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A Case Study of an Agency's Three Family Preservation Contracts

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This article presents a case study of a nonprofit child welfare agency that delivered family preservation services under three different purchase-of-service (POS) contracts. The research specifically focuses on how certain POS contract provisions and reimbursement rates influence the delivery of family preservation services. The three contacts examined differed on criteria, such as reimbursement mechanism, service volume, definition of clientele, and reimbursement rate. The study found that as reimbursement rates decline and as administrative costs increase, the service provider struggled with cash flow, staffing, fundraising, and service provision, among other things. It is concluded that contract-related resources, policies, and procedures impact provider agencies in multiple, significant ways that are critical to the provision of services and the accomplishment of positive client outcomes.

Contracting out by public agencies for goods and services produced in the private sector is a longstanding governmental practice, including in the human services sector. Agreement exists that the practice of contracting with private agencies accelerated during the Reagan Administration (DeHoog, 1984; Gronjberg, Chen & Stagner, 1995; Kamerman & Kahn, 1998; Rosenthal, 2000) to the point where "purchase-of service-contracting is the principal mode of human services delivery in this country" (Kettner & Martin, 1996b, pp. 107-108).

While it is yet to be the case that purchase-of-service contracting is the principal mode of service delivery in child welfare, it is fair to say that the practice is quite extensive, notwithstanding whether governmental child welfare agencies are implementing the broad policy approaches of privatization, managed care, or some hybrid of the two. The specific funding levels set by contracts as well as a variety of contract provisions are, therefore, of critical importance to all parties involved, ranging from public and private agency leaders and staff to the eventual recipients of services and their advocates. In addition, the structure and quality of contractually established partnerships between

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public child welfare agencies and private service providers strongly condition government's ability to achieve child welfare goals in an effective and efficient manner. The overall question to which this research contributes is similar to that raised by Shapiro (1976), "What factors in the agency system are most likely to influence … outcomes?" (p. 3). In the broadest sense, this study is part of the effort to determine what influences the capacities of family preservation programs or other child welfare programs to achieve their goals for families and children. Partial answers have already been suggested. Berry, Bussey, and Cash (2001) summarized much of the prior research and identified many of the conditions when intensive family preservation services (IFPS) and intensive family reunification services (IFRS) were most effective. They also point out, however, that "the broader research base of family preservation consists primarily of information on client characteristics and case outcomes" (p. 293) and that many important variables that can potentially impact outcomes have been neglected.

This research specifically focuses on how the provisions and rates of purchase-of-service (POS) contracts influence the delivery of family preservation services. No such detailed examination has appeared in the literature to date. In a general way, it can be said that contracts shape services to children and families by defining the clients to be served, the mechanisms to receive referrals, the types and amounts of services, staffing levels, caseloads, and concrete financial and other resources for families and children. This study specifically explores the ways that POS contracts influence program operations and staff activities such that the achievement of positive outcomes may be facilitated or constrained. This initial effort suggests that contract-related resources and policies can be critical to the accomplishment of intended goals. Much more work will be needed to fully explore all of the direct and indirect connections between specific contract provisions, reimbursement rates, services and outcomes.

It is broadly hypothesized that specific provisions of purchase of service contracts and the reimbursement rates themselves have direct and indirect correlations with case outcomes, both short and long-term. These correlations are actuated through staff behaviors and attitudes and by the degree of expansiveness and types of resources directed toward the achievement of program objectives. Contract provisions define, facilitate, and/or limit the types and amounts of services to be delivered, the target population, methods for referral into and out of programs, and they dictate the types and amounts of staff to be used. Further, contracts articulate the procedures for individual case reporting and billing and aggregate reporting and billing, the definitions of outcomes, performance levels, the definitions and limits of administrative and indirect costs, and payment rates. The hypothetical linkages among various contract provisions, reimbursement rates, staff behaviors (and nonbehaviors), the amounts and types of

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services provided and not provided, and subsequent case outcomes are far easier to discuss than to measure and to establish correlations.

With varying degrees of specificity, contracts guide various agency practitioners (e.g., managers, supervisors, and direct service staff) on how they use their time. For example, when detailed and extensive case reporting and hourly billing are required in the contract (as is the case in one of the contracts studied here), a portion of direct service time that could be devoted to service delivery is required to generate revenue. In the same scenario, supervisors devote less time to case consultation, training, and clinical supervision, and more time to monitoring staff time and compiling case plans, progress reports and billing statements. Managers, likewise, may not be able to engage in as much planning and conducting of fundraising activities, coordinating staff development programs, negotiating interagency agreements as they otherwise might while they closely monitor the agency billing practices, the receipt and checking of revenues, and mediating between the agency and the public/contracting agency.

