Literature Review On Performance-Based Contracting and Quality Assurance

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Introduction

During the 1990s, states experienced rapid increases in the number of children in foster care and related increases in the costs of care. By the end of the decade the federal government adopted new performance standards for states relating to child safety, timely permanency and well-being. While state agencies have always relied on private providers to deliver discrete child welfare services, several states and communities have responded to these new demands with privatization efforts, the application of managed care principles and most recently, the use of performance-based contracts (Wulczyn & Orlebeke, 1998; Embry, Buddenhagen & Bolles, 2000; McCullough, 2003).

The purpose of this literature review is to explore some of the recent literature on performance-based contacting and quality assurance efforts in child welfare services. This is a supplemental literature review to a longer literature review on the privatization of child welfare services also conducted under this contract. Reports, articles, studies and other materials for this report were located through a range of sources including the Child Welfare Information Gateway (formerly the National Clearinghouse on Child Abuse and Neglect), searches using "performance-based contracting," "performance contracting" and "Child Welfare Services" of a number of databases including:

- Ebscohost Databases: Academic Search Elite, Masterfile Premier, ERIC
- Social Service Abstracts
- Sociological Abstracts
- Google

Performance-Based Contracting (PBC)

Simply put, performance based contracting allows public agencies to contract for results rather than contract for services. While there is no universally accepted definition of performance-based contracting, Martin (2003) puts forth a general definition: "A performance-based contract is one that focuses on the outputs, quality and outcomes of service provision and may tie at least a portion of a contractor's payment as well as any contract extension or renewal to their achievement." (p.4)

There are several reasons that government agencies have turned to performance-based contracting. Perhaps more than other contracting relationships, in performance-based contracting, contractors can be considered "strategic partners" that are given incentives to innovate, improve and deliver better services and thereby improve child and family outcomes (Eggers, 1997). A recent report (FCS Group, 2005) found that PBC has also been thought to:

1. Encourage the public sector to identify priority areas to invest resources and maximize client outcomes;
2. Encourage providers to be innovative and efficient in service delivery;
3. Encourage providers to control costs;
4. Encourage contractors and government to work together to deliver the best services to clients;
5. Set groundwork for program evaluation and monitoring by focusing work statements on outcomes; and
6. Require less monitoring by minimizes reporting requirements and encourages more meaningful monitoring.

There is no single model for performance-based contracting; rather there are a variety of approaches with a shared goal of creating contracts that lead to better results. Contractors can be paid for delivering certain services, delivering services to a set number of clients, delivering "quality" services, and/or achieving specified child, family or systems outcomes (Martin, 2003).

As discussed more fully below, there are a range of program models that fall within the rubric of PBC. Contract mechanisms differ by how they are:

- structured financially,
- when payments are made,
- what they reward,
- what information is collected from contractors, and
- the level of financial risk assumed by the contractor.

For instance, contracts that specify performance standards and only base contract renewal decisions on contractor performance expose private providers to less risk than those that directly link payment to achievement of these standards. In addition to what is reimbursed, contracts differ by when funds are paid to the private provider. PBCs vary greatly by the extent to which they pay providers prospectively (e.g. paying for some level of administrative costs up front) versus retrospectively (e.g. paying providers for the completion of milestones). Furthermore, some states reserve some funds for risk sharing plans

used if the contract expectations are found to significantly exceed agency performance, a form of stop-loss measure.

1. History of PBC and Use in other Human Services

As early as 1982, some federal programs such as those funded under the Job Training Partnership Act, were required to develop contracts that used client outcome measures and provide incentives and sanctions accordingly (Yates, 1997). The federal government's interest in PBC expanded in the early 1990s. The **Government Performance and Results Act of 1993** (Public Law 103-62) and the Service Efforts and Accomplishments (SEA) reporting initiative of the Governmental Accounting Standards Board (GASB, 1994) highlighted the importance of performance accountability. In late 1994, 26 federal agencies signed voluntary pledges to convert nearly 100 service contracts to performance-based contracts (Eggers, 1997). By 1997, federal acquisition requirements were rewritten with specific language about the need for performance requirements and quality standards in both contract requirements and quality assurance. These laws and initiatives discussed the importance of measuring contract performance on both the delivery of agreed upon services as well as the results or impact of services on clients.

