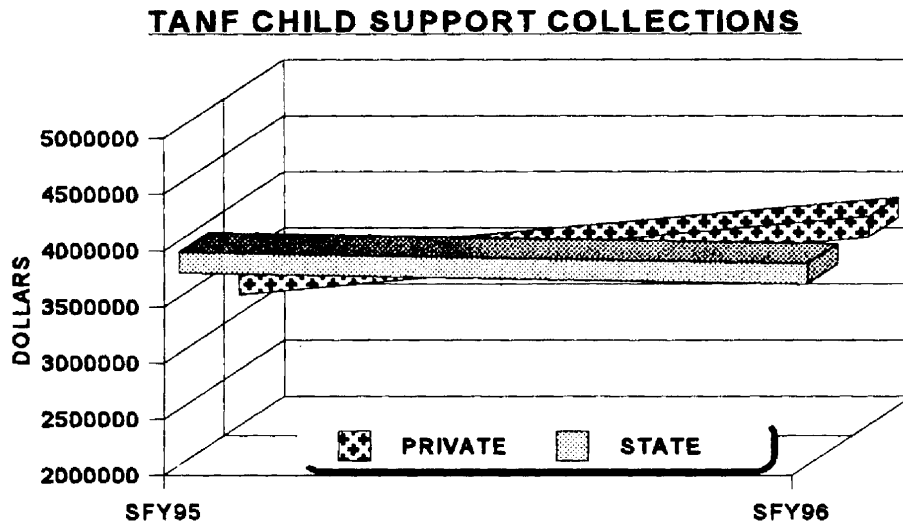
SFY95 TANF	PERCENT OF GOAL
CHESAPEAKE	97%
HAMPTON	115%
FREDERICKSBURG	101%
PORTSMOUTH	111%

The table below displays the data for TANF Collections, NON-TANF Collections, and Total Collections for SFY96.

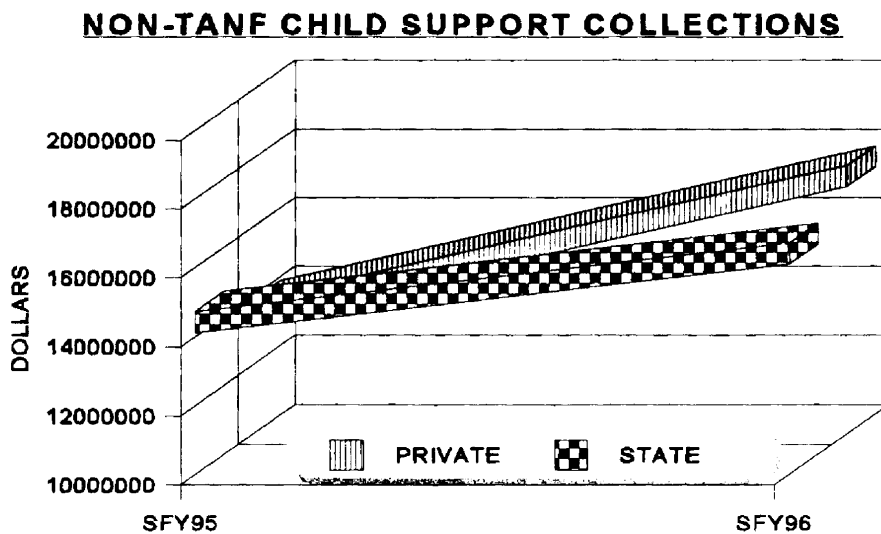
SFY96	TANF	NON-TANF	TOTAL
CHESAPEAKE	\$1,563,009	\$7,323,834	\$8,886,843
HAMPTON	\$2,205,597	\$10,178,668	\$12,384,265
PRIVATIZED TOTAL	\$3,768,606	\$17,502,502	\$21,271,108
FREDERICKSBURG	\$1,405,028	\$9,540,989	\$10,946,017
PORTSMOUTH	\$2,299,755	\$6,877,519	\$9,177,274
STATE-OP. TOTAL	\$3,704,783	\$16,418,508	\$20,123,291

This table shows that the privatized offices collected \$1,147,817 more than the state-operated offices in SFY96.

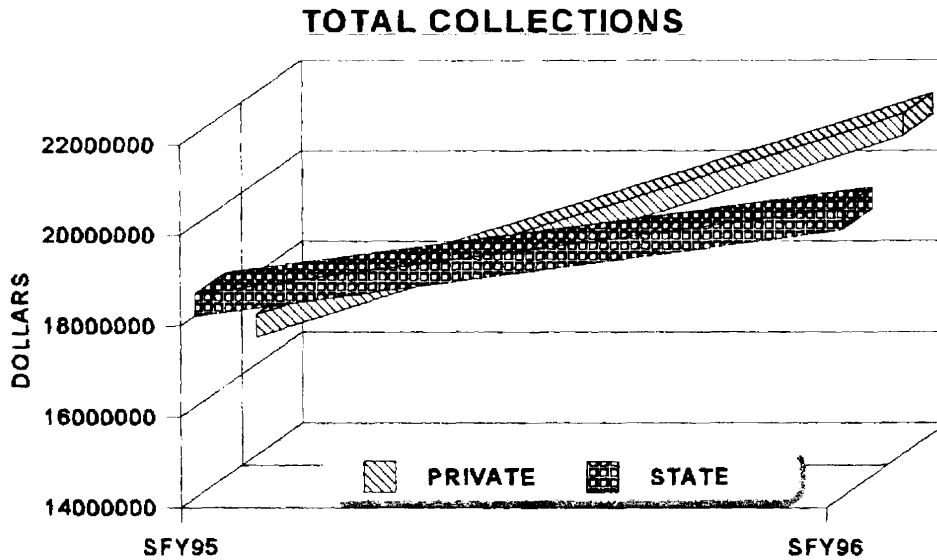
The chart below summarizes the TANF collection data for the two state-operated and two privatized offices:



The chart below summarizes the Non-TANF Collections for the two state-operated and two privatized offices:



The chart below summarizes the total collections:



The following table displays data on the Percentage of TANF Collection Goal Attained in SFY96 and the Percentage of Change in TANF, Non-TANF and Total Collections for SFY96 compared to SFY95. Since the privatized offices had been in operation for all of SFY95, the percentage of increase can be attributed in part to the efforts of those offices. A goal for non-TANF collections was not set in SFY 95 or 96.

SFY96	PERCENT OF GOAL	% OF CHANGE-TANF	% OF CHANGE-NON-TANF	% OF CHANGE-TOTAL
CHESAPEAKE	124%	+25%	+34%	+32%
HAMPTON	108%	+10%	+25%	+22%
PRIVATE	N/A	+16%	+29%	+26%
FREDERICKSBURG	86%	-13%	+12%	+8%
PORTSMOUTH	104%	+5%	+16%	+13%
STATE	N/A	-3%	+14%	+10%

As this table indicates, Chesapeake and Hampton out gained Fredericksburg and Portsmouth in the rate of increase for both TANF, NON-TANF and Total Collections from SFY95 to SFY96.

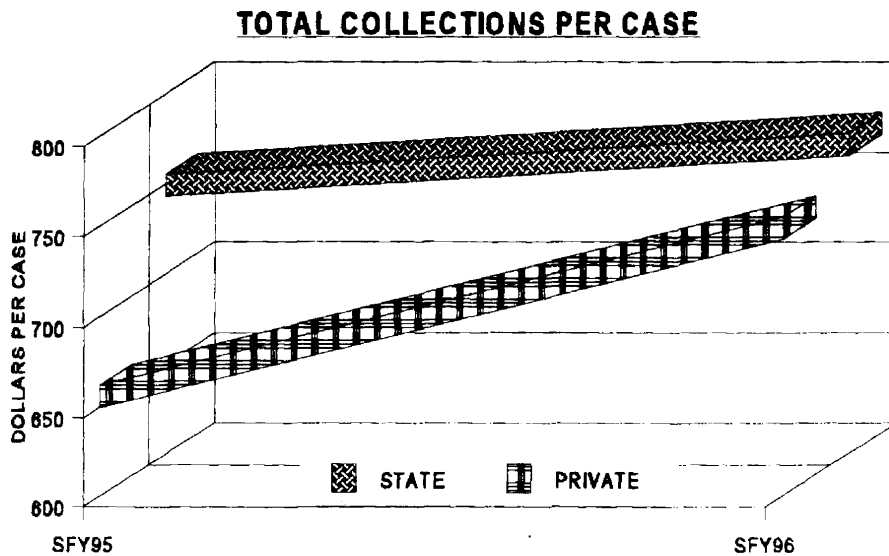
One important consideration in comparing collections between the state-operated and privatized offices is the size of the caseloads. As stated earlier, it was not possible to match the caseloads perfectly in selecting the comparison offices. In order to compensate for any caseload size discrepancies, the total collections can be expressed as a dollar amount collected per case. The following table displays this information.

