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## Mission:

*The Council on Efficient Government reviews, evaluates and provides advice on agency outsourcing and best practices, as well as codifies lessons learned to improve government accountability. It is the Council's goal to define the process for reviewing business cases and implement standard processes for outsourcing initiatives.*

17 July 2009

Mr. Tom Clendenning  
Director, Unemployment Compensation Services  
Agency for Workforce Innovation  
The Caldwell Building, Suite 212 - Director's Office  
107 East Madison Street  
Tallahassee, FL 32399-4120

Dear Mr. Clendenning,

Thank you for submitting your agency's outsourcing business case, "*Call Center Services*," for the Council on Efficient Government's review.

The AWI final business case was received by the Council on 07 May 2009. The AWI requested an interim Advisory Report due to the emergency nature of the procurement, dictating letting the contract as expeditiously as possible. The Council complied with the AWI's request and issued a preliminary analysis of the UC Call Center Services on 20 May 2009.

This outsourcing business case was not received by the Council in accordance with the required timelines stated in Chapter 287.0574, *Florida Statutes*. This statute states that a final business case analysis must be conducted by the state agency and submitted to the Council after the conclusion of any negotiations, at least 30 days before execution of a contract. The initial outsourcing business case was received by the Council on 13 February 2009 and the Invitation to Negotiation (ITN) was released on 16 February 2009. The final business case, as aforementioned, was received by the Council on 07 May 2009 and the vendor contract was signed on 22 May 2009.

After a thorough review of the business case, Council staff recommends this project proceed with modifications, and offers in the enclosed final *Advisory Report* a business case summary as well as comments and recommendations. We trust you will find this information helpful as you proceed with contractual activities.

Please contact me if you have any questions and / or concerns.

Sincerely,

Henry Garrigo  
Executive Director

cc: Ms. Cynthia R. Lorenzo, Director  
Agency for Workforce Innovation  
The Caldwell Building, Suite 212  
107 East Madison Street  
Tallahassee, FL 32399-4120

cc: Mr. John Herndon  
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## I. Business Case Summary

### a) *Business Case Submission Background*

The final business case was issued by AWI on 07 May 2009. Due to the crisis facing AWI with regard to the large and growing size of unemployment compensation (UC) call center overflow, AWI requested an *interim* Advisory Report re signing a contract with a selected vendor. The Council responded on 20 May 2009, advising the agency to “proceed with modifications” regarding the contracting of a vendor to handle the UC overflow calls from the Orlando call center. This Advisory Report is written at the agency’s request and to finalize the analytical process.

### b) *Public Policy and Statutory Authority*

<b>VISION</b>	Children ready to learn, Floridians ready to earn.
<b>MISSION</b>	Advance the economic well-being and self-sufficiency of all Floridians through premier early learning and workforce services.
<b>AGENCY CORE VALUES</b>	Service, Innovation, Excellence, Integrity, Accountability, Collaboration
<b>PROJECT OBJECTIVE</b>	Expansion of the UC Call Center with a temporary solution to respond to a peak in the variable demand for service without incurring the long-term costs and effort associated with a permanent change.

The AWI administers, among many other programs, the unemployment compensation (UC) program, pursuant to Sections 20.50 and 433.1317, *Florida Statutes*. Unemployment insurance provides temporary and partial wage replacement benefits to qualified individuals who are out of work through no fault of their own. UC is indeed a “safety net crucial to the welfare of jobless Floridians.”<sup>1</sup> AWI operates a more than \$7 billion UC program (estimated for 2009-2010), which is responsible for processing more than 800,000 unemployment applications for payouts to 500,000 individuals.

### c) *Project Scope*

The AWI has done away with the walk-in UC service centers of the past in favor of internet and call center-based client support. The agency now meets the service needs of its customers via the internet and UC Call Centers. There are three call center “hubs” operating Interactive Voice Response (IVR) systems located in Ft. Lauderdale, Orlando and Tallahassee.

Florida unemployment is at a 15-year high.<sup>2</sup> The agency indicates call wait times of up to one hour and 45 minutes, but cannot substantiate this via the IVR system that

<sup>1</sup> OrlandoSentinel.com, Jim Stratton, “Florida jobless-benefits computer at ‘increasing risk of...failure,’” [orlandosentinel.com/news/local/orl-aseccomputer12041209apr12,0,7591965.story](http://orlandosentinel.com/news/local/orl-aseccomputer12041209apr12,0,7591965.story), 12 April 2009.

<sup>2</sup> Lalate news, “Florida Unemployment Claims Weeks!” <http://news.lalate.com/2009/02/23/florida-unemployment-claim-weeks>, 23 February 2009.

manages and routes the call centers' incoming calls. The AWI advises critical system statistics are either "not available" and / or "unreliable." In fact, the agency is unable to determine with certainty how many calls will revert to the vendor's system, and stated in its business case, "...agency officials believe there may be as many as 10,000 calls per day going unanswered..."