This article presents a case study of a nonprofit child welfare service provider that delivered family preservation services under three different POS contracts. Specific provisions of the contracts, as well as reimbursement rates, are compared and their impact on service delivery is analyzed. The next section includes a review of prior research on contracts in the social service arena. The specific research methodology used in this case study is discussed in the section following the literature review. The findings are thoroughly presented in the next section and discussed in the final section of the article.

Review of Literature

While a substantial amount of literature exists on contracting, very little is of an empirical nature (Peat & Costley, 2000). Kamerman and Kahn (1998), for example, wrote an excellent history of privatization and contracting in social services and child welfare. This review focuses on recent empirical work. Theoretical and conceptual literature, and even some of the literature that Kettner and Martin (1996b) say is ideologically based, is used throughout the article to define concepts and to make comparisons.

In an early study, DeHoog (1984) examined contracting across all human services and classified prior studies into two categories (1) studies that focus on the frequency of contracting; and (2) studies that focus on comparing the cost of in-house service delivery to delivery by private agencies under contract. The analysis of more recent literature suggests that two new categories be added. The first new category includes research on the dynamics of contract procurement. The work of Kettner and Martin (1993) fits here, where they looked at the relative importance of different factors on the decision-making of state administrators responsible for contracting. They found that funding and fiscal considerations were the most influential. Gronbjerg, Chen and Stagner's (1995) research on which agencies tend to get the contracts in Illinois fits here too. They found that nonprofits currently with contracts had a good chance of getting the new contracts.

The second new category of research suggested here is one that includes studies that seek to assess the nature, quality of, and trends in partnerships between government and private agencies. One such study is one in which Kettner and Martin (1994) used surveys to assess several elements of the public-private partnership. Mailing surveys to top administrators in all states, they found that public agencies use multiple methods to assess the need for services, that the strongest reason for contracting was to increase the total resources available for programs, that there is a tendency to continue with the same contractors from year to year, and that state contractors are concerned about quantity and quality of services as well as outcomes. Using the same data, Kettner and Martin (1996b) found that top administrators in state agencies believe POS contracting is less expensive than government delivery of the same services and that they believe that contracting results in fewer governmental employees. Finally, in another study that fits this category, Kettner and Martin (1996a) surveyed executive directors of nonprofit agencies to collect their opinions on recent trends associated with POS contract funding and the impacts of these trends on their agencies. Nonprofit directors indicated the following: the demand for services from non- and low-paying clients is increasing; contract revenues fall short of the real costs of delivering the contract services; and revenues from other sources (e.g., fees and fundraising) are increasingly being used to underwrite contract shortfalls.

Most recently, and perhaps calling for another category yet, Peat and Costley (2000) examined the relationships between contract characteristics (e.g., service categories, costs, units), contractor characteristics (staff size, years of operation, and proposal rating) and contract performance (as the dependent variable). They found that the ratings of nonprofits' proposals and their geographical proximity to the funding agency explained 27% of the variance in contract performance (measured from site visits that examined multiple sources of information).

In summary, while it is clear that empirical work on contracting is advancing, there remain many gaps in our research-based knowledge. Very little has been written on the degree and manner in which specific contract provisions influence the implementation of programs or services and, further, how those provisions may impact service outcomes. Case study methodologies would seem to be useful when examining contract agencies and contracts. The unit of analysis for the study reported here is one nonprofit agency in which the provisions and funding of three different contracts can be compared.

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Methods

This article presents a case study of a nonprofit, child welfare agency with several POS contracts with a state child welfare agency. The organization serving as the contractee is referred to here as Agency ABC.[2] The agency has three contracts that are the focus of the study: a recently completed contract; and two contracts in operation during the study. More specifically, two were contracts for Intensive Family Preservation Services (IFPS), and one for Family Preservation Services (FPS). The guiding research question was "What are the ways that the provisions and rates of these POS contracts impact the agency and its services?"

The focus of the case study relied on Alter and Egan's (1997) and Alter and Murty's (1997) discussions of logic models, as well as the work of Staff and Fein (1994). This study uses the resource approach (Alter & Murty, 1997) by describing and analyzing the relationships between program inputs and methods. "Inputs," as used here, are "all the things used and managed in the process of working toward expected short-term results and long-term outcomes" (Alter & Egan, 1997, p. 93). Alter and Egan's examples of inputs include such things as financial resources, trained personnel, physical facilities, time and commitment of those in leadership, legitimacy and community sanction. "Methods" are the techniques of intensive family preservation services and family preservation services.

Staff and Fein (1994) also stress the importance of "studying the process of programs as well as their outcomes" (p. 195). This research extends Staff and Fein's (1994) idea of exploring the black box of service delivery to an investigation of the black box of selected program inputs, and, further, inquires about the impact of certain inputs on program methods. Few would dispute the eventual need to establish direct and indirect connections between inputs, methods and client outcomes; this complete goal couldn't be achieved in this study because of the absence of data on client outcomes.