COLLECTIONS PER CASE	SFY95	SFY96	% OF INCREASE
PRIVATIZED	\$656	\$749	14%
STATE-OPERATED	\$749	\$772	3%

The data on collections per case shows that the state-operated offices are collecting at a higher rate based on the relative sizes of the caseloads.

However, as discussed below, these rates are affected by the base number of obligated cases. Also, the privatized offices are clearly increasing collections at a higher rate.

The chart below illustrates the total collections per case:

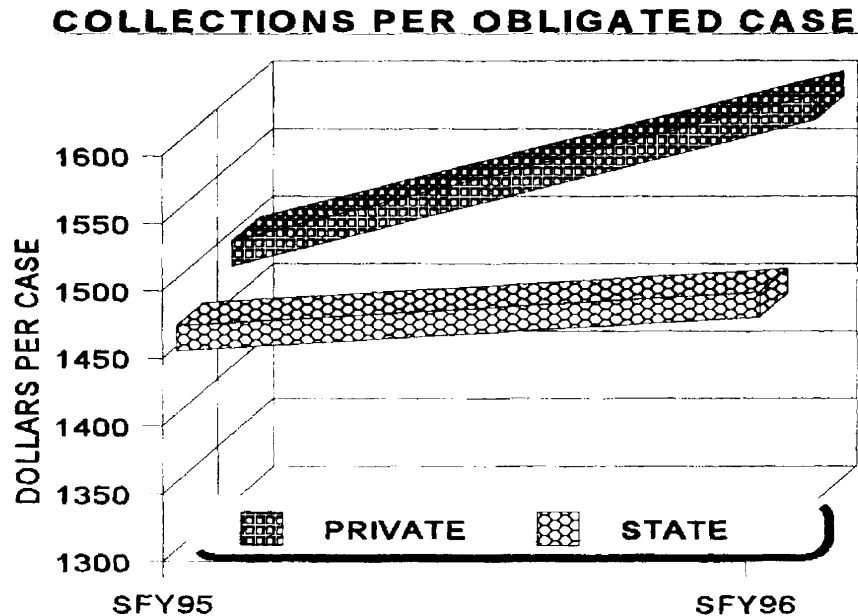


Theoretically, the offices' efforts to perform all child support services on these cases will be reflected in the amount of collections. The privatized offices, however, were dependent to a degree on the status of the cases at the beginning of the period. This is especially true for SFY95. One method of compensating for this is to examine the amount collected per number of cases which were obligated at the beginning of the fiscal year. Obligated cases are those cases in which a child support order had been established. The table below gives the figures for collections per obligated case:

COLLECTIONS PER OBLIGATED CASE	SFY95	SFY96	% OF INCREASE
PRIVATIZED	\$1,484	\$1,592	7.3%
STATE-OPERATED	\$1,459	\$1,481	1.5%

Based on the collections per obligated case, the privatized offices out performed the state-operated offices by 2% in SFY95 and 7.3% in SFY96.

The chart below shows the collections per obligated case:



SFY97 Collection Data

Because of the cyclical nature of child support collections due to the fact that tax intercept collections are received in greater amounts at certain times of the year, collection data for partial fiscal years should be used with caution. However, in an effort to provide the most current information, the table below gives the collection data for SFY97 for the period, July 1, 1996 through April 30, 1997.

SFY97	TANF	NON-TANF	TOTAL
CHESAPEAKE	\$1,335,113	\$7,157,223	\$8,492,336
HAMPTON	\$1,764,628	\$9,971,486	\$11,736,114
PRIVATIZED TOTAL	\$3,099,741	\$17,128,709	\$20,228,450
FREDERICKSBURG	\$1,107,173	\$9,174,892	\$10,282,065
PORTSMOUTH	\$1,867,886	\$6,305,150	\$8,173,036
STATE-OP. TOTAL	\$2,975,059	\$15,480,042	\$18,455,101

This table shows that the privatized offices have collected \$1,773,349 more than the state-operated offices for the period of July 1996 through April 1997. The table below shows the collection data as a factor of the total caseloads and the obligated caseloads in April 1997.

	TOTAL CASES	\$ PER CASE	OBLIGATED CASELOAD	\$ PER OBL. CASE
PRIVATIZED	31,161	\$649.16	15,660	\$1,291.73
STATE-OP.	27,730	\$665.53	16,111	\$1,145.50

This table shows that the state-operated offices continue to collect more on a per case basis (+2.5%), while the privatized offices collect at a higher rate per obligated case (+12.8%).

PATERNITY

In addition to delivering child support collections to the families of Virginia, the Division of Child Support Enforcement provides a critical service by establishing the paternity of children born out of wedlock. In addition to being a necessary first step in the establishment of an order and the collection of child support, paternity establishment fosters not only a financial but an emotional commitment on the part of the father. It also has other benefits for society and the affected children by establishing a legal relationship between father and child. The success in establishing paternity is an important barometer in judging the performance of child support offices.

The table below summarizes the paternity establishment performance data for the state-operated and privatized offices for SFY95 and SFY96. During the early months of SFY96, clarification was given to the District Offices on counting paternity establishments. This clarification reiterated certain paternity establishments which were not to be counted as established by the IV-D agency. The result of this was a decline in the overall paternity establishment statistics in SFY96. However, this change affected all offices equally. It should also be noted that the number of paternities established was manually self-reported by the District Offices during the period under study.

PATERNITIES	SFY95	SFY96	TOTAL	% OF CHANGE 95-96
CHESAPEAKE	893	869	1,762	-2.6%
HAMPTON	1,475	1,247	2,722	-15.5%
PRIVATIZED	2,368	2,116	4,484	-10.6%
FREDERICKSBURG	716	643	1,359	-10.2%
PORTSMOUTH	1,021	941	1,962	-7.8%
STATE-OPERATED	1,737	1,584	3,321	-8.8%

The table indicates that the privatized offices out performed the state-operated offices in terms of total paternities established, but the state-operated offices showed a slower rate of decrease in the number of paternities established from SFY95 to SFY96.

It is also possible to compare the establishment of paternities in terms of the offices success in meeting their goals for each of the fiscal years. The table below summarizes this information:

PERCENT OF GOAL	SFY95	SFY96
CHESAPEAKE	142%	100%
HAMPTON	100%	89%
FREDERICKSBURG	101%	104%
PORTSMOUTH	94%	89%

Based on these figures, the privatized offices did slightly better in SFY95 and the offices were about equal in SFY96.

As in collections, the caseload of these offices represents a pool from which potential paternity establishment cases are drawn and, therefore, must be considered in evaluating performance. In evaluating the paternity establishment data by comparing the caseloads of the offices, the significant factor is the number of unobligated cases. Unobligated cases are defined as those cases in which a child support order has not been established. Although not all unobligated cases require paternity establishment, it is known that none of the obligated cases require paternity establishment. Since there is no reason to think that the number of children requiring paternity establishment would vary greatly as a proportion of the unobligated caseload, it is possible to use this data as a rough equalizer between the offices.

The table below gives the number of unobligated cases at the start of each fiscal year and the number of paternities established per case:

	SFY95 CASES	PATERNITIES PER CASE	SFY96 CASES	PATERNITIES PER CASE
CHESAPEAKE	5,780	.154	6,182	.140
HAMPTON	8,537	.172	8,838	.141
PRIVATIZED	14,317	.165	15,020	.140
FREDERICKSBURG	5,767	.124	4,958	.129
PORTSMOUTH	6,753	.151	7,533	.124
STATE	11,807	.147	12,491	.126

Based on this analysis, the privatized offices still out performed the state-operated offices. However, without considering the caseloads, the differences for SFY95 and SFY96 were 36.3% and 33.6% while, allowing for the differences in caseloads, the privatized offices established 12.2% and 11% more paternities per unobligated case.