Several states have also adopted PBC in one or more service areas. Martin (2005) found that at least ten state human service agencies were using performance-based contracting. [1] Others, including Wisconsin and Washington DC have developed PBCs since Martin's review. In two states, Florida and Maine, state legislatures have mandated the use of PBCs for *all* human service contracts. [2]

FCS Group (2005) found that PBCs were being used to procure a wide range of government activities and services including:

1. information technology systems
2. health services
3. employment services
4. correctional services
5. educational services
6. janitorial services, and
7. child welfare services

Following is a description of three state PBC models used for employment services programs.

Minnesota

The Refugee Services Section of the Minnesota Department of Human Services implemented performance contracts for job placement in 1990. Each contractor receives a

[1] These are: Arizona, Florida, Illinois, Maine, Massachusetts, Minnesota, North Carolina, Oklahoma, and Pennsylvania.

[2] In both cases, states agencies were only required to specify performance measures in contracts for contract renewal purposes– contract funds were not necessarily paid on the basis of achievement of specified contract measures.

grant based on the number of clients it proposes to serve and the cost of placement per client. The providers submit a 2-year work plan with performance indicators with quarterly targets for all activities leading to job placement which include clients' average hourly wages, termination of clients' cash assistance due to earnings, job retention, and number of full-time placements receiving health benefits (Vinson, 1999).

If a provider performs at a level below 80% of its targets, a corrective action plan must be submitted within 15 days and the plan has to be implemented the following quarter.

If performance does not improve, contractors are placed on probation, and if performance still does not improve, the program reports on a weekly basis to the state. Annual reviews determine the contractor's next year budget based on their performance in the previous year (Vinson, 1999).

Oklahoma

The Community Rehabilitation Services Unit (job training and job placement program for people with disabilities) of the Oklahoma Department of Rehabilitation Services (DRS) implemented the Milestone Payment System in 1992.

Contracts are paid when certain milestones are achieved. Initially, contractors submit bids for the average cost per client, and are paid portions of this total once performance milestones have been achieved. Higher incentive payments are given for harder-to-place clients. For final payment, customer and employer information on satisfaction after job stabilization is required (Vinson, 1999). Contractors are paid a portion of the case rate when the following milestones are achieved (Martin, 2003):

- determination of client need 10%
- vocational preparation 10%
- job placement 10%
- job training 10%
- job retention 15%
- job stabilization 20%
- case closure (client rehabilitated) 25%

Pennsylvania

Pennsylvania adopted a similar model for its own welfare to work program, Community Solutions. Pennsylvania Department of Welfare pays contractors for reaching milestones in individual cases. Payment is not derived from a case rate; rather, contractors are paid fixed rates for certain milestones that are achieved. A contractor must reach these milestones in order to receive payment for services. Examples of milestones and associated payments include (Martin, 2003):

- Participation (client completes an assessment) $1,000
- Placement (client obtains unsubsidized employment) $1,000
- Medical Benefits (the job includes medical benefits) $400
- Job Retention (client remains employed for 12 months) $1,600

2. Models of Performance Based Contracting in Child Welfare

a) Background

Wulczyn (2005) reminds us that the child welfare field has long had performance expectation with its contracts. He maintains that the difference today is that the field is using new expectations and the expectations are more specific. Performance measures are moving away from expectations about the quantity of service units delivered and toward the product of these services and the experience of children and families in care. Following is a discussion of six state child welfare contracts that use a range of PBC models.

b) State and Community Models

Kansas

Many states including Kansas have developed contracts that include both performance measures and performance standards that contractors must meet to recompete for contracts. Kansas is a state that has adopted an extensive list of performance standards.

Table 1
Performances Standards in Kansas[3]

Family Preservation
• 97% of all families referred shall be engaged in the treatment process. • 90% of families will not have a substantiated abuse or neglect report during program participation. • 80% of families successfully completing the program (no child removed from the home) will have no substantiated reports of abuse or neglect within six months of case closure. • 80% of families will not have a child placed outside the home during program participation. • 80% of families successfully completing the program (no children removed from the home) will not have a child placed outside the home within six months of case closure. • Participants (parents and youth ages 14-21) living in the home will report 80% satisfaction as measured by the Client Satisfaction with SRS Service Survey 30 days from the start of the program.
Foster Care
• 98% of children in the care and supervision of the contractor will not experience substantiated abuse/neglect while in placement. • 80% of children will not experience substantiated abuse/neglect within 12 months of reintegration. • 70% of children referred to the contractor will have no more than three moves subsequent to referral. • 70% of all children will be placed with at least one sibling. • 70% of children referred are placed within their home county or contiguous county. • 75% of youth, 16 and over, released from custody will have completed high school, obtained a graduate equivalency diploma or are participating in an educational or job training program. • 40% of children placed in out-of-home care are returned to the family, achieve permanency or are referred for adoption within six months of referral to contractor.