To a large degree, the conceptualization of program inputs utilized in this research parallels Pecora, Whittaker, Maluccio, and Barth's (2000) idea of organizational requisites necessary to deliver effective services. They discuss requisites such as clear organizational mission and program philosophy; effective service technologies; personnel recruitment, screening, and training; reasonable caseloads; and supervisory capacity and supports. Most, if not all, of these examples can be influenced by contract provisions. Glisson and Hemmelgarn (1998) provide a good example of this type of work where they investigated the relationships between two organizational requisites,

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[2] By agreement with the organization, their name is to remain confidential. Further, the location and description of the agency is purposely vague in order to prevent identification. The author is grateful to all the staff of Agency ABC who contributed their time and ideas to this research.

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organizational climate and interorganizational services coordination, and service quality and service outcomes. In the case study reported here, we examine the relationship between POS contract requirements, an organizational requisite, and how the various requirements impact service delivery. We can only infer their relationships to service outcomes.

Figure 1 depicts the comparisons between the different types of contracts that were at the heart of the case study. Prior to 1995, the IFPS contract – referred to here as "Old IFPS" – resembled a grant-in-aid because the total dollar amount the provider would receive was predetermined and was not calculated on a "per case" basis. The "New IFPS" contracts used a flat, case rate reimbursement method. At the same time that the New IFPS began using the case rate reimbursement method, FPS contracts were structured to reimburse providers by varying hourly rates. The case study makes two major comparisons: (1) Old versus New IFPS contract provisions; and (2) New IFPS contract provisions to FPS contract requirements. All of the specific provisions will be described in the Findings section.

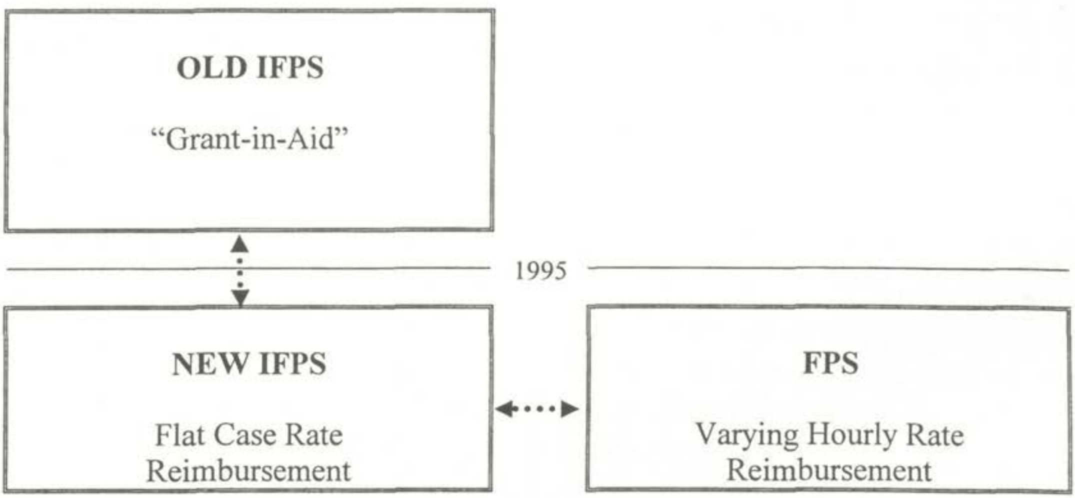

Figure 1. Contract Comparisons in Case Study

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Interviews were conducted with key agency staff—executive director, assistant directors, comptroller, clinical supervisors, therapists, and clerical staff. In one instance, the therapists, supervisor, and clerk were interviewed as a group. Others were interviewed in person with follow-up as necessary by phone and letter. The interviews explored many issues, from contract procurement, contract provisions, reimbursement rates, and the impact of these on the agency and on service delivery. In addition, the researcher interviewed a regional contract manager for the state child welfare agency. Besides the interviews, the researcher studied copies of contracts, work orders, reports, and other contract paperwork. This work was carried out during the first half of 1998.

Eight criteria were established to compare the contracts to one another: (1) procurement method; (2) type of contract; (3) reimbursement mechanism; (4) reimbursement rate; (5) target population; (6) definition of client; (7) service volume; and (8) length of service. Many other issues are discussed as well, such as cash flow, staffing and supervision, and management's mindset.

Findings

The findings from all the interviews are organized in a somewhat chronological fashion, starting with the Old IFPS contract, moving forward to the New IFPS contract, and onto the FPS contract. The description is only "somewhat chronological" because while moving ahead in time to the New IFPS and FPS contracts, we look backwards to make comparisons. The material in this section is derived from the respondents' descriptions of contract provisions, their comparisons across types of contracts, and their analyses of the differing consequences of certain provisions. In this section, the story is told from the point of view of Agency ABC. The Discussion section includes the author's observations and analysis.

