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Texas Halts Work On IBM Outsourcing Contract

Gov. Rick Perry tells state IT officials that the vendor has failed to maintain adequate backups.

By Paul McDougall, [InformationWeek](#)

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The state of Texas has stopped work on an \$863 million outsourcing project under which IBM is transferring state records to a centralized computer system.

Governor Rick Perry said in a letter to a state IT officials that IBM failed to perform "the crucial backup of data for more than 20 state agencies," according to a report Wednesday in the *Dallas Morning News*.

The Governor also said that project overseers failed to implement a series of check and balances meant to ensure the project's security. The newspaper reported that, in one instance, half of eight months' worth of Medicaid fraud records were lost due to a server malfunction and that the state has fined IBM \$900,000 for the failures.

IBM's contract for the work is slated to last seven years. It's not immediately clear when the work will resume.

In a statement, an IBM spokesman said the company is cooperating with state officials to fix the problems. "IBM welcomes the review ordered by Governor Perry," the spokesman said. "There have been some issues with data backup and recovery and IBM has been working with the Texas Department of Information Resources to resolve those issues as quickly as possible."

IBM's spokesman said that Texas' IT operations "have steadily improved since the project began last year and plans are in place to continue to improve those operations."

Despite the setback in Texas, IBM's outsourcing unit remains strong. For its most recent third quarter, IBM reported that outsourcing sales increased 8% year-over-year to \$9.9 billion.

BLOGS // THE RISK FACTOR

Indiana Threatens to End \$1.2 Billion Welfare Contract



POSTED BY: ROBERT CHARETTE // WED, JULY 15, 2009

Tennessee isn't the only state with major computer problems. Last week, after just two years, the Family and Social Services Administration of the state of Indiana is reportedly contemplating scrapping its 10-year, \$1.16 billion contract with IBM and its partner Affiliated Computer Services Inc (ACS) to privatize the state's welfare system. Among the reasons given is the mishandling of welfare claims; before the contract, the rate was just 4.38%, now it is 18.2%.

Indiana officials have warned IBM that it has until September to make performance improvements, and IBM has said that it is working with the state to do so quickly.

In February of this year, the privatization roll-out was stopped because state welfare officials were not sure that the new system could handle the volume of claims involving eligibility for food stamps, Medicaid and other state benefits. Because of the current deep recession, nearly 20% of Indiana residents - some 1.2 million people - are currently receiving benefits.

According to another report, however, it may be difficult for Indiana to cancel the contract even if it wanted to do so. One reason is that over 1,500 state case workers were turned over to IBM and ACS in March of 2007 when it began the contract. So who would the state use to do the work?

State officials admit that they have no "Plan B" in place to run the welfare system if it has to cancel the contract, and is hoping that it won't need one. Indiana state officials might be wise to recall Ben Franklin's old maxim: "He that lives upon hope will die fasting."

If I were betting on the outcome, given the current situation and Indiana's lack of realistic leverage, I would wager that what happened between the state of Texas and IBM will be repeated here. As you may recall, Texas Gov. Rick Perry suspended the \$863 million, seven-year outsourcing deal it had done with IBM (and its partners) late last year for awhile because of serious performance problems. Talk of canceling the contract was in the air.

However, IBM, after its public scolding by Texas officials, credited back \$900,000 back to the state for work not performed properly, and received \$6 million less than the contract allowed for missing performance targets.

Once IBM paid the financial penalties and made some performance improvements, the contract quietly continued on as before, since doing otherwise would cause Texas government major operational difficulties as well as cause major embarrassment to those state government officials, including the Governor, who approved the contract in the first place.

I expect the same outcome in Indiana after a lot of thrashing about.

I'll let you know what happens.

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SYLVIA WILSON 09.28.2009

In Indiana they have put in place substandard management who are incompetent and shift the blame for their inadequate performance to others.