SUPPORT ORDERS

The third performance measure to be used for comparative purposes is the number of child support orders established. The establishment of support orders is an essential prerequisite to the collection of child support. It forms the base upon which collections rest. It is an important measure for tracking the growth potential of collections. It would be possible for offices to concentrate resources on immediate collections without ensuring adequate resources are devoted to the establishment of new child support orders.

The table below summarizes the information on the establishment of new child support orders:

ORDERS	SFY95	SFY96	TOTAL	% OF CHANGE 95-96
CHESAPEAKE	1,004	911	1,915	-9%
HAMPTON	1,487	1,434	2,921	-3.5%
PRIVATIZED	2,491	2,345	4,836	-5.8%
FREDERICKSBURG	966	883	1,849	-8.5%
PORTSMOUTH	919	1,049	1,968	+14%
STATE-OPERATED	1,885	1,932	3,817	+2.4%

As this table shows, the state-operated offices, primarily due to the increase by the Portsmouth District Office, out performed the privatized offices based on rate of change from SFY95 to SFY96, although the privatized offices established more total child support orders in both years. Again, it should be noted that the number of child support orders is manually reported by the District Offices.

The establishment of child support orders is also a reflection of the number of unobligated cases in the offices. The table below gives the number of unobligated cases at the start of the fiscal year and the number of obligations established per case.

	SFY95 CASES	ORDERS PER CASE	SFY96 CASES	ORDERS PER CASE
CHESAPEAKE	5,780	.173	6,182	.147
HAMPTON	8,537	.174	8,838	.162
PRIVATIZED	14,317	.174	15,020	.156
FREDERICKSBURG	5,767	.167	4,958	.178
PORTSMOUTH	6,753	.136	7,533	.139
STATE	11,807	.159	12,491	.154

Without considering the unobligated caseload, the privatized offices established more child support orders at a rate 32% higher in SFY95 and 21% higher in SFY96. With the unobligated caseloads considered, the rates were 9% and 1% for the same periods.

LOCATES

The fourth and final performance measure to be studied is the number of locates made. Locates include addresses, employers and assets necessary in order to perform the required child support function.

The table below gives the number of locates as reported by the District Offices for SFY95 and SFY96, as well as the percentage of increase:

LOCATES	SFY95	SFY96	% OF CHANGE
CHESAPEAKE	5,038	4,676	-7%
HAMPTON	5,610	4,895	-13%
PRIVATE	10,648	9,571	-10%
FREDERICKSBURG	4,351	5,602	+29%
PORTSMOUTH	6,112	6,546	+7%
STATE	10,463	12,148	+16%

This data indicates that the privatized offices produced more locates in SFY95, but that the state-operated offices exceeded the privatized offices in SFY96 and also increased the number of locates while the privatized offices decreased in the number of locates.

Since locates are made on both obligated and unobligated cases, these locate figures were used to compute a locate per case figure. The table below gives this information:

	SFY95 CASES	LOCATES PER CASE	SFY96 CASES	LOCATES PER CASE
CHESAPEAKE	10,564	.477	11,910	.393
HAMPTON	15,104	.371	16,473	.297
PRIVATIZED	25,668	.415	28,383	.337
FREDERICKSBURG	10,155	.428	11,434	.490
PORTSMOUTH	14,172	.431	14,641	.447
STATE	24,327	.430	26,075	.466

Based on the number of locates per case, the state-operated offices produced more locates per case than the privatized offices in both SFY95 and SFY96. Without considering the relative size of the caseloads, the privatized offices achieved 1.8% more successful locates in SFY95, but the state-operated offices achieved 27% more in SFY96. If these numbers are adjusted for the caseload differential, the state-operated offices exceeded the locate production of the privatized offices by 3.6% in SFY95 and 38% in SFY96.

COST BENEFIT ANALYSIS

In analyzing the cost benefit of the privatized offices compared to the state-operated offices, all major costs of the offices were utilized. These included direct costs such as the commissions paid Lockheed Martin IMS and the actual costs of the state-operated offices such as salaries, building costs, supplies, etc. The allocated costs were also determined for all offices. These costs included such items as charges for computer processing time, telephone line costs, etc.

For the privatized offices, in addition to direct and allocated costs, there were two types of costs unique to the contractual requirements. First, there were some start-up costs associated with the turnover of existing cases to the privatized offices. It was discovered that some of these costs had not been documented so it was not possible to determine all costs. However, an estimate was made of the staff time used to prepare and transfer cases to the new privatized offices. These costs were then amortized over the five year contract period.

Second, there is a cost associated with administering, monitoring, and evaluating the contract. For these costs, the assistance of the Commonwealth Competition Council was sought. Based on the size of the contract and the number of employees reported by Lockheed Martin IMS, the Competition Council estimated that it would take two full-time positions to perform these functions. It is the agency's responsibility to determine the costs of these positions. Based on the experience to date, it was judged that a Grade 13 and a Grade 11 position would give a conservative cost estimate for these functions.

The table below gives the cost figures for SFY95:

SFY95	DIRECT	ALLOCATED	STARTUP	ADMIN.	TOTAL
PRIVATE	\$1,894,980	\$1,779,485	\$1,055	\$96,465	\$3,771,985
STATE	\$2,677,288	\$1,966,291	0	0	\$4,643,579

The most meaningful way of expressing the cost-benefit ratio is in terms of dollars collected for every dollar spent. Based on the costs given above, the cost benefit for SFY95 is: **PRIVATE: \$4.46, STATE: \$3.93**. Clearly, based on the cost of the contract with Lockheed Martin IMS in SFY95, the privatized offices were more cost effective than the state-operated offices.

The table below gives the cost figures for SFY96:

SFY96	DIRECT	ALLOCATED	STARTUP	ADMIN.	TOTAL
PRIVATE	\$2,232,616	\$1,451,615	\$1,055	\$96,465	\$3,781,751
STATE	\$2,556,396	\$1,722,096	0	0	\$4,278,492

Based on the cost figures given above, the cost benefit for SFY96 is:

PRIVATE: \$5.62, STATE: \$4.70. Again, for SFY96, the privatized offices collected more child support for every dollar spent than the state-operated offices.

Caution must be used in making final judgements based on these figures. The cost of the contract with Lockheed Martin IMS is one of the lowest in the country for full-service privatization according to a study conducted and published by the General Accounting Office in November 1995. According to this document, a survey of states revealed that the rate of commissions paid for full-service contracts varied from 32% to 11.5% in the first year of the contract and from 24% to 10% in the final year of the contract.

Virginia's contract with Lockheed called for the following percentage of commissions: 1st year: 11.45%, 2nd year: 10.5%, 3rd year: 10.45%, 4th year: 10%, and 5th year: 9.95%. These were the cost figures as agreed upon in the contract. In all contracts for full-service privatization reviewed as part of this study, the cost, when written as a percentage of collections, has been a decreasing percentage over the life of the contract. It is generally thought that this is due to the contractor's incurring start-up costs in the early years of the contract and improving efficiency over the life of the contract.

In an attempt to determine if Lockheed Martin IMS was actually achieving a profit on the current contract, information on the actual costs to the contractor were requested. This obviously has implications for future contracts, since a contractor would not continue to operate at a loss.

In a letter dated June 14, 1996 Lockheed responded that this information would not be provided because the information was considered proprietary. The determination of costs of future contracts is obviously a key consideration in judging the potential benefits of continued privatization. A relatively small increase in the percentage of commissions results in dramatic alterations in the cost benefit analysis. Of course, it is also not known at what rate the costs of state-operated offices will change, although with current freezes on hiring or replacing staff, any increase should be small. As part of this evaluation, a number of states were contacted to gather information on recent contracts for privatization. It proved impossible to draw conclusions from these contracts for Virginia because every contract and every state was significantly different. Purely as an example for comparative purposes, the table below shows the expenses for SFY95 based on a 14% commission rate.

SFY95	DIRECT	ALLOCATED	STARTUP	ADMIN.	TOTAL
PRIVATE	\$2,357,547	\$1,779,485	\$1,055	\$96,465	\$4,234,552
STATE	\$2,677,288	\$1,966,291	0	0	\$4,643,579

Based on these costs, the cost benefit ratio is: **PRIVATE: \$3.98, STATE: \$3.93**. With a 14% commission rate, there is virtually no difference in the cost benefit ratio.