Background

Since the early 1980s, the state provided intensive family preservation services to eligible clients with contracts to nonprofit service providers. During the 1995 legislative session, a new, less intensive level of service was created, family preservation services (FPS). IFPS focuses on children at "imminent risk of placement" and FPS focuses on those at "substantial risk."

"Old IFPS" contracts resemble, to some degree, grants-in-aid because they were for a fixed annual amount, only specifying a minimum number of children to be served.[3] The total annual amount for the contract was not stated as a "per family" or "per child" reimbursement rate but in lump sum. The central office of the state public child welfare agency set the contract amount and Agency ABC received approximately one-twelfth of the total amount each month. The receipt of revenue was unrelated to case flow. The

[3] Agency ABC always served more than the minimum.

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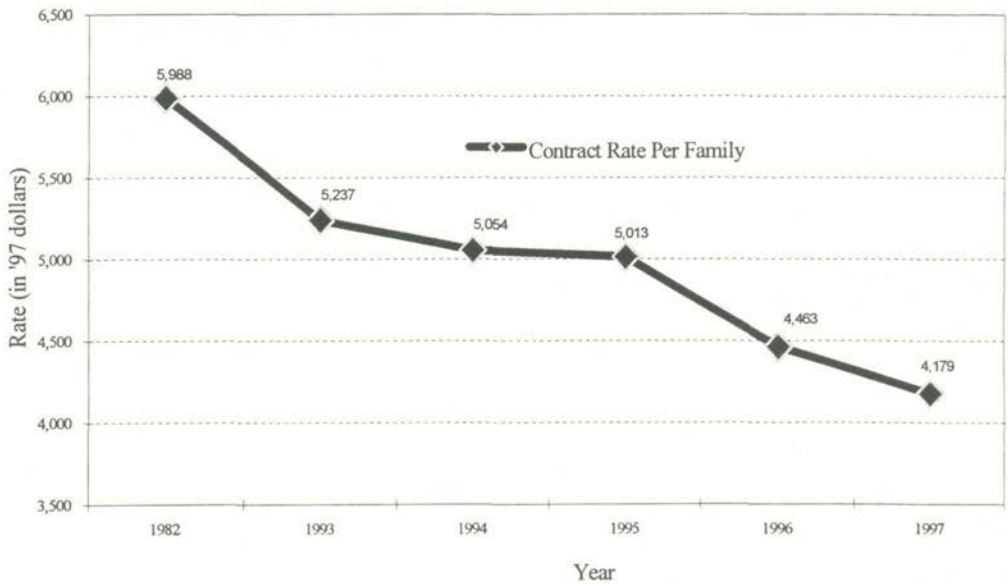

Figure 2. Contract Rate Per Family Per Year

program model to be used was described but no minimum or maximum number of hours per client was articulated. A "client" was defined as a child in imminent danger of removal from his/her home; these children were referred to as "pr's" – potential removals.

In the 1982 contract, if Agency ABC served the minimum number of children, their total annual lump sum amount was approximately equivalent to $2,400 per child. Converted to 1997 dollars, this was almost $4,000. ("1997 dollars" were used because that was the date of the most recent contract completed and examined). In 1993, the contracted rate was $3,491 per child (1997 dollars), a decrease of 12.5%. Because they served more than the minimum in all of these contract years, the effective rate per child is considerably less than the contract rate (estimated by Agency ABC to be approximately $300 less). Figure 2 charts the reimbursement rates per family over time. All figures have been converted to 1997 dollars and "per family" (see explanation below) to make the comparisons valid.

In 1994, the state made three significant changes in the IFPS contract. This contract is referred to as "New IFPS." First, providers were to be reimbursed per family not per child. The state agency designated that on the average there were 1.5 pr's per family. Second, the contracts stipulated the <u>maximum</u> number of families to be served, no longer the minimum. In the past, Agency ABC determined the maximum number of families to

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be served; this new approach prevented Agency ABC from serving more families if they saw the need to. Third, instead of the steady flow of monthly checks, Agency ABC was to receive payments once families' cases are terminated, once the paperwork is sent to the state, and once the state social worker authorizes payment. That year the reimbursement rate per family was set at $5,054 (1997 dollars), a decrease of 3.5% from the previous year.[4]

There were also two different lengths of service the state could request for a referred family: up to 40 days, or up to 90 days. The family did not get more services if they were designated for 90 days; the approximately 80 hours of services were stretched over a 90-day period. Clearly, the 90-day model changes the intervention by reducing service intensity. One wonders if service outcomes are commensurate with those achieved with families being served for 40 days.