[3] Table adopted from Mahoney, M.: Privatization in Kansas: Where We Are and What Is Our Future? Pp. 72-74.

- 80% of children who are reintegrated do not re-enter out-of-home placement within one year of reintegration.
- 65% of children placed in out-of-home care are returned to the family, achieve permanency or are referred for adoption within 12 months of referral to contractor.
- Participants (parents and youth age 16-21 years) will report 80% of satisfaction as measured by the Client Satisfaction with Family Reunification Services Survey 180 days after referral or at case closure.

Adoption

- 55% of children will be placed with adoptive families within 180 days of the referral for adoption.
- 70% of children will be placed within adoptive families within 365 days of the receipt of the referral for adoption.
- 90% of adoptive placements shall be finalized within 12 months.
- 90% of adoptive children shall continue to have adoptive parents as their legal guardians 18 months after finalization.
- 90% of families (parents and youth age 14 and older living in the home) shall report satisfaction with the adoption processes at the time the adoption is finalized.
- 65% of children will be placed with at least one sibling.
- 90% of all children placed for adoption shall experience no more than two moves from the point in time parental rights are terminated until the adoption is finalized.
- 95% of children in the care and supervision of the contractor will not experience confirmed abuse/neglect prior to finalization.

In Kansas, performance on these measures is used as one factor to determine if contracts are renewed. Other states, including Michigan, have implemented performance based contracts that directly reward or penalize performance on select measures.

Michigan (Adoption Program)

Michigan has a long history of using PBC in its contracted adoption programs. Until 1992, Michigan reimbursed adoption providers for actual expenses. In 1992, it began an incentives program that rewarded agencies different payments based on the special needs of the child placed and the speed with which they made the placement (Snell, 2000).

Children eligible for adoption and not placed within 6 months must be registered on the Michigan Adoption Resource Exchange (MARE). In this way, children become available on a statewide basis for placement by any private adoption agency contracted by the state. Under the state's PBC model, entitled an "outcome reimbursement system," providers are rewarded for achieving specific outcomes or are rewarded for unique recruitment efforts. Reimbursement levels in 2002 were as follows:

- **Residential rate** (placing a child for adoption directly from residential care within 120 days): $10,000
- **MARE rate** (paid to a non-custodial agency that places a child registered on MARE with a recruited family): $9,325
- **Intra-Agency MARE rate** (paid to the custodial agency that places a child registered on MARE for 6 or more consecutive months with a recruited family): $7,000

- **Five-month premium rate** (paid to an agency that places a child in its care in an adoptive placement within 5 months of TPR): $8,660
- **Enhanced Rate** (paid to an agency that places a child in its care in adoption within 7 months of TPR): $6,520
- **Standard rate** (paid to an agency that places a child in its care 7 months after the date of permanent wardship): $4,160
- **Enhanced pre-placement fee** (paid to an agency when a child in its care is referred to another agency or Department of Human Services (DHS) office within 3 months of the permanent wardship date): $2,600
- **Standard pre-placement fee** (paid to an agency when a child in its care is placed by another agency or DHS local office and criteria for the enhanced pre-placement fee don't apply): $1,300

Wayne County, Michigan (Foster Care Program)

In 1997, four of 19 foster care providers in Wayne County (Detroit) volunteered to participate in a pilot PBC initiative. This number increased to six in 2000. As described by Meezan & McBeath (2004), the pilot uses as a performance-based, managed care approach. Private providers agreed to be paid a reduced administrative per diem rate compared to the remaining foster care providers. To supplement this, providers were also paid an upfront initial per child payment and additional bonus payments when certain performance milestones were reached. Following is the payment schedule along with the milestones and payment levels used in the 2001 contracts:

▪ Initial payment	$2,210
▪ Placement with parents, family member, guardian, or an independent living within 290 days	$1,900
▪ Sustained placement of 6 months	$1,290
▪ Sustained placement of 12 months	$1,600
▪ Termination of parental rights within 515 days	$1,900
▪ Adoption within 7 months of TPR	$1,290

North Carolina

North Carolina provides another example of using PBC for its statewide adoption contracts. Martin (2003) explains that providers are paid percentages of an "average placement cost" at certain milestones:

- 60% of the average placement cost if a child is placed in an adoptive home,
- 20% when the decree of adoption is finalized and
- 20% when the placement is considered "intact" (child has been placed for 12 months).