The table below uses the same 14% rate for SFY96:

SFY96	DIRECT	ALLOCATED	STARTUP	ADMIN.	TOTAL
PRIVATE	\$2,977,955	\$1,451,615	\$1,055	\$96,465	\$4,527,090
STATE	\$2,677,288	\$1,722,096	0	0	\$4,278,492

Based on these costs, the cost benefit ratio is: **PRIVATE: \$4.70, STATE: \$4.70**. Again, with a 14% the cost benefit ration of the privatized and state-operated offices is identical.

CUSTOMER PERCEPTIONS

In January 1996 the Virginia Division of Child Support Enforcement mailed customer survey forms to 15,860 custodial and noncustodial parents. Those receiving the survey were randomly selected from a pool of all custodial parents and those noncustodial parents for whom an address was known. 2,074 responses were received from the statewide sample. Although the survey was not initiated for this study, the results have been analyzed for the four study offices. A total of 152 responses were received for the privatized offices and 147 for the state-operated offices.

A number of questions were included in the survey. For this study, the information on a few key questions which relate directly to customer perceptions of the services they are receiving is described. The answers to each question are given in terms of percentage who answered usually or always and the percentage that answered sometimes or never.

I am kept informed of the actions that are taken on my case(s):

RESPONSE	STATE	PRIVATE
% USUALLY OR ALWAYS	37%	36%
% SOMETIMES OR NEVER	63%	64%

I am treated courteously when I phone or visit a child support office:

RESPONSE	STATE	PRIVATE
% USUALLY OR ALWAYS	74%	60%
% SOMETIMES OR NEVER	26%	40%

I feel my case is worked correctly:

RESPONSE	STATE	PRIVATE
% USUALLY OR ALWAYS	49%	40%
% SOMETIMES OR NEVER	51%	60%

Overall, how would you rate the services you receive from our agency?

RESPONSE	STATE	PRIVATE
% GOOD OR EXCELLENT	51%	41%
% FAIR OR POOR	49%	59%

Based on the responses to the survey, the perception of customers is that there is little difference between the privatized and state-operated offices on keeping the customer informed, but the state-operated offices outscore the privatized offices on courteousness, correctness of work, and the overall perception of services.

CASE REVIEW ANALYSIS

The customers of the Division of Child Support Enforcement have expectations that their cases will be worked correctly and completely regardless of the difficulty of the case.

Despite the shortage of resources within the child support system, the Division does not have the option of choosing only to work cases with a higher probability of success. In order to evaluate the effectiveness of the privatized and state-operated offices in working all cases, a sample of cases of each office was drawn in order to examine the case actions which were taken during SFY95 and SFY96.

A sample was drawn from the combined state-operated and combined privatized office caseloads at a confidence level of 95%. The sample size was increased by 5% to allow for exclusions such as cases not correctly assigned by APECS to the District Offices in the study. The sample cases were randomly selected from the total caseloads for the District Offices with the following number of sample cases selected: Chesapeake: 178, Hampton: 241, Fredericksburg: 191, and Portsmouth: 228. A total of 836 cases were reviewed, 419 from the privatized offices and 419 from the state-operated offices.

Analysts reviewed both the hard copy files from the district offices, copies of which were provided for analysis, and the automated records from APECS. The cases were analyzed for the primary service functions of Locate, Paternity Establishment, Support Order Establishment, Medical Support, and Enforcement for the period of July 1, 1994 through June 30, 1996.

Results of Case Reviews

LOCATE

There were a total of 137 cases from the privatized offices and 176 from the state-operated offices which required locate and contained sufficient information for locate action in the study period. There are two types of locate services provided by the Division. One type is automated and independent of the actions of the District Offices. However, the accuracy of the information entered on the Division's automated system can affect the submission of cases for automated data matches. The second type is the manual locate actions initiated by the District Offices. These include individual case initiations of matches with automated systems such as Department of Motor Vehicles (DMV), Virginia Employment Commission (VEC), etc., as well as skip tracing such as following up on addresses, contacting relatives, etc.

There were 126 cases from the privatized offices in which manual locate inquiries were needed. In 91 cases (72.2%) all of the appropriate inquiries were made. For the state-operated offices, there were 161 cases requiring manual locate action. In 101 cases (62.7%) all manual locate actions were taken. It can be concluded that the privatized offices initiated manual locate actions in a greater percentage of cases.

There were 125 cases requiring automated locate action in the privatized offices. In 103 cases (82.4%) all automated inquiries were made. For the state-operated offices, 131 cases (79.4%) of the 165 cases requiring automated locate had all automated sources checked. Although the difference is small, the higher percentage in the privatized offices may indicate a greater degree of accuracy of information entered in the automated system.

Of the total of 137 cases in the privatized offices needing locate in the study period, 91 (66.4%) were located in the study period. Of the 176 cases needing locate in the state-operated offices, 115 (65.3%) were located in the study period. Since the difference is small, the conclusion can be made that, while the privatized offices generated more locate inquiries, there was little difference in the results of the locate actions taken by the two groups.

PATERNITY ESTABLISHMENT

In comparing the two groups in the establishment of paternity, the number of children from the sample requiring paternity establishment in which the alleged father was located in the study period was determined. The numbers were 115 for the privatized offices and 96 for the state-operated offices. Of the 115 children, the privatized offices established paternity on 23 (20%) of the children during the study period. The state-operated offices established paternity on 31 of the 96 children for a rate of 32.3%. Since it is not possible to control the outcome of paternity proceedings, the number of alleged fathers excluded was also examined. The privatized offices had 2 (1.7%) excluded and the state-operated offices had 1 (1.0%) excluded. The number of children with paternity established can be combined with the number of children in which the alleged father was excluded to obtain the total number of paternity actions taken to conclusion. The figures are: privatized offices - 25 (21.7%), state-operated offices - 32 (33.3%). The conclusion is that the state-operated offices did a more effective job of pursuing the establishment of paternity to conclusion when the alleged father had been located.

SUPPORT ORDER ESTABLISHMENT

During the two year study period, there were 128 children in the privatized offices and 152 children in the state-operated offices who required the establishment of a child support order and the noncustodial parent was located in the study period. A total of 40 (31.3%) of the 128 children had orders established in the study period by the privatized offices. For the state-operated offices, 33 (21.7%) of the 152 children had orders established. This leads to the conclusion that the privatized offices did a more effective job in establishing child support orders.

Since the establishment of paternity is difficult and time-consuming, it was considered in analyzing support order establishment. In the privatized offices, 25 of the 88 children (28.4%) in which a support obligation was not established still required paternity establishment at the end of the study period. For the state-operated offices, 46 of 119 children (38.7%) still required paternity establishment. The greater number of children requiring paternity establishment in the state-operated offices may have affected the number of child support orders established in the study period.

MEDICAL SUPPORT

There are two areas of analysis in the provision of medical support services. One is the establishment of a medical support order and the second is the enforcement of that order to ensure that, when available, health insurance is obtained. Of the children of those noncustodial parents located in the review period, 49 children in the privatized offices and 115 in the state-operated offices required establishment of a medical support order in the study period. These children were all in cases in which medical support services were required either because there was an assignment of medical support rights to the State or the custodial parent had requested such services.

Of the total number of children requiring establishment of a medical support order, 34 (69.4%) of the children in the privatized offices had action initiated in the study period. Of these 34 children, 32 (94.1%) subsequently had orders for medical support entered. For the state-operated offices, 62 (53.9%) children had action initiated. Of those 62 children, 41 (66.1%) subsequently had orders entered. However, 15 of the 62 actions (24.2%) initiated by the state-operated offices were interstate actions while 2 of the 34 (5.9%) actions initiated by the privatized offices were interstate actions. The larger number of interstate actions initiated in the state-operated offices may explain the difference in the rate of orders established since interstate actions take longer to produce results. It can be concluded that the privatized offices initiated action to establish a medical support order in a greater percentage of cases.

Once an order for medical support is obtained, a directive must be sent to the employer requiring the enrollment of the children in the health insurance plan. Not all orders require enforcement since orders may be obtained regardless of whether health insurance is currently available. Since one directive is sent per case regardless of the number of children, the number of cases requiring action was analyzed. 34 cases from the privatized offices and 59 from the state-operated offices required enforcement in the study period. Of those cases requiring action, the privatized offices initiated action on 14 (41.2%) of the cases and the state-operated offices on 23 (38.9%) of the cases. It can be concluded that there was little difference between the two groups in the initiation of medical support enforcement action.