Both changes – the reimbursement mechanism and the two lengths of services – had a significant effect on Agency ABC's cash flow. First, while Agency ABC always relied on the state for referrals, it became crucial for the state to make referrals at a regular pace. Since reimbursement is essentially attached to "terminated families," cash flow tracks case closure rates as opposed to the steady monthly checks in the grant-in-aid approach. Second, with the 90-day option for IFPS, the agency has to wait a long time before reimbursement can be requested. If the state is requesting the 90-day option frequently, this will make cash flow very difficult. Administrators of Agency ABC agreed that these contract and service features make large cash reserves and lines of credit virtually mandatory.[5]

There is another design feature that slows cash flow. Agency ABC relies on state social workers to complete their termination paperwork on families and, then, to authorize payments to providers. State social workers are very busy with large caseloads of very complex cases. Completing payment paperwork tends to be a low priority. Agency ABC reported that a significant length of time passes after case closings by their staff and completion of paperwork by the state and arrival of the check—sometimes a year and a half. At one point in time, Agency ABC had $600,000 in receivable payments from the state.

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[4] In 1995, the state granted IFPS providers a vendor rate increase to $4,760 (1995 dollars), up 2%. However, the Consumer Price Index (CPI) indicates that from 1994 to 1995, the cost of goods increased by 2.8%, making what was thought to be a vendor rate increase, a small decline in buying power (.8%).

[5] Since the time of this study, the state permits billing every 30 days.

A final administrative issue that makes cash flow unpredictable is the propensity of the state to make payment errors. Since all the providers negotiated different reimbursement rates, and families they serve could be on either the 40- or 90-day protocol, payments to Agency ABC were incorrect or duplicated a significant number of times. It was not uncommon for Agency ABC to receive checks paying them for other providers' clients. Staff at Agency ABC, therefore, had to invest the extra time to double check all payments received and do more paperwork with the state to correct errors. This either adds to existing jobs or reaches the point when a new position is needed. As is readily apparent, administrative costs are increased markedly over those associated with the former grant-like mechanism.

The steady and predictable cash flow from the Old IFPS contract permitted Agency ABC to maintain a cadre of regular staff. The primary direct service staff for Agency ABC are called "therapists." The entire staff thought that the funding from the Old IFPS contract to be very reasonable; it allowed flexibility when serving families. For example, a second therapist could be assigned to a family if necessary. Also, since the contract did not include strict constraints on the minimum or maximum number of hours to be spent with a client, or how those hours were to be spent, therapists could focus on producing positive outcomes for the family without being overly concerned about costs.

The decline of reimbursement rates and the increase in administrative costs had significant impacts on Agency ABC. By cutting the margin so close on the costs of delivering services, agency leadership felt that it couldn't afford to accrue funds for future expenditures or innovations, couldn't buy new computers, give raises, nor fund the depreciation of equipment and furnishings. Agency ABC moved their offices to smaller quarters after the changes in the IFPS contract.

1995 Forward

Major legislative changes occurred in 1995 as well. The new, less intensive Family Preservation Service (FPS) program was started. It targets children at "substantial risk" of removal from the family (as compared to the more critical "imminent risk"). Where average caseload size for IFPS was dictated to be no more than two families per therapist, FPS caseloads could be up to 10 families.

The FPS contracts were designed quite differently from the IFPS contracts. The nature of the services and reimbursement rates were clearly spelled out in the contracts. Even after the parties agreed to terms, the state was not obligated to refer any minimum number of families to a provider. Contracts between providers and the state only made agencies available to the state to receive referrals. The RFQ explicitly stated "All respondents

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meeting qualifications for contracting will receive a contract without [emphasis in original] guarantee of referrals or funding." As a result, providers could not predict how many cases they would receive or when they might receive them.

When state caseworkers referred families, the families could receive FPS up to 6 months. Contract provisions directed Agency ABC to bill the state each month for each family according to varying hourly rates in the contract. The FPS rate is a maximum of $3,075 per family and is broken down as shown in Figure 3. Toward the end of every month, FPS therapists spend a significant amount of time calculating the charges for every family on their caseload and pass these on to their supervisor. After the supervisor reviews the bills and straightens out any errors or misunderstandings, the bills are sent to the central office of Agency ABC and then onto the state agency. Time spent doing paperwork such as this was not billable to the state. Paperwork dramatically increased again.

Two features of the FPS program are that "concrete services" are billable up to a maximum of $300 and "other supports" are billable up to $500 per family, less the amount billed for concrete supports. The management of Agency ABC explained how they incur financial losses whenever they provide either of these. For example, if a therapist works with a family to purchase a $300 washing machine, the state will reimburse Agency ABC $300. It actually costs Agency ABC more than $300 to get the washing machine because of the administrative costs associated with processing the bill, but none of those hours is billable.

