

# THE INDIANAPOLIS STAR

FRIDAY, OCTOBER 16, 2009 ★ "Where the spirit of the Lord is, there is liberty" II COR. 3:17 ★ 75 CENTS ★ CITY EDITION

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**LOW: 40 HIGH: 47**  
Chilly, with a chance  
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**Details, A14**



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# DANIELS: CRITICS WERE RIGHT

## Governor cancels \$1.34B IBM deal, saying welfare plan was 'failed concept'

By **Mary Beth Schneider**  
and **Bill Ruthhart**

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Calling it an endeavor that "just did not work," Gov. Mitch Daniels on Thursday canceled Indiana's 10-year, \$1.34 billion contract with IBM to deliver welfare services.

In its place, Indiana will develop a hybrid structure that keeps some elements of the modernized welfare system, Daniels said, while restoring the best of the past system: personal contact.

The decision marked a major setback for the governor, who has championed efforts to privatize some areas of state government, and a rare admission that — this time — his critics were right.

As he announced his decision, Daniels thanked those who had raised concerns that the system resulted in too many errors and too many people waiting too long for help they desperately needed.

"In many respects, they were

» See Daniels, Page A15



ROB GOEBEL /  
The Star

## WHAT TO EXPECT FROM A NEW PLAN

The Family and Social Services Administration expects to present details of a new system by Dec. 14. The goals of the plan:

>> **Client choice of access into the system:** Those applying for benefits can do so in person, over the phone, by fax or online.  
>> **Face-to-face contact in county offices:** Advocates for welfare recipients had criticized the lack of personal contact that largely began under the modernized system.  
>> **Case management in county offices:** "There will be much more of a local focus instead of a statewide focus," FSSA spokesman Marcus Barlow said.

>> **Paperless case files:** Client documents are scanned electronically.  
>> **Fraud prevention:** A private contract employee will take basic information from applicants and turn that information over to a state employee for decisions on benefit eligibility.  
>> **Consistent determination of benefits:** Under the old system, Gov. Mitch Daniels said, eligibility for benefits was determined differently in every county.

Sources: Governor's office, Family and Social Services Administration

+ **INSIDE:** Project's history, other privatization ideas are on A15.

# Daniels

» State's rollout of system was never completed.

## From A1

right," he said. "The system wasn't working, and it wasn't getting better, despite best efforts."

Critics say it was a lesson that could have been learned long before Thursday's announcement.

Texas, for instance, pulled the plug in 2007 on a similar welfare privatization effort after thousands of people lost benefits they deserved. Critics here had argued that Texas had tried to do too much too fast, and said a slower rollout in Indiana would ease in the new system. The state's rollout, though, was never completed.

In January, the expansion was halted, with 59 of Indiana's 92 counties on board. The most populous counties — including Marion and Lake — never fully became part of the new system; and in September, the U.S. Department of Agriculture, which oversees food stamps, told the state it must be consulted before more counties were added.

Indiana, in fact, was facing the possibility of federal sanctions because of its high rate of errors.

Daniels noted that it was the state's long history of errors and cases of fraud that led him to seek a better way to deliver welfare.

He said taxpayers still will save money under the hybrid system, though less than hoped for under the IBM contract.

Under the hybrid system, instead of being pushed to apply for help through impersonal call centers or computers, clients once again will meet face-to-face with

a worker in a county office. State-employed caseworkers will be assigned to assist applicants.

Privately employed workers remain, along with a paperless computerized system for tracking cases. But subcontractors who had been managed by IBM, including those employed by Dallas-based Affiliated Computer Services who take the initial applications, now will be managed by the state.

Even as he yanked its contract, Daniels thanked IBM, which had added employees and more technology this summer in an effort to salvage the contract.

"They did try hard," he said. "It wasn't resources. It wasn't effort. It was a flawed concept that simply did not work out in practice."

IBM, though, vehemently defended its work.

"IBM rejects the state's claims and believes they're unjustified," spokesman John Buscemi said. The company put "significant money and resources" into this project and was making progress, he said.

Buscemi blamed outside forces — including the economy and rising unemployment, among other factors — for stymieing IBM's efforts to streamline the system.

Welfare applications, he said, are up 33 percent since Daniels and IBM inked the contract in 2006.

Buscemi was vague when asked whether IBM would mount a legal challenge. "IBM will take action as appropriate to protect its rights under its contract with FSSA," he said.

IBM's contract will be terminated Dec. 14, and a new contract will be negotiated with ACS and other companies, according to Marcus Barlow, an FSSA spokes-

man.

He said some details, including what happens to the call centers where initial applications were made under the IBM system, need to be worked out.

Ken Ericson, a spokesman for ACS, said the company "remains fully committed to the success of this project."

Its continued involvement, though, concerns some of the same groups that on Thursday were applauding Daniels' decision to ax IBM.

John Cardwell, chairman of the Indiana Home Care Task Force — a coalition of organizations for the elderly and disabled that has pushed for the cancellation of the IBM contract — called Daniels' decision to restore face-to-face contact a positive.

But, he said, complaints have been raised about ACS employees' lack of knowledge about federal welfare laws, and he said he'd prefer to see experienced state-employed caseworkers handle the initial contacts.

Legislators who had been inun-

dated with constituent complaints and had launched hearings into the IBM-led system hailed Daniels' decision.

"This is a rare moment in which I can congratulate the governor for making the right move," said House Speaker B. Patrick Bauer, D-South Bend. "It is the right thing to do to recognize when you make a mistake to adjust, regroup, because there were too many people suffering. There were too many people's lives in danger."

And instead of thinking about legal action, Bauer said IBM "ought to be embarrassed enough to go away or pay us something." But he called the abandonment of this contract "a blow to privatization."