A third model of PBC uses a hybrid model that promotes target outcomes by managing provider caseloads.

Illinois

In 1997, Illinois had approximately 51,000 children in out-of-home care. Anticipating the impact of the upcoming federal Adoption and Safe Families Act, the state sought a new way to deliver services that directly rewarded performance on key permanency outcomes. First piloted in Cook County (Chicago), agencies under the new performance-based contracts were required to accept a certain percentage of their caseload in new referrals, and move a certain percentage to permanency each year. By exceeding the permanency expectations, an agency could secure caseload reductions without a loss in revenue. Falling short of the permanency goals meant serving more children without an increase in payment.

The new state system also involved investing more in services that support permanency, including reunification/after care services and therapeutic services (O'Brien, 2005). In conjunction with the new contracting model, the state implemented a new risk assessment protocol, redefined relative placements and implemented an extended family support program.

By 2005, Illinois' foster care caseload had fallen to approximately 18,000, or by 65 percent. The number of private agencies delivering services also declined because of the reduced number of children in care. Blackstone, Buck & Hakim (2004) found that the state retains better performing agencies and eliminates ineffective ones based on agency performance data.

State officials point to three lessons learned about gaining buy-in for this process and thereby achieving program goals:

- Private providers had meaningful input into the planning and design phase. In 1997, providers met with state staff and formed a work group that crafted the plan, policies and implementation strategies of the new system.
- Providers were concerned about the data by which performance would be measured. Providers wanted to be confident that the data would be accurate and reliable. In consequence, the state contracted with Chapin Hall Center for Children at the University of Chicago to administer the management information system used to guide decisions about performance and payments to private agencies.
- Finally, the state gained buy-in for the new system by making a commitment to providers that a percentage of any money saved by reducing the number of children in foster care was reinvested into the system to improve services and protect children. This included increasing staffing of case management teams, recruiting additional foster homes, and expanding the availability of emergency placements and clinical services (McEwen, 2006).

Philadelphia, Pennsylvania

In March 2003, Philadelphia began piloting its own PBC initiative with 27 foster care provider agencies, based on the Illinois model discussed above. Providers are paid a fixed target administrative payment per child for the fiscal year. Providers are given a target number of permanencies they must achieve in one year (38% of its starting caseload),

and must accept new cases that are referred through a rotational assignment system. If a provider does not meet its targeted number of permanencies, the administrative payment will not cover the cost of services for the remaining children who have been referred to the agency. Each provider has an annual "non-permanency allowance" which means that the contract allows for a certain number of cases that do not reach permanency based on contract size. Most of these cases fall into one of three categories -- transfers to other agencies, step-ups to treatment foster care or runaways (Hollingworth & Roth, 2006).

Philadelphia's foster care system operates under dual case management where private agency workers and Department of Human Services (DHS) workers share responsibility for each case. Workers regularly meet and discuss the case and are expected to show a united position on petitions filed in court (Hollingworth & Roth, 2006).

Philadelphia uses Fels Institute of Government at the University of Pennsylvania to operate its MIS. The PBC Permanency Monitoring System produces quarterly reports that compare performance to target caseloads and other measures. The monitoring system produces three kinds of reports:

1. A system-level summary report that compares permanency and non-permanency measures relative to targets. The report generates both overall and agency-specific findings;
2. An agency-level report that breaks down the permanency and non-permanency categories for each agency as well as quality of care measures (such as stability of placements with foster families; intactness of sibling groups in care); and
3. A case-level report for individual agencies that shows outcomes for individual children in care (Hollingworth & Roth, 2006).

3. Designing Performance Based Contracts and Selecting Outcomes and Measures

a) Project Planning

The literature provides much in the way of best practice in planning for and designing contracts including PBCs. As a first step in contract planning, it is widely suggested that government funders pull together a broad group of key stakeholders to reach consensus on a shared vision for the child welfare system (Kahn and Kamerman, 1999; McCullough, 2003). Key among the participants is representatives of the courts because judicial decisions supersede public and private agencies and therefore play a large role in the success, or failure of contract performance.