I. **Services** (cannot exceed $2,575)

A. Therapist: face to face = $46.35 per hour

B. Therapist's case related travel = $23.18/hr.

C. Paraprofessional, face to face and case related travel = $15.45/hour

D. Mileage = .32/mile

II. **Concrete Supports** (food, shelter, clothes, etc.): up to $300

III. **Other Supports** (e.g., childcare, respite care, anger management, etc.): up to $500, less the amount spent for concrete supports.

IV. **Unbillable**: phone time with state case manager, or collaterals; meetings with case manager, client phone contact, case consultation/supervision.

Figure 3. Reimbursements for FPS Contracts

The state made another significant change in 1996. Competitive bidding for the IFPS and FPS contracts was decentralized out of the central office and was handled separately in each region of the state. After requests for qualifications (RFQs) were issued, and at the end of the demanding process, Agency ABC was awarded IFPS contracts in all of the regions, ranging from a high of $4,583 per family to a low of $3,945. The average rate was $4,463 (1997 dollars), a decrease of 11% from the previous year. Preparing separate bids and reporting to multiple regions adds further to administrative costs.

The legislature further amended the statute to permit the use of trained paraprofessionals in the delivery of FPS and IFPS services. As a result of the 1996 legislation and an accumulation of changes to state agency practices, state caseworkers now have many more options available for eligible families.

Again in 1997, providers bid by region for IFPS contracts and, again, Agency ABC was awarded contracts in all six regions: the highest reimbursement rate was $4,422 and the lowest was $3,610 per family. The rates decreased in five of the six regions and the average rate declined by 4.23%. Over the span of 1982 to 1987, the reimbursement rate decreased by 30.2% (see Figure 2).

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Staffing Issues

In 1997, keeping the agency staffed with qualified personnel was a much bigger problem than in prior years. In the Old IFPS years, Agency ABC had regular staff (both full and part-time); these staff had vacation and sick leave as well as other benefits. Now there are fewer regular staff and many more contract and hourly employees. Agency ABC attributed these changes largely to the unpredictability of referrals and the need for efficiencies. Prior to 1996, almost all therapists were regular, salaried employees. The position of "Family Support Assistant," a paraprofessional, did not exist. In 1998, Agency ABC employed 37 salaried therapists, eleven contracted therapists, 50 hourly therapists, and 43 family support assistants, most of whom only work a few hours a week. Due to the low hourly reimbursement rate for FPS therapists and the unpredictability of referrals, Agency ABC mainly uses hourly therapists with FPS families.

Staff turnover has increased, especially those paid on an hourly basis. This also increases administrative costs because of increased recruiting, screening, hiring, and training. At the same time, the agency had to increase their investment in quality control mechanisms. For example, Agency ABC has increased the number of accounting staff to process outgoing invoices and incoming payments.

Supervision

When therapists were interviewed in 1998, they expressed a high level of satisfaction with the supervision they received. They did indicate that very little supervision is available at the end of every month because the clinical supervisor is swamped with paperwork and billing duties. The nature of the clinical supervisor job has changed from one that involved case consultation to one that involves much more monitoring of staff and many financial duties. Supervisors are more focused on productivity (i.e., how much each therapist earned for the agency) than they used to be. In addition to changes in clinical supervision, therapists' jobs suddenly included supervision in addition to their other responsibilities. When paraprofessionals are used, therapists serve as their supervisors.

Management Mindset

For many years under the Old IFPS contracts, Agency ABC's managers emphasized quality of service, doing whatever was necessary to keep children safe, and helping the family. The mindset has, of necessity, shifted to one that looks for efficiencies. Also, instead of the child and/or family being viewed as the customer, the state is now considered the primary customer, especially the state caseworkers. Staff throughout the agency feel vulnerable to the predilections of individual caseworkers because they are so dependent on referrals. In instances when Agency ABC complained about slow payments, a few caseworkers retaliated by withholding referrals. Agency ABC quickly learned how to avoid such situations.

Management's thought process shifted to a more conservative outlook. Fiscal considerations began to become a higher priority than people; staff were giving more and more negative feedback about this. There was an increase in tensions and a dampening of morale within the agency. One person explained, "We're having to pay attention to the pennies as well as the dollars." It is far more often the case than in previous years that cost justifications are requested when new ideas are proposed. Risk-taking on innovations has declined. Having a resource cushion became one of management's central concerns. Most recently, managers are looking for projects that pay for themselves, and they're trying to adapt what they do to other markets.

Service Implications

Therapists reported that the change from the Old IFPS to the New IFPS changed little in terms of how services are provided, except when the 90-day option is requested. In this instance, stretching the 80 hours of therapist time over a three-month period is a challenge.