ENFORCEMENT

Enforcement of child support orders is often an on-going process. Many different actions may be attempted with no guarantee of success. An analysis of the actions initiated gives a measure of the level of activity. The success in actually collecting money as a result of the enforcement actions may be an indicator of the effectiveness of those actions since the selection of appropriate, effective actions should result in a collection being received more frequently.

The table below gives the number of cases requiring enforcement action from the sample, the number with enforcement action initiated and the number in which a collection was made as a result of that action.

	CASES REQUIRING ACTION	NUMBER WITH ACTION	PERCENT	NUMBER MONEY RECD.	PERCENT OF # W/ ACTION
PRIVATE	137	68	49.6%	46	67.7%
STATE	168	116	69.0%	60	51.7%

The results show that the state-operated offices initiated enforcement action in more cases, but the privatized offices collected money on a higher percentage of cases in which action was initiated. However, if the number of cases in which money was collected is expressed as a percentage of the total cases requiring action, the percentages are: Privatized - 33.6%, State - 35.7%. The bottom line is that the state-operated offices collected money on a slightly higher percentage of cases requiring action.

If money was not collected on the case, a second enforcement action was required. The same concept holds true for a third and fourth action. The table below shows the data for those cases requiring additional enforcement actions for a 2nd, 3rd, and 4th time. Because of time constraints, it was necessary to limit the analysis to four enforcement actions. In general, it was observed that there were few cases in which more than four enforcement actions were taken in the study period. Since tax intercept and driver license suspension are principally a centralized automated process, these actions were not included in the enforcement actions taken.

	CASES REQUIRING ACTION	NUMBER WITH ACTION	PERCENT	NUMBER MONEY RECD.	PERCENT OF # W/ ACTION
PRIVATE-2	91	31	34.1%	15	48.4%
STATE-2	108	82	75.9%	37	45.1%
PRIVATE-3	76	22	28.9%	8	36.4%
STATE-3	71	53	74.6%	16	30.2%
PRIVATE-4	68	11	16.2%	5	45.5%
STATE-4	55	32	58.2%	12	37.5%

The same pattern emerges over the 2nd, 3rd, and 4th enforcement actions required. The state-operated offices initiated enforcement actions on a higher percentage of cases and the privatized offices collected money on a higher percentage of cases in which enforcement actions were initiated.

Ultimately, the key performance measure is the number of cases which needed enforcement in which money was collected. The table below gives the total for all the actions required, the number and percentages of actions initiated, the number of cases in which money was collected and the percentage of those cases as a percentage of the total number of actions taken and as a percentage of the total number of actions required.

	ACTIONS REQUIRED	ACTIONS TAKEN	% OF REQU.	CASES \$ REC.	% OF TAKEN	% OF REQ.
PRIVATE	372	132	35.5%	74	56.1%	19.9%
STATE	402	283	70.4%	125	44.2%	31.1%

The results indicate that the state-operated offices initiated required enforcement actions in a larger percentage of the cases. While the privatized offices received child support collections on a higher percentage of the actions initiated, the state-operated offices, likely due to the higher number of actions initiated, collected money more often when action was required.

FEDERAL REGULATION COMPLIANCE

The Division has conducted three case reviews to determine the rate of compliance of the privatized offices with Federal Regulations since the offices became operational. The first covered a period in which the privatized offices were only in existence for part of the audit period and is not considered relevant to this study. The second review covered an audit period of October 1, 1994 through September 30, 1995. The review draws a random sample of cases and measures the compliance of the casework with all mandatory Federal Regulations. Under the Federal Regulations, a minimum compliance rate of 75% is required. The contract with Lockheed Martin IMS requires a minimum compliance rate of 80%. Since the contract was implemented, the Federal Regulations have been changed so that two criteria, Case Opening and Case Closure, require a 90% compliance rate.

The first case review did not pull a large enough sample to measure compliance at a statistically valid level for the individual offices, Fredericksburg and Portsmouth. However, a larger sample was pulled for Chesapeake and Hampton. Therefore, for the first audit, it is only possible to compare Chesapeake and Hampton to the Statewide compliance rate. The case reviews examined both automated case records and the hard copy files maintained by the District Offices. The privatized offices were given training on Federal Regulation Compliance by the Division's Program and Evaluation section within the first few months of their operation. As part of that training, it was emphasized with Lockheed personnel that only those actions which are documented on either APECS or the hard copy file could be evaluated. The privatized offices can document any actions taken outside of state-operated systems and receive credit for those actions.

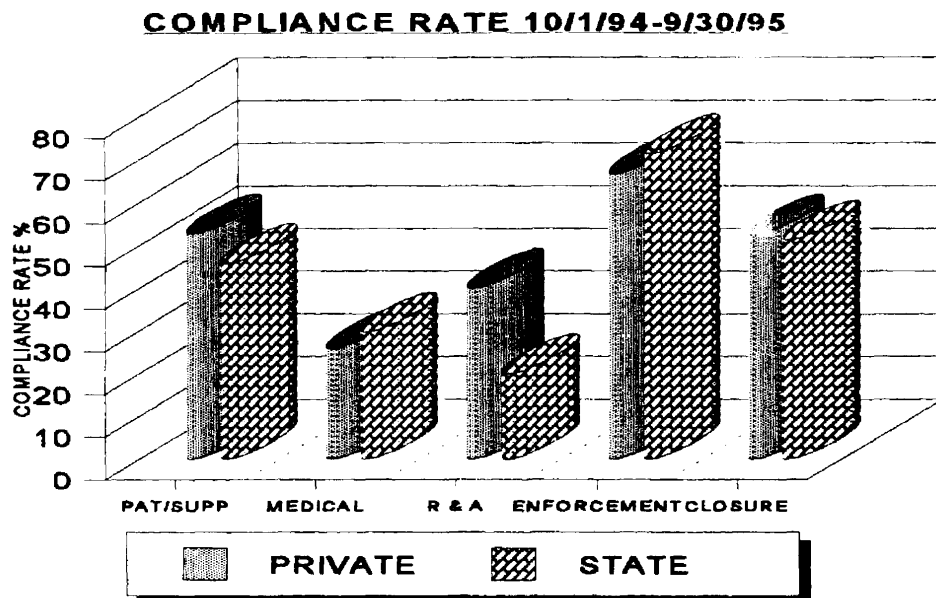
The table below gives the results of the first case review:

AUDIT CRITERION	PRIVATE	ALL STATE OFFICES
PATERNITY AND SUPPORT	52.8%	45.9%
MEDICAL SUPPORT	26.1%	29.8%
REVIEW AND ADJUSTMENT	40.0%	20.0%
ENFORCEMENT	66.9%	71.5%
CASE CLOSURE	52.6%	51.3%

It was not possible to determine a compliance level for the Case Opening criterion because many of the District Offices had not maintained adequate documentation to allow for a separate sample to be pulled.

However, a report was made on the compliance of the District Offices with maintaining the required log. Chesapeake had maintained the required log, as had Fredericksburg and Portsmouth. Hampton maintained a log, but did not have it for the entire audit period.

The chart below gives the compliance results graphically.



The compliance rate is a good measure of the total quality of the work performed by the District Offices. Based on the first case review, the privatized offices were doing better than the state-operated offices as a whole on Paternity and Support, Review and Adjustment, and Case Closure. The state-operated offices performed at a higher quality level on Medical Support and Enforcement.

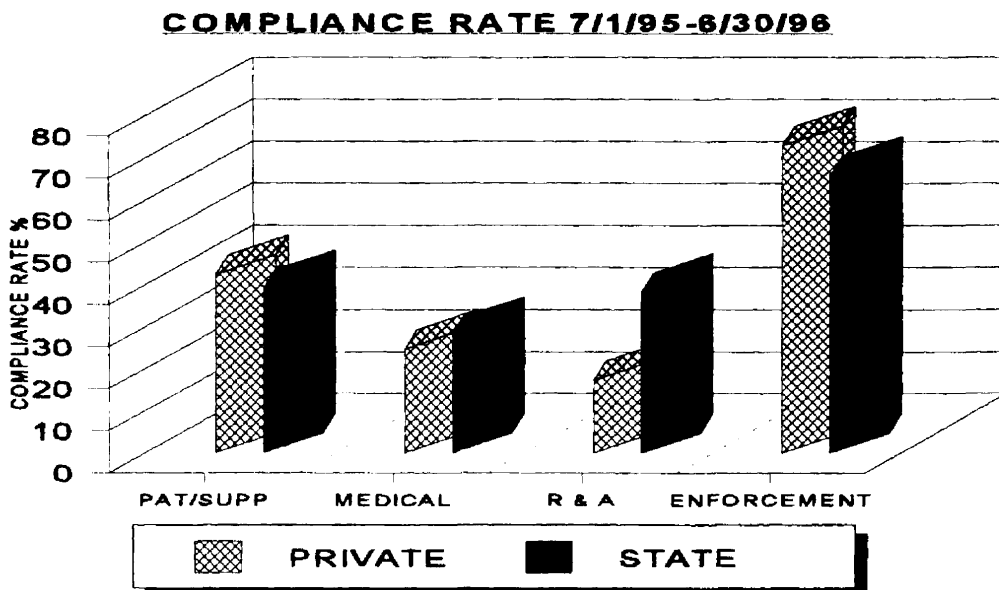
The second case review was completed as part of the privatization study and also to meet the requirements of the contract with Lockheed. This review focused solely on the four offices in this study. Because of this, it was possible to pull a sample statistically valid at a 95% confidence level for the combination of Chesapeake/Hampton and Fredericksburg/Portsmouth. This review covered an audit period of July 1, 1995 through June 30, 1996, which is the second of the two years covered in this study. Because of time constraints, Case Opening was not examined.