Once the contract has been conceptualized, and the decision has been made to proceed, there should be commitment from the leadership of both the public and private sectors to initiate and sustain efforts. If all key players are invited to participate in planning, and consensus is reached on the core contract components, the initiative will at a minimum have "insurance against missing important issues and considerations" (Kahn and Kamerman, 1999)

Contract planners must describe the problem that needs to be solved and understand the current level of performance. Together, they must decide what will constitute success. Shaver (2006) who discusses the Illinois experience with designing the PBCs recommends that performance expectations should reflect and reinforce the agency's larger objectives. States and communities must understand the current system shortcomings – are too many children entering custody? Are they not being returned home or being adopted? Are too many children in group settings? Contracts should be designed to address specific system deficiencies or inefficiencies.

When planning privatization efforts, in addition to basing program goals and desired outcomes on baseline data and performance targets, several issues must be considered and thought through including:

- The needs and service utilization patterns of the target population;
- Costs for all the services that make up the service array;
- Contract risk arrangements and case rates based on actuarial data;
- Clear performance work statement or statement of objectives that allows contractors to "solve problems including the labor mix." Include in the statement of work a description of the scope of services, the performance objectives and any known constraints.
- Roles and responsibilities of public and private agency case managers and administrators;
- Private agency qualifications (e.g. credentialing) and readiness (e.g. do agency staff have sufficient clinical expertise in working with target families);
- Agency grievance and appeal processes;
- If working with tribal children, roles and responsibilities of public and private agencies in matters of notification and service coordination between tribal child welfare systems and state systems;
- Strategies to monitor contracts and hold agencies accountable including how to manage and measure performance. (It was suggested that contractors be invited to propose the metrics and quality assurance plan.)

One of the most widely reported obstacles in planning for privatization efforts is the lack of accurate data on costs, caseload trends, service utilization and outcomes in the current child welfare system. Good data systems are important for successful management of any organization and critical for managed care and performance-based contracts. Substantial software, hardware and training is needed to ensure that information technology is available and used for system implementation and improvement (Westat and Chapin Hall, 2002).

Clearly establishing roles and responsibilities of public and private agency workers is key to program success and has been one of the more complex activities faced by states and jurisdictions in implementing reforms (ORC Macro, 2003; Kansas Action for Kids, 2003; Figgs and Ashlock, 2001). A 2002 Westat and Chapin Hall national survey of privatization efforts also found a broad continuum of collaborative arrangements between public and private agency staff from states that only monitored outcomes to states that met regularly with private agency workers to consult on casework decisions. This topic is discussed more fully in the next section on program monitoring.

b) Selecting Measures

Key to the success of PBCs is the selection of the best measures. What should providers be accountable for? Several factors help produce service quality – sufficiently low caseloads, well trained staff, availability of a range of social, health and mental health services, culturally relevant programs, even distance to services. This said, advocates for PBC maintain that contractors need not be monitored on these inputs or outputs of services delivery, but rather the effects that these factors have on the target population.

From his research in the field of PBCs in a variety of human services, Friedman (1997) offers a series of recommendations about identifying outcomes or results:

1. Performance measures should be **fair,** that is, reflect factors and products that the contractor can truly influence and/or has significant control over. While contractors can not totally control any outcomes, understanding what can and cannot be expected, and a reasonable level of performance must be considered when crafting contracts. For instance, foster care agencies may have more control over placement decisions than they do over children being at appropriate grade level in school due to children's past school participation and individual learning difficulties. Illinois, for instance, recently updated its performance standards within its performance based contracts and while including (and thereby measuring) children's educational goals, the state is not directly linking contract payment to contract performance in this area.
2. Performance measures should be **connected** to other systems including agency goals, management information systems and budgeting practices. As previously discussed, ideally, baseline data should be available for all measures so that public agencies can have accurate information on which to forecast expected contract performance. Because private agency revenue will be driven at least partly by performance, it is critical to have realistic expectations. Data should also be easily accessible so that it can be tracked and reported frequently and regularly.
3. Measures in PBCs should be **clear** and easy to understand by both agency officials and the general public. Do the measures communicate to both internal and external partners – "how we are doing"?
4. The **number of measures should be small** and the information gathered should be **practical** because data collection is expensive and time consuming. Ideally, data collection should be organized around what a caseworker is already measuring or data that would be practical for the worker – measures that serve as a tool to assist the worker conduct their jobs (dates of key events, receipt of needed services, type of placements, permanency status).
5. Eggers (1997) suggests that contractors should be invited to provide recommendations about the performance indicators. This will help reduce the number of misunderstandings about the measures.