The ramifications on service delivery of the FPS contracts are significant. Staff are beginning to limit their time with clients and change their activities. For example, they try not to talk with clients on the phone because it is not billable. Their home visits are less frequent because driving time is reimbursed at a lower rate.

No one at any level of Agency ABC was willing to say or imply that service quality had declined—no one offered that it had improved either—or that fewer families than before were staying out of foster care. Therapists did confess that monthly per-client billing and progress reporting increased their stress.

Therapists reported that the methods they used to connect families to community resources were shifting because of the different contract provisions in the FPS contracts. In the past, therapists worked with collaterals by phone to make connections between families and community resources, usually without a family member present. Since the FPS contracts don't permit billing for phone time, they are doing more of this work directly with clients. They thought that this new approach could serve as training for the family to make their own connections, and the older approach was probably more efficient.

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Solicitation Process and Type of Contract

The central office of the state agency issued requests for proposals (RFP) for the Old IFPS program in 1981. They sought proposals for three localities in the state. The RFP indicated that a minimum of 54 referrals had to be served in each of the three areas, and they also set the maximum amount of each bid at $120,000. Thus, the central office of the state agency established the rate per referral. Agency ABC successfully bid on contracts in two of the three areas, and their proposals included detailed budgets as required by the RFP. This was a performance contract (Kettner & Martin, 1993) in that "75 percent of [the] referrals shall not be placed in Foster Care for a minimum of 90 days following initial termination of the case" (Old IFPS Contract with Agency ABC). The burden to demonstrate compliance with the performance goal fell on Agency ABC. The RFP also announced the state agency's intention to provide $500 bonuses (up to $5,000) if the clients diverted from foster care placement for 90 days remained diverted for 180 days.

In 1982, and all years up to 1995, Agency ABC received new contracts without having to bid. There were some small changes in the contracts for 1982 and subsequent years. The performance standard was increased from 75% of the cases diverted from foster care to 80% diverted. Language was also included saying that if the performance standard was not achieved, that the state agency "shall pay for only those clients successfully prevented from foster placement at the rate of $2,379.97 per client" (1982 Old IFPS Contract). The burden of proof continued to fall on Agency ABC.

The New IFPS contracts were performance contracts, as well, but with far more specific language:

> The contractor shall prevent out-of-home placement for, at a minimum, 70% of the children served under this contract for at least six (6) months following the clients' exit from the IFPS program. For this outcome measure, "prevents out-of-home placement" means that a child who has been the recipient of IFPS has not been placed outside of the home, other than for a single, temporary period of time not exceeding fourteen days (IFPS Contract with Agency ABC).

The FPS contract was a performance contract, but unlike most performance-based contracts in social services that define performance in terms of inputs (Else, Groze, Hornby, Mirr, & Wheelock, 1992), this contract is outcome-based in that five outcome measures were specifically articulated. RFQ language indicated that providers would need to achieve "satisfactory performance" on these measures and more might be added.

The specific measures of the five articulated areas were still under development, so the agency signed their contracts without specific knowledge of either the measures or what constitutes satisfactory performance. There were no incentives for achieving satisfactory performance or for achieving them at less than the total allowable rate.

Discussion

This article examined one partnership between a state child welfare agency and a nonprofit agency contracted to deliver family preservation services. The provisions of each contract were thoroughly explained as were the different kinds of impact each contract had on the nonprofit. Overall, and as the years passed, the state sought to fund more services with fewer dollars. The state also tried to increase efficiencies by using competitive bidding, tighter definitions of clients, strong gatekeeping, and more reporting. This is a fairly typical position for a state to be in—demand for services increases, funding does not, and the legislature wants more accountability and efficiency. Notwithstanding the commonness of these pressures on states, this research documents how one nonprofit child welfare agency struggled through these years as reimbursement rates declined and administrative costs increased. Table 1 serves as a summary of the similarities and differences of the three types of contracts, comparing them on eight criteria.

While state caseworkers put extra time into service and payment authorization, and therapists in Agency ABC spend more time doing case reporting and billing paperwork, the amount of time delivering services to children and families inevitably declines. While questions about the quality and effectiveness of services remain to be answered, the state's efforts, although well intentioned, appear to be expensive for the state, providers, and families.

The New IFPS and FPS contracts, as described above, are largely consistent with Kettner and Martin's (1990) market model in that there were invitations to bid, fixed fees, and single year contracts, just to name a few features. The Old IFPS contracts had features that make them somewhat consistent with the partnership model, such as continuation contracts without bidding, flexibility, attention to history, and that "contracting decisions [seemed to be] based primarily on concern for the stability and maintenance of the state or community human services system" (Kettner & Martin, 1990, p. 16).