The table below gives the results of this case review:

AUDIT CRITERION	CHES/HAMPTON	FRED/PORTSMOUTH
PATERNITY AND SUPPORT	42.3%	38.9%
MEDICAL SUPPORT	24.7%	27.8%
REVIEW AND ADJUSTMENT	17.2%	38.1%
ENFORCEMENT	73.0%	65.8%
CASE CLOSURE	N/A	55.6%

It was not possible to calculate a rate for the privatized offices under Case Closure because there were not any cases included in the sample for which Case Closure was relevant. Based on this case review, the state-operated offices outperformed the privatized offices in Medical Support and Review and Adjustment, while the privatized offices scored higher in Paternity and Support and Enforcement.

The chart below displays the results graphically.



Neither the state-operated offices or the privatized offices achieved the 75%, or 90% in the Case Closure criterion, required by Federal Regulations. Obviously, the privatized offices also did not achieve the 80% compliance level required by the contract.

REVIEW OF LITERATURE

A review of the existing literature on privatization of child support functions was conducted as part of this study. The majority of the information obtained was from the General Accounting Office (GAO) of the Federal Government. GAO has issued four reports since November 1995 which deal with Government Privatization. The first, issued in November 1995 and titled CHILD SUPPORT ENFORCEMENT States and Localities Move to Privatized Services, simply inventoried the States' privatization contracts to date and described some of the contract terms.

The second, issued in October 1996 and entitled CHILD SUPPORT ENFORCEMENT States' Experience With Private Agencies' Collection of Child Support Payments, describes in general states' experience with privatization, generally contracts for collection only. The third, issued in December 1996 and titled CHILD SUPPORT ENFORCEMENT Early Results on Comparability of Privatized and Public Offices, compares some states' full-service privatized offices with state-operated offices. The fourth, issued in March 1997 and titled PRIVATIZATION Lessons Learned by State and Local Governments, is a general commentary on different types of privatization throughout the country and lessons learned from these efforts.

The report which will be discussed in this section is Early Results on Comparability of Privatized and Public Offices since it deals directly with the issues under study in this report. The GAO report looked at privatization in three states, Virginia, Arizona, and Tennessee. For the Virginia analysis, the offices of Hampton and Portsmouth were compared. The report looked at the performance and costs of the two offices for an eighteen month period, July 1994 through December 1995.

The analysis reported higher percentage rates of successful outcomes for Hampton, compared to Portsmouth as shown by the table below:

SERVICE NEEDED	HAMPTON	PORTSMOUTH
Location	73.9	58.5
Paternity Establishment	40	19.2
Support Order Establishment	35.7	16.8
Collection	40.8	22.3

These results, while interesting, must be viewed with some degree of caution.

GAO drew its sample from only new cases opened in July 1994 with the logic that new cases would not be prejudiced by previous actions taken by the public offices from which they originated. However, the assumption that the history of the case seriously affects the delivery of services in the present is not true. It may dictate the type of actions needed on the case, but, in fact, both private and public offices would equally be affected by this fact. Of more importance is the fact that new cases are intrinsically and significantly different from existing cases. New cases are universally acknowledged by professionals as easier to work with a higher likelihood of successful outcomes.

In July 1994 the number of new cases received at the Hampton and Portsmouth offices represented 0.7% and 0.8% of the caseload. Since the sample was drawn from only new cases, a significantly different portion of the caseload making up 99% of the caseload was excluded from the sampling process. Because of this, it is evident that the results only apply to new cases and it can only be concluded that Hampton appears to have done a more productive job of producing successful outcomes from new cases than did Portsmouth. However, since both offices are responsible for working all cases in the caseload, no conclusions can be drawn for comparative purposes on how the other 99% of the caseload was worked.

It should also be noted that the GAO survey used the automated system only to track successful outcomes. There are known problems with the degree of accuracy and completeness of the documentation on APECS. This is why the Division analysts used both automated and hard copy files, and reviewed the case actions in detail to determine if successful outcomes were achieved.

The GAO study also reported on the cost benefit for the same eighteen month period. The table below reproduces those results:

	HAMPTON	PORTSMOUTH
Administrative Costs	\$1,791,733	\$2,238,482
Collections	\$15,553,480	\$12,197,214
Cost to collect \$1	11.5¢	18.4¢

As the table shows, only administrative costs were considered. This approach failed to allow for start-up or contract administration costs. The figures do not reflect the actual costs of operating the offices since allocated costs were not considered. Allocated costs cover such areas as administration of the tax intercept program, computer time, etc.

All of these charges relate directly to the receipt of collections and, therefore, must be considered. Additionally, it is more comprehensive to look at the cost benefit of not just one office but both privatized offices compared to state-operated offices. Finally, by looking at two complete fiscal years, a more accurate analysis is obtained. This is especially true when one considers that collections typically take a full year to provide useful comparisons due to the cyclical nature of tax intercept collections.

If the costs from the cost benefit section of this report are used and expressed in terms of cost to collect one dollar of child support, the following results are obtained:

PERIOD	PRIVATE	STATE
SFY95	22.4¢	25.5¢
SFY96	17.8¢	21.3¢

As these results show, including all costs lowers the differential between the privatized and state-operated offices, although the privatized offices still show a better cost benefit ratio. In the GAO study the privatized offices had a cost benefit 60% higher. Based on the analysis in this study, the privatized offices had a better cost benefit compared to the state-operated offices of 13.8% in SFY95 and 19.7% in SFY96. Also, the same reservations already discussed in the cost benefit section on drawing conclusions for future contracts apply to this analysis.

COLLECTIONS CONTRACT

In addition to full-service privatization, the Division of Child Support Enforcement has a contract for the enforcement and collection of child support arrearages. This represents another approach to privatization: the privatization of discrete functions instead of all field functions as seen in the privatized District Offices.

The Commonwealth of Virginia entered into a contract with GC Services in 1991 for the collection of child support arrearages. The referral criteria for cases has changed somewhat over time with an increasing number of cases referred to the contractor. However, the main criterion for referral has been cases in which the Division has exhausted primary enforcement remedies and the cases are considered to be low payoff in terms of work invested vs. dollars collected. The contractor is only paid when collections are made. There are no comparable groups of cases or separate work by the Division to form a basis for comparison of private vs. state efforts.

The table below gives the collection totals, commissions, and percentage of collections represented by commissions for SFY95 and SFY96:

	COLLECTIONS	COMMISSIONS	PERCENT
SFY95	\$2,268,320	\$381,766	16.8%
SFY96	\$7,058,759	\$1,034,057	14.7%

Based on this information, it is apparent that the contract has been beneficial for the state. Collections rose by 211% from SFY95 to SFY96, while commissions rose only 171%. Given the fact that most of the cases worked by the contractor had been relegated to a low priority due to limitations in resources, the net collections from this contract can be considered a benefit to the citizens of the Commonwealth.

SUMMARY

Based on the results of this study, it can be concluded that the privatization of full-service child support offices is a cost-effective alternative based on the current contract. However, the question of whether privatization is a more attractive long-term alternative based on cost is open to speculation due to possible increases in the cost of future contracts. Virginia's experience to date could allow for the cost of future contracts to be tied to a ratio of the amount of collections compared with the cost of operating the offices, including the cost of the contract itself. In other words, it should be possible to tie the payments to the contractor to a set cost/benefit ratio.