In its most general sense, performance contracting clarifies or spells out the desired results from contractors. Not surprisingly, studies have found that the most frequently used outcome measures in child welfare contracts involve child safety, permanency and well-being. Within each of these broad outcomes, states use a range of indicators and standards to measure success.

In addition to traditional child welfare outcomes, many initiatives are adopting some features of managed care performance indicators, including the collection of customer satisfaction data and access to services. In the national CWLA survey of privatized models directed by McCullough and Schmitt (2003), the study authors found that among those initiatives studied: 88 percent measured indicators of child safety, 79 percent measured recidivism or re-entry standards; and 71 percent measured indicators of permanence within certain timeframes. About two-thirds of the initiatives measured client satisfaction and child functioning outcomes (Collins, 2004).

In its national survey of 27 child welfare managed care sites, the General Accountability Office (GAO, 2000) found that the following outcomes and measures to be most common.

Table 2
Examples of Child and Family Outcome Measures

Category	Outcome	Measure
Safety	Children are safe from maltreatment	• Confirmed reports of abuse and neglect in the general population • Recurrence of abuse or neglect while children are receiving in-home services • Reports of abuse or neglect while the children are in out-of-home care • Recurrence of physical abuse, sexual abuse, or neglect after children have left care
Permanency	Children are placed in a permanent home in a timely manner	• Children who are returned to their parents or relatives within a specified time • Finalized adoptions • Children who achieve permanency within a specified time • Average length of stay in out-of-home care • Children who are maintained in their home and do not enter out-of-home care
	Children maintain the permanent placement	• Children who reenter care within a specified time
Well-being	Children function adequately in their families and communities	• Children's emotional and behavior crises that result in hospital use or police calls • Children's behaviors related to sexual misconduct, running away, and suicide • Children's scores on standardized tests of childhood functioning • Children's movement to less restrictive placement settings

General Accountability Office (2000), **Child Welfare: New Financing and Service Strategies Hold Promise, but Effects Unknown**

As described below, many state or local child welfare systems that have adopted PBC are looking at only client level outcomes. Some however, are also looking at the quality of service delivery. In fact Illinois has recently expanded the type of measures it uses to include measures of social worker "engagement" with children and families as measured by: child and family involvement in case planning, worker visits with children, and worker visits with family.

4. Research: What is Known about the Impact of PBC?

This section presents some initial findings on the impact of PBCs within both child welfare systems as well as other human service fields. Most of the information available to date on impact of PBCs in the child welfare system is derived from state reports that use administrative data to present changes in caseload trends pre and post implementation of PBC.

Martin (2003) explains that much of information on the efficacy of PBC comes from state reports and documents which have not been independently verified. Extremely few third party evaluations have been conducted on this type of contract mechanism. Further, process and descriptive data describing the planning and implementation process is lacking in most cases. Due to the lack of rigorous and multi-tiered evaluations conducted to date, it is difficult to isolate the impact of PBCs from other program reforms and policies implemented in conjunction with changes in contracting methodology.

a) Child Welfare Programs

Philadelphia, Pennsylvania

State administrative data provides the following information about the impact of PBCs on Philadelphia's foster care system. As discussed above, Philadelphia adopted the Illinois PBC model in FY2003.

1. Between FY 2002 and FY 2005, Philadelphia's permanency rate (as measured by numbers of permanent placements) increased by 84%. The stability of placements also increased by 50% over the same period.
2. The percentage of reentry into care within 365 days has declined.
3. The average length of stay in foster care decreased from 44 months in July, 2002 to 34 months in July, 2005.
4. The average length of stay in kinship care decreased from 33 to 27 month (Reh, 2006).

State officials report that PBC has also increased communication and the use of data between DHS and private providers. There is more collaboration and opportunity to openly discuss issues in the child welfare system (e.g. referral and aftercare), and there are now joint trainings on permanency and aftercare (Reh, 2006).

Wayne County, MI (Foster Care Program)

In Wayne County (Detroit), county administrative data from Phase I (1997-2000) indicates that across all categories, private agencies exceeded contract expectorations (Freundlich & Gerstenzang, 2003).

- Contracts required agencies to achieve permanency within 315 days. The average number of days from case acceptance to permanent placement for the four agencies was 133 days.
- The average number of days from case acceptance to termination of parental rights was 272 days compared to the contract limit of 600 days.
- Between April 1997 and March 2001, the initiative served 2,589 children. 1,283 of these children were reunified with either a parent (43%) or a relative (57%). 83% of these children were reunified within the required time frames.
- The agencies freed 656 children for adoption, 81% within the required time frames (Freundlich & Gerstenzang, 2003).