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Table 1. Comparisons of Three Family Preservation Contracts

	Old IFPS	New IFPS	FPS
Procurement Method	RFP from central office of state agency.	RFP from regional offices of state agency.	RFQ from regional offices of state agency.
Type of Contract	Performance contract with incentives.	Performance contracts.	Performance contract.
Reimbursement Mechanism	Resembles grant-in-aid. Consistent monthly payments.	Flat case rate. Payments made when state social worker closes case.	Variable hourly rate. State billed monthly per family.
Reimbursement Rate	In 1982, averaged approximately $4,000 per child served. In 1993, averaged $3,401 per child. (Average based on serving the minimum number in contract.)	In 1994, $5,054 per family. In 1996, $4,463 per family. In 1997, $4,179 per family.	In 1995, maximum of $3,075 per family.
Target Population	Children at imminent risk of placement in foster care.	Children at imminent risk of placement in foster care.	Children at substantial risk of placement in foster care.
Definition of Client	Child	Family	Family
Service Volume	Minimum number established.	Maximum number established.	Maximum number established.
Length of Service	40 days.	40 or 90 days.	6 months.

The funding mechanism of the Old IFPS contracts slightly resembles a managed care mechanism in that the total dollar amount of the contract was predetermined. Agency ABC had the discretion to adjust service intensity for families as needed and serve as many clients as they saw fit as long as the minimum was served. It is interesting to note that while many states are implementing or experimenting with managed care features (Wulczyn, 1998), the specific contract provisions related to flat case rates and variable hourly rates is taking this state in the opposite direction.

Managing service delivery under the New IFPS and FPS contracts was a challenging situation because the state agency was not committed to making a specific number of referrals to Agency ABC. Projecting contract revenues, cash flow, and staffing levels is very difficult under these circumstances. This increases Agency ABC's risk in that the potential for revenues to be different from expenditures (Wulczyn, 1998) is greater.

The decline in the IFPS reimbursement rate certainly had an impact on Agency ABC. While it was shown that reimbursement rates declined over the years, we do not, however, know if total agency expenditures per case changed. Whether Agency ABC was totally or partially making up for these reductions from other sources of revenue, we don't know, but we have confirmed Kettner and Martin's (1996a) finding that the vast majority of nonprofits say that reimbursement rates do not cover all the costs of delivering contracted services. In order for the agency to break even, it must engage in other fundraising and revenue generating activities or dip into their endowment. Agency ABC did not have a large endowment, and the executive director talked extensively about the increased pressure for fundraising.

Contract provisions relating to payments, be they the flat case rate for an IFPS family or the variable hourly rate for a FPS family, are, to some degree, shaping the nature of service delivery. With an eye toward the bottom line, agency management is hesitant to allow IFPS therapists to devote more time to a family than is dictated in the contract or to permit therapists to work jointly with a family as was done in the Old IFPS work. FPS therapists reported that the frequency of home visits declined because the reimbursement rate for driving time was so low. Also, due to the fact that FPS contracts do not reimburse for therapists' time on the phone, therapists were less available to clients, and they changed how they work with collaterals.

Not only have service delivery practices changed, but the management mindset has begun to shift from the traditional social work service ethic, to one that is more and more efficiency oriented. The comment about paying attention to the pennies as well as the dollars is quite telling. This kind of agency climate can lead to low morale and high turnover.

In much of the literature these contractual relationships are conceptualized as public-private partnerships. Contracts certainly create partnerships of a sort, but it would be presumptuous to jump to the conclusion that they are consistent with Kettner and Martin's (1990) partnership model. The statement of one state employee explains, "Yes, we are partners, but we are not equal partners." The state is the buyer and the provider the seller. Not only does the state let the seller know what they'll buy, but they, just like many consumers, establish standards for quality and the form of payment.

Cautions

Numerous internal and external changes occurred during the time period studied that makes it impossible to say that the differences in the three types of contracts caused all of the changes in Agency ABC. With the invention of FPS, for example, state

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caseworkers have far more service options than before. Various respondents raised questions regarding the appropriate use of these options by the state. For example, some therapists reported that six months of FPS is very frequently requested—and may be cutting into the IFPS referrals—because of the misconception that the longest service is the most intensive. Nevertheless, with all the service options and differing reimbursement rates and mechanisms, therapists and their supervisors are struggling with new and challenging caseload mixes with different reporting and billing requirements.

Generalizing from a case study of a single nonprofit, child welfare agency is not recommended. However, the provisions in Agency ABC's contracts, except for the specific reimbursement rates, were standard across other service providers. How different providers responded to and absorbed the changes in contract provisions is, undoubtedly, different. The variations across providers are likely associated with agency age and history, size, management style, financial health, and size of endowments or cash reserves. A goal for future researchers is to associate agency performance and client outcomes with differing contract provisions and reimbursement schemes. A time-series methodology might be a means to that end.

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