In terms of performance, the privatized-offices showed significant improvement in the collection of child support from the first year to the second year of this study. During the second year of the study, the privatized offices increased child support collections at a higher rate than did the state-operated offices used as comparison. In the current fiscal year, the privatized offices continue to collect more child support than the state-operated offices. If the collections are examined as a ratio of collections per case and collections per obligated case, the results are mixed.

The fact that the state-operated offices collect more per case and that the privatized offices collect more per obligated case, would seem to indicate that the state-operated offices have obligated more cases and, therefore, collect more for the size of the caseload as a whole. However, the privatized offices are more efficient at collecting on the cases that are obligated.

In other areas of measuring performance the results were mixed. The privatized offices established more paternities in the two year period, but, when leveled by caseload characteristics, the differences were less significant. Additionally, when individual sample cases were reviewed, the state-operated offices actually performed better in establishing paternity when the location of the alleged father was known. It is not clear why there is this apparent contradiction. It could be the result of inaccuracies in the manual reporting of paternities established, or it could be due to unknown caseload characteristics, such as a greater pool of children requiring paternity establishment in the privatized offices. The fact that the privatized offices scored slightly higher in paternity and support compliance with federal regulations would also indicate that these offices are doing somewhat better at processing these cases.

Although the privatized offices established a greater number of paternities and support obligations during the two year study period, the rate of establishment of child support orders decreased by 5.8% in the second year. The state-operated offices increased the number established by 2.4%. Whether this is significant is an area that should be tracked in future reports. Although the privatized offices established child support orders on a higher percentage of cases in the case review sample, the state-operated offices had paternity as an issue in more cases and this may have affected the outcome since it takes longer to establish a support obligation when paternity is an issue as compared to establishment of an order on a child born of a marriage.

With regards to medical support services, both case compliance audits showed the state as a whole and the two state-operated offices in this study at a higher compliance rate. However, the separate case review analysis showed that the privatized offices initiated more actions to establish a medical support order, although there was little difference in the enforcement of medical support orders. The reasons for this contradiction are unknown and further study would be needed to determine the reasons. In general, however, there does not appear to be a great difference in service delivery in this area.

For locate, the review of individual cases revealed that the privatized offices had done more manual locate actions, but there was little difference in the number of successful locates. The data on the number of locates produced over the two year study period suggest that the state-operated offices were increasing successful locates, while the privatized offices decreased. Also, the state-operated offices produced more locates in the second year.

Since there is not a separate audit criterion for locate, the main service criteria, Paternity and Support Obligation, Medical Support, Review and Adjustment, and Enforcement were examined to determine the number of noncompliance errors cited because of a lack of locate action by the District Offices.

For the privatized offices, the rate was 19.4% and for the state-operated offices, 15.5%. While not conclusive, this would again indicate that the state-operated offices are performing at a slightly higher level in locate. This will be an area to watch in future reports.

In the area of enforcement, the data on collections is a strong indicator that the privatized offices are producing in this area. Based on the first compliance review in the study period, the state as a whole rated slightly higher than the privatized offices. However, in the second review in which the four District Offices in this study were examined, the privatized offices had a higher compliance rate. However, the individual case reviews revealed that the state-operated offices initiated more enforcement actions when required and collected money on more cases when enforcement action was necessary. Further study is needed in this area, but it may be that the privatized offices are collecting more money per paying case as a result of their enforcement actions.

CONCLUSION

Future reports will continue to evaluate performance measures and compliance with federal regulations. Because of resource constraints, it may not be possible to continue the evaluation of a sample of cases beyond the compliance reviews mandated by Federal Regulation and the contract with the privatized offices. Some states have enacted requirements to hire an independent contractor that has no ties to privatization to evaluate privatization initiatives, and Virginia may want to consider this alternative.

It is the conclusion of this study that the privatization of full-service child support offices is a viable alternative which should continue to be used on a pilot basis and studied in order to evaluate its value for wider implementation.

VIRGINIA ACTS OF ASSEMBLY -- 1996 RECONVENED SESSION

APPENDIX I

CHAPTER 1054

An Act to amend and reenact § 63.1-274.10 of the Code of Virginia and to amend the Code of Virginia by adding a section numbered 63.1-249.1, relating to child support enforcement.

[H 1401]

Approved May 6, 1996

Be it enacted by the General Assembly of Virginia:

1. That § 63.1-274.10 of the Code of Virginia is amended and reenacted and that the Code of Virginia is amended by adding a section numbered 63.1-249.1 as follows:

§ 63.1-249.1. Child support enforcement; private contracts.

A. Pursuant to the authority granted in § 63.1-249, child support enforcement fieldwork administrative functions in the Commonwealth may be performed by private entities on a pilot basis. The Department shall supervise the administration of the child support enforcement program, let and monitor all contracts with private entities and ensure compliance with applicable state and federal laws and regulations. The Department may also enter into contracts with private collection agencies and other entities to effect the collection of child support arrearages. Contracts entered into pursuant to this section shall be in accordance with the applicable laws and regulations governing public entities pursuant to the Public Procurement Act (§ 11-35 et seq.). Any contract to perform child support enforcement field work administrative functions entered into by the Department shall contain a provision that the entity to whom the contract is awarded shall give employment preference to qualified persons whose employment with the Division of Child Support Enforcement is terminated as a result of the privatization of child support enforcement functions. Notwithstanding any other provision of law, when hiring to fill vacant positions within the Department, preference shall be given to qualified persons who are unable to obtain employment with an entity who is awarded a contract to perform child support enforcement field work administrative functions pursuant to this section and whose employment with the Division of Child Support Enforcement is terminated as a result of the privatization of child support enforcement functions.

B. The State Board shall establish guidelines to implement the Department's responsibilities under this section. Such guidelines shall specify procedures by which child support enforcement funding mechanisms authorized by state and federal law are allocated to fund central office and privatized child support enforcement functions.

C. The Attorney General shall provide and supervise legal services to the Division of Child Support Enforcement in child support enforcement cases to establish, obligate, enforce and collect child support. In addition to other methods of providing legal services as may be authorized by law, the Attorney General may contract on a pilot basis with private attorneys to provide such services as special counsel pursuant to § 2.1-122 or to conduct pilot programs to evaluate the costs and benefits of the privatization of such legal services. The compensation for such special and private counsel shall be paid out of funds received by the Division of Child Support Enforcement as provided by state and federal law and such reasonable attorney's fees as may be recovered. The Attorney General may also use collection agencies as may be necessary and cost-effective to pursue fully the recovery of all costs and fees authorized by § 63.1-274.10 in proceedings to enforce child support obligations.

D. By July 1, 1997, and annually thereafter, the Department and the Office of the Attorney General shall each submit a written report to the Governor and General Assembly with a detailed summary and evaluation of pilot privatization of child support enforcement programs.

§ 63.1-274.10. Reimbursement of attorney's fees and certain costs.

The Department shall have the authority to assess and recover from the absent responsible parent in proceedings to enforce child support obligations against the absent responsible parent, reasonable attorney's fees in an amount not to exceed the amount allowed court-appointed counsel in the district courts pursuant to subdivision 4 of § 19.2-163. The Department shall also have the authority to assess and recover costs in such cases. However, the Department shall not be entitled to recover attorney's fees or costs in any case in which the absent responsible parent prevails.

The Department shall have the authority to assess and recover the actual costs of blood testing

against the absent responsible parent. The blood testing costs shall be set at the rate charged the Department by the provider of blood testing services.

The Department shall have the authority to assess and recover the actual costs of intercept programs from the responsible parent. The intercept programs' costs shall be set at the rate actually charged the Department.

The fees and costs that may be recovered pursuant to this section may be collected using any mechanism provided by this chapter.

REPORT OF THE
DEPARTMENT OF SOCIAL SERVICES

**CHILD SUPPORT
PRIVATIZATION STUDY,
VIRGINIA DIVISION OF CHILD
SUPPORT ENFORCEMENT,
DECEMBER 1997**

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA



HOUSE DOCUMENT NO. 2

COMMONWEALTH OF VIRGINIA
RICHMOND
1998

ADDENDUM TO CHILD SUPPORT PRIVATIZATION STUDY

VIRGINIA DIVISION OF CHILD SUPPORT ENFORCEMENT

DECEMBER 1997

Introduction

The Division of Child Support Enforcement submitted the first Privatization Study to the Governor and General Assembly in July 1997. The report focused on the full-service privatization of the Chesapeake and Hampton District Offices as contracted with Lockheed Martin IMS. The study compared these two offices to two similar state-operated offices, Fredericksburg and Portsmouth. This addendum offers updated data on some of the results contained in the first report.