North Carolina (Adoption Program)

State administrative data reported in Vinson (1999) provides the following information about the success of North Carolina's PBC initiative. As discussed above, adopted in 1995, these contracts only pay providers after they have achieved specific milestones in the adoption process. In FY 1993-1994 (prior to the new contract), the state completed 261 adoptions;

- In FY 1995-1996, the number increased to 364.
- In FY 1996-1997, there were 631 adoptions, and
- In FY 1997-1998, there were 603 adoptions.

b) Other Social Services

Oklahoma

Vinson (1999) provides the following state administrative data on the performance of Oklahoma's PBC system implemented in 1992 used for its employment services program. Comparisons are made pre and post implementation of PBC.

1. Providers' cost per placement declined 51% between 1992 and January 1997.
2. The average number of months clients spent on waiting lists decreased by 53% from 8.14 months to 3.85 months, and the average number of weeks in assessment fell from 12.1 to 9.9% (an 18% drop).
3. The number of individuals who were unable to get employment fell by 25%.

Minnesota

Vinson (1999) reported similarly positive findings for Minnesota's job placement program that uses PBC. Based on administrative data, in the five years after implementing PBC (1995 to 1999) job placements increased annually from 591 to 1,136. There were also gains in clients' average hourly wages, jobs with health benefits, and termination of cash assistance because of earnings.

1. Quality Assurance

There are several parallels between PBC and quality assurance (QA) efforts. A well developed and implemented PBC inherently support agency QA efforts through similar processes of identifying agency goals and measures, collecting data and modifying systems (or contracts) to make improvements.

The National Child Welfare Resource Center for Organizational Improvement (NRC) has examined QA systems in state child welfare agencies across the country. In 2002, the NRC published: **A Framework for Quality Assurance in Child Welfare** that provides a history of QA efforts, a framework for best practice and a state-by-state analysis of QA efforts and strategies. The report explains that federal law (471(a)(22)) of the Social Security Act passed in 1980 required child welfare agencies to create and conduct plans to ensure the health and safety of the children in their care.

Until recently, quality assurance systems consisted largely of case record audits to monitor and report on the extent of compliance with state and federal requirements. Today, state child welfare agencies are expanding these efforts, assessing a range of information on program quality, practice and client outcomes. Quality assurance efforts have also expanded in their use of administrative data and now use perceptional data gathered through interviews and questionnaires. Data is collected from a broader range of internal and external partners and stakeholders including managers, staff at all levels and clients.

Probably more so than other contracting arrangements, PBC is directly linked to ongoing QA efforts. Traditional contracts specified process measures, who and how many should be served and day-to-day operations of the program. They measured outputs (number of children or families served or number of hours spent on families) rather than service quality and results (the impact of services). As discussed, increasingly, as contracts are written to include performance measures, government agencies are tying agency performance to payment mechanisms and payment schedules. Contracts are being monitored, and in many cases, rewarded on child and family outcomes in addition to their compliance with process or practice standards. As agency priorities shift, the measures used on the PBCs are adjusted to address the new priorities.

2. Monitoring Performance-Based Contracts

While a critical component of any privatization effort, a 1997 GAO study found that monitoring contractors' performance "was the weakest link in the privatization process" (GAO, 1997; p.14).

The monitoring plan for a PBC defines what the government will do to ensure that contractors are delivering the results specified in the contract's performance standards. Eggers (1997) looked at what several state human services agencies had done in the way

of developing and implementing performance-based contracts and recommends that agencies must prepare this plan *before* issuing the RFP. Friedman (1997) suggests that the monitoring plan should be quantifiable and specific and include:

- reporting requirements,
- how information will be shared (through materials and meetings),
- complaint procedures, and
- how the government will access client records.

The plan should focus on monitoring and evaluating the *major* outputs (e.g. how many people did you serve) and outcomes (what was the effect of the service) specified in the performance measures. This will save time and resources by reducing the effort normally spent on monitoring the more routine tasks of service delivery.

Martin (2003) argues that if governments use PBC to identify the most important performance requirements, along with specific performance measures, than monitoring should be primarily concerned with determining and validating the extent to which the desired performance is achieved. While duties and responsibilities of both governments and contractors should be clearly spelled out, PBC can offer contractors more discretion over timing and amount of services delivered in order to achieve the identified outcomes. In this way, contracts should be written with "performance specifications" rather than with "design specifications." (Martin, 2003 p8) In short, PBC can *reduce* time dedicated to contract monitoring when contracts specify a limited number of outputs and outcomes that are monitored over time.