Daniels, though, rejected that his decision says anything about the merits of privatization.

"It has nothing to do with private or public. It had to do with a concept," he said. "If you would use the same concept IBM brought, and every worker was a state worker, you would have had

the same results, or worse."

Sen. Vaneta Becker, an Evansville Republican who was among lawmakers raising concerns about the welfare changes, said no issue had generated more complaints and calls to her office in the past two years.

The saddest, she said, was a woman whose application for reauthorization of her Medicaid was denied because she missed an appointment while she was in the hospital.

"She lost her Medicaid, lost her food stamps, lost her transportation," Becker recalled.

For months, the woman tried to negotiate the maze to restore her help.

"On March 1st, she died. On March 2nd, we got her redetermination approved," Becker said. "She might have died anyway, but she never would have suffered the stress that she suffered the last six months of her life."

★ Star reporter Erika Smith contributed to this story.

Call Star reporter Mary Beth Schneider at (317) 444-2772.

“The system wasn’t working, and it wasn’t getting better, despite best efforts.”

Gov. Mitch Daniels

## DANIELS’ PRIVATIZATION SCORECARD

### Indiana Toll Road

Gov. Mitch Daniels, with a hard-won legislative approval, leased the Indiana Toll Road for \$3.8 billion to an Australian-Spanish consortium, Macquarie-Cintra, for 75 years.

**Status:** That money is accruing interest and funding infrastructure projects across the state.

### Indiana Department of Correction

Daniels approved a four-year, \$53.5 million contract, renewable for three two-year terms, for Florida-based GEO Group to run New Castle Correctional Facility, and a \$112.2 million, four-year contract with Philadelphia-based Aramark for DOC food services.

**Status:** The New Castle contract came under fire after inmates imported from Arizona rioted. Those prisoners

are now gone, their places

### The Hoosier Lottery

Daniels proposed in December 2006 that the state lease the lottery to raise funds for higher education.

**Status:** The governor dropped the idea in October 2008 after the U.S. Department of Justice said such a deal would not comply with federal law.

— Mary Beth Schneider

## HISTORY OF THE IBM DEAL

» **MAY 2006:** Consortiums headed by IBM and Chicago-based Accenture seek a \$1 billion contract to manage applications and eligibility review for state and federal assistance programs operated by the Indiana Family and Social Services Administration. The state’s effort to privatize claims processing draws fire from critics, who say the process is moving too fast and that the two contenders have spotty track records.

» **JULY 2006:** Gov. Mitch Daniels confirms that the only group left in negotiations is an IBM-led team of 10 companies that includes Dallas-based Affiliated Computer Systems. FSSA chief Mitch Roob worked at ACS just before joining the Daniels administration.

» **NOVEMBER 2006:** Daniels announces Indiana will pay \$1.16 billion over 10 years to the IBM-led companies to help upgrade how the state handles food stamps, Medicaid and welfare programs. About 1,500 of the 2,200 FSSA employees who handle applications will be offered in-state jobs with IBM or its partners. By 2017, the IBM plan would save Indiana nearly \$500 million, according to state estimates. Meanwhile, IBM plans to put a new customer-service center in an undisclosed location that would employ up to 1,000 workers. Bloomington puts in a bid, but the center goes to Daleville, just southwest of Muncie.

» **DECEMBER 2006:** Daniels signs the contract with IBM.

» **MARCH 2007:** Federal officials tighten oversight of Indiana’s experiment in privatization, requesting that the state provide monthly reports on how many food stamp applications it approves. Meanwhile, more than 1,500 workers shift to the private sector.

» **JULY 2007:** A letter to the FSSA from the regional administrator for the U.S. Food and Nutrition Service says Indiana’s privatized welfare program has broken federal food stamp rules in some cases by bypassing state employees. He gives FSSA 15 days to submit a plan to fix the problem.

» **OCTOBER 2007:** FSSA decides to postpone the initial rollout of its automated welfare eligibility system by at least a week because of software problems. It had been anticipating a launch for a 12-county area cen-

tered around Marion.

» **MAY 2008:** The American Civil Liberties Union alleges in a lawsuit seeking class-action status that problems with the new automated system have caused some disabled Hoosiers to lose benefits.

» **JUNE 2008:** The state suspends the rollout of automated welfare benefits because FSSA staffers are busy helping victims from major flooding in Central and Southern Indiana. The automation had occurred in 59 counties and was tentatively set to arrive in 13 other counties in north-central and Northwest Indiana.

» **JULY 2008:** Because of complaints that needy Hoosiers are being forced to wait too long for food stamp applications to be processed, Indiana officials suspend further rollout to address the problems.

» **AUGUST 2008:** Claiming Indiana’s privatization drive is hurting needy Hoosiers, eight LaPorte County residents who receive assistance through the program file a suit, asking a judge to halt its rollout in their part of Northwest Indiana.

» **SEPTEMBER 2008:** The FSSA says it has dropped a planned speed-up in the processing of food stamp applications because it would cost some people their benefits.

» **JANUARY 2009:** FSSA Secretary Anne Murphy halts any further rollout until agency officials are sure it can handle additional volume.

» **MARCH 2009:** Advocates call upon Daniels and state lawmakers to cancel the state’s 10-year contract, saying 12 counties saw food stamp participation fall as participation in those programs grew elsewhere.

» **JULY 2009:** Murphy puts IBM on notice, requesting the company submit a corrective action plan as part of a process that could result in canceling the 10-year deal. IBM presents a 326-page plan to fix problems.

» **AUGUST 2009:** The Associated Press reports that Indiana will spend nearly \$180 million more than it initially planned on the IBM deal.

» **THURSDAY:** Daniels announces that Indiana is canceling its contract with IBM, calling it an idea that didn’t work.

Source: Star archives