Collections

The original report only contained partial collection data for SFY97. The table below gives the total gross collection data for SFY97.

SFY97	TANF	NTANF	TOTAL
CHESAPEAKE	\$1,638,491	\$8,799,871	\$10,438,362
HAMPTON	\$2,162,686	\$12,221,794	\$14,384,480
PRIVATIZED TOTAL	\$3,801,177	\$21,021,665	\$24,822,842
FREDERICKSBURG	\$1,430,026	\$11,271,430	\$12,701,455
PORTSMOUTH	\$2,320,443	\$7,686,179	\$10,006,622
STATE-OP. TOTAL	\$3,750,469	\$18,957,609	\$22,708,077

As in SFY96, the privatized offices collected more money with the primary factor being a higher rate of collections on NTANF cases. Compared to SFY96, the privatized offices collected child support in amounts +1% TANF, +20% NTANF, and +16.7% TOTAL. Comparing SFY97 to SFY96, the state-operated offices collected +1.2% TANF, +15.5% NTANF, and +12.8% TOTAL.

In the original study, it was stated that there are some caseload differences in the offices compared and that the size of the caseloads should be considered in comparing collections. The chart below depicts the collection data for SFY97 based on a dollar collected per case.

SFY97	TANF	NTANF	TOTAL
CHESAPEAKE	\$390.20	\$1,039.81	\$824.38
HAMPTON	\$375.08	\$1,067.97	\$835.82
PRIVATIZED TOTAL	\$381.45	\$1,056.00	\$830.97
FREDERICKSBURG	\$458.64	\$1,179.51	\$1,002.17
PORTSMOUTH	\$365.89	\$897.81	\$671.45
STATE-OP. TOTAL	\$396.46	\$1,046.40	\$823.44

Based on the above data, the privatized offices are collecting more money per NTANF case and for Total cases but the state-operated offices are collecting more money per TANF case.

The table below summarizes the collection data for the first full quarter of SFY98.

SFY97	TANF	NTANF	TOTAL
CHESAPEAKE	\$310,512	\$2,440,687	\$2,751,199
HAMPTON	\$449,765	\$3,350,421	\$3,800,186
PRIVATIZED TOTAL	\$760,276	\$ 5,791,108	\$6,551,385
FREDERICKSBURG	\$297,708	\$3,035,282	\$3,332,990
PORTSMOUTH	\$451,696	\$1,987,453	\$2,439,149
STATE-OP. TOTAL	\$749,404	\$ 5,022,735	\$5,772,139

This data shows that the privatized offices collected more child support in all categories for the first quarter of SFY98. The four offices have collected the following percentages of total collections compared to the amount collected in the first quarter SFY97:

Chesapeake→ 116.4%, **Hampton**→ 116.7%, **Fredericksburg**→ 119.6%, and **Portsmouth**→ 107.9%. A further analysis reveals that on TANF collections, the

rates are: Chesapeake→ 85%, Hampton→ 91.2%, Fredericksburg→ 119%, and Portsmouth→ 93.1%.

In fact, Chesapeake has collected the lowest proportion of TANF collections compared to the same period last year of any District in the state, and Hampton is 15th out of 20 Districts. Clearly, the privatized offices are continuing a trend of increasing overall collections by primarily increasing the NTANF collections.

Paternities

In SFY97, compared to SFY96, Chesapeake declined in the number of paternities established by 32% from 869 to 594, and Hampton declined by 17% from 1,247 to 1,041. During the same period, Fredericksburg increased paternities by 74% from 643 to 1,122, and Portsmouth increased by 4% from 941 to 976.

Child Support Orders

In SFY97, compared to SFY96, Chesapeake declined in the number of child support orders established by 5.9% from 911 to 857, and Hampton increased by 2.6% from 1,434 to 1,471. During the same period, Fredericksburg increased the number of child support orders established by 52% from 883 to 1,343, and Portsmouth increased by 8.5% from 1,049 to 1,138.

Locates

In SFY97, compared to SFY96, Chesapeake declined in the number of locates of noncustodial parents by 23% from 4,676 to 3,608, and Hampton declined by 1% from 4,895 to 4,854. During the same period, Fredericksburg increased locates by 27% from 5,602 to 7,106, and Portsmouth declined by 9% from 6,546 to 5,935.

Cost Benefit Analysis

In the original report a cost benefit analysis for SFY 95 & 96 was provided. The chart below gives the costs for SFY97.

SFY97	DIRECT	ALLOCATED	STARTUP	ADMIN.	TOTAL
PRIVATE	\$2,879,079	\$1,441,108	\$1,055	\$96,465	\$4,417,707

SFY97	DIRECT	ALLOCATED	STARTUP	ADMIN.	TOTAL
STATE	\$2,634,348	\$1,799,544	0	0	\$4,433,892

Based on the data in this chart, the state-operated offices cost \$16,185 more to operate in SFY97. A cost benefit analysis can be presented by comparing these costs to the total amount of child support collections. These figures for SFY97 are:

Privatized - \$5.62, State - \$5.12. This is a difference of 9.7%. In SFY96 the difference was 19.6% so the difference in cost benefit between the privatized and state-operated offices has declined during the last two fiscal years.

Summary

The updated data in this Addendum indicates that the privatized offices are doing a better job in collecting child support, but that the difference is based primarily on a higher collection rate on NTANF cases. In fact, the state-operated offices are collecting at a higher rate on TANF cases. This is significant with regards to the cost benefit ratio.

While the privatized offices continue to show a higher cost benefit, the difference between the private and state offices declined. Furthermore, the cost benefit analysis is based on the premise that all collections are treated equally. In fact, TANF collections have a far greater impact on the actual costs to Virginia taxpayers. It is recommended that the Budget Office do further analysis on the impact of this factor.

With regards to other performance measures included in this Addendum, the state-operated offices outperformed the privatized offices in the establishment of paternity and child support orders, comparing SFY97 to SFY96. On locates, three of the four offices declined in SFY97, but Fredericksburg, a state-operated office, increased the number of locates by 27%.

The Division of Child Support Enforcement will continue to monitor and report on the full-service child support privatization experiment.

COST BENEFIT ANALYSIS

FOLLOW-UP TO DCSE PRIVATIZATION STUDY

ANALYSIS OF SFY97 COST BENEFIT

This is an addendum to the Privatization Study submitted to the Governor and General Assembly in July 1997. That study compared the cost benefit of two privatized offices, Chesapeake and Hampton, operated by Lockheed Martin IMS to two state-operated offices, Fredericksburg and Portsmouth. The report contained analysis of SFY95 and SFY96 costs and benefits. This addendum gives similar data for SFY97.

The table below gives the costs for the privatized and state offices for SFY97.

SFY97	DIRECT	ALLOCATED	STARTUP	ADMIN.	TOTAL
PRIVATE	\$2,879,079	\$1,441,108	\$1,055	\$96,465	\$4,417,707
STATE	\$2,634,348	\$1,799,544	0	0	\$4,433,892

Based on the data in this chart, the state-operated offices cost \$16,185 more to operate in SFY97. A cost benefit analysis can be presented by comparing these costs to the total amount of child support collections. The amount of collections per dollar spent for SFY97 are: **Privatized - \$5.62, State - \$5.12**. This is a difference of 9.7%. In SFY96 the difference was 19.6% so the difference in cost benefit between the privatized and state-operated offices has declined during the last two fiscal years.

In the original Privatization Study an attempt was made to theorize as to the point at which the cost of a privatization contract would have resulted in an equal cost benefit for the private and state offices. In that study, the figure of 14% was determined. A later analysis by the Department of Planning and Budget offered an estimate of 14.7%.

In SFY97 for the privatized offices to have a cost benefit identical to the state offices (\$5.12) the direct cost of the contract would have to be \$3,309,583, instead of the \$2,879,079 actually paid. If the figure of \$3,309,583 is considered as a percentage of the total collections for SFY97 for the privatized offices, \$24,822,842, the result is 13.3%. Therefore, it can be said that a contract rate of 13.3% in SFY97 would have resulted in an identical cost benefit for the privatized and state-operated offices compared in this study.