The second phase of monitoring is enforcing consequences of provider performance. This phase presents its own challenges. For example, in situations where the PBC was designed to expedite permanency, strong performance might eventually involve downsizing (or even eliminating) existing contracts. Even with performance data, these decisions are not easy, politically or practically.

In another example, if a community has relied heavily on a single, longstanding provider that is not meeting expectations and the contract is given to a new provider, there is a range of transaction costs (e.g. hiring and training workers, developing sufficient MIS capacity) associated with shifting service from one provider to another – which can cause delays in service delivery (Shaver, 2006). In short, following through with performance findings is complex and agencies must be clear that they have the leverage to enforce the consequences if private providers fail to meet contract expectations. These matters must be considered as early as the planning phase.

Conclusion and Lessons Learned

States and communities are increasingly exploring the use of performance-based contracting in child welfare services. While the use of performance expectations is not new in child welfare contracting, directly rewarding or penalizing contractors on performance is a growing trend in order to better serve the children and families in state child welfare systems.

Restructuring contracts away from purchase of service or fee-for-service arrangements where providers are reimbursed for allowable expenses, requires careful attention to past performance and costs of care. If providers are truly going to be assessed and paid for achieving specified results – rather than for delivering services -- much has to change in the way of contractor/provider relations and contract monitoring. Following are some recommendations from the field about establishing contracts and ensuring quality services.

The National Child Welfare Resource Center for Organizational Improvement (NCWRCOI) has tracked several child welfare performance-based contracting initiatives and provides most of the following suggestions about contract oversight and management of performance-based contracting.

- **Conduct inclusive and ongoing problem solving:** In order to develop successful performance-based contracts, public agencies need to meet regularly with contractors and genuinely engage them in planning and problem solving. Discussions should include selecting outcomes/goals, and reviewing existing information and data on where performance is at the moment. Discussions should also include the barriers and steps that could be taken to make improvements, and development of mutually agreed upon action plans. Reviews should be ongoing with opportunities to make contract adjustments (O'Brien, 2005).

- **Acknowledge that a contractor's ability to perform will be limited by the same barriers faced by the larger child welfare system:** Agencies must consider how realistic the goals are, given other systemic challenges in the community including inadequate social and mental health services and insufficient numbers of qualified social workers and foster homes. "For contractors to perform well on outcomes over time the barriers to improved performance in the system as a whole must be addressed" (O'Brien, 2005, p.2).

- **Focus on data**: Planning discussions should include a focus on data sources and reporting methods and defining data indicators to ensure that they are seen as reliable and valid by both agencies and providers. Given the poor quality of much administrative child welfare data, it is reasonable to "expect to invest significant resources (of both time and money) into developing good data to guide negotiations on assessing current performance and planning for improvements." (O'Brien, 2005; p1)

- **Monitoring contracts**: In conjunction with discussions about what information should be collected and how it is to be collected, the public agency must consider

who is available and trained to analyze the data, and how the results will be disseminated. Performance-based contracting requires horizontal communication; key departments should be in constant communication with one another including program, IT, and accounting units. (Meezan & McBeath, 2004).

- **Expect to change and adjust contracts over time:** Once agencies and providers decide on some mutual outcomes and indicators and the performance they would like to see on these, conduct a sample data run to ensure the information is available and is measuring what was intended. States and communities might consider a "hold harmless" period in which the new payment scheme is tried and monitored jointly by the agency and providers. In this way, if goals far exceed performance, agency and providers can establish more reasonable goals and also adjust targets over time.
- **Emphasize partnership and team work:** Martin (2003) suggests that performance-based contracting means a change in the historic relationship between contractors and agencies that requires more trust and open communication to ensure success. Private providers can be given increased discretion over inputs and process, while being held accountable for outputs, quality and outcome performance.

Friedman (1997) reminds us that performance-based contracting and ongoing quality assurance systems can be thought of as "accountability systems" which are not ends in themselves but rather a means to improving child well-being.

> *"If accountability is real, than it affects things that matter. It provides consequences for success and failure. Performance measurement… can help build public confidence in government and community institutions, and more importantly, help us create improved results for children, families and communities."* (Friedman, 1997, p. 30)

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