The business case proposes a vendor offload the Orlando hub (with four IVRs) by handling at least 10,000 calls per day. Neither the derivation of the "10,000 calls" nor the rationale to offload Orlando versus Ft. Lauderdale (one IVR) and / or Tallahassee (three IVRs) are fully validated in the business case.

**d) The Global Recession's Impact on Florida**

Florida has been hit significantly harder by the global recession when compared to other U.S. states. Florida's seasonally adjusted unemployment rate for May 2009 was 10.2 percent, representing 943,000 jobless out of a labor force of 9,232,000<sup>3</sup> and ranking 39<sup>th</sup> in state unemployment rankings.<sup>4</sup> The unemployment rate is 0.5 percentage points higher than the revised April rate of 9.7 percent and is up 4.4 percentage points from the May 2008 rate. The state's current unemployment rate is 0.8 percentage points higher than the national unemployment rate of 9.4 percent. The last time the unemployment rate was higher than May 2009 was October 1975 when it was 11.0 percent.<sup>5</sup>

Florida's total nonagricultural employment in May 2009 is 7,389,100, representing a job loss of 417,500, or -5.3 percent compared to May 2008. This is steeper than the national rate of decline for May which is -3.9 percent over the year. The May 2009 job loss continues the trend of annual declines that began in August 2007. The downturn started with declines in construction jobs, but has now spread to almost all other major industries.

**e) Federal UC Funding**

The Emergency Unemployment Compensation Act of 2008 (Public Law 110-252), which provided up to thirteen weeks or 50 percent of the total regular state-funded unemployment benefits payable to eligible individuals in all states, was amended by the Unemployment Compensation Extension Act of 2008 (Public Law 110-449) to increase the thirteen week duration up to 20 weeks or 80 percent of the total unemployment benefits payable to eligible individuals. These benefits are now referred to as "Tier 1" or "First Tier" benefits. The new law also created "Tier II" or "Second Tier" benefits, which provide up to an additional thirteen weeks of UC to eligible individuals *in states with high unemployment. Florida is one of those states.*

The AWI is also administering \$1.5 billion in American Recovery and Reinvestment Act funds, which is assisting Floridians in need of workforce development services, quality child care and unemployment compensation benefit payments. Federal recovery funds currently being administered through the AWI include the following:

- An estimated \$418 million in Federal Extended Benefits, with payments beginning in July 2009. Notices to nearly 80,000 potentially eligible Floridians

<sup>3</sup> AWI, "Florida's May Employment Figures Released," 12 April 2009.

[http://www.floridajobs.org/publications/news\\_rek.KNSpercent29percent2996-29-09.pdf](http://www.floridajobs.org/publications/news_rek.KNSpercent29percent2996-29-09.pdf), 19 June 2009.

<sup>4</sup> U.S. Department of Labor, Bureau of Labor Statistics, "Local Area Unemployment Statistics," 19 June 2009.

<http://www.realtytrac.com/ContentManagement/PressRelease.aspx?channelid=9&ItemID=6655>, 11 June 2009.

<sup>5</sup> RealtyTrac Staff Writers, "U.S. Foreclosure Activity Decreases 6 Percent in May," May 2009 U.S. Foreclosure Market Report™, <http://www.realtytrac.com/ContentManagement/PressRelease.aspx?channelid=9&ItemID=6655>, 11 June 2009.

were mailed from the agency, with a total of an estimated 250,000 anticipated by the end of the year.

- An additional \$25 weekly in Federal Additional Compensation since March 19, 2009 - to date, more than \$108.5 million in Federal Additional Compensation has been paid to nearly 569,000 Floridians. It is estimated that \$345 million will be paid out by July 2010.
- Nearly \$1 billion in additional Federal Emergency Unemployment Compensation (EUC) benefits – eligible claimants began qualifying last month under the new provisions of the American Recovery and Reinvestment Act. So far, more than \$37.5 million has been distributed to nearly 80,000 claimants.

When all is said and done, UC claimants in Florida can currently receive up to 59 weeks of benefits, and the legislature has proposed to increase this number to 79 weeks, which is expected to become law.

**f) Problem Statement**

“For some Floridians, losing a job is just the beginning of their frustration. As the jobless rate in Florida nears ten percent, the AWI concedes that people trying to file an initial claim, track down a lost check or resolve other problems get recorded messages or busy signals from repeatedly dialing a toll-free number. The lucky ones may endure waits of more than ten minutes.”<sup>6</sup>

The economic dilemma and upward spiral in Florida’s unemployment rate have resulted in a failure of the AWI’s three call centers to accommodate the overflow of an (estimated) 10,000 calls per day. AWI states some callers have waited up to one hour and twenty-five minutes to get through to an operator. (None of these numbers can be validated because the IVR system “does not have the capacity to quantify how many people can’t get through,” according to an agency spokesman.) Further, the IVR software limits the number of people allowed in the “wait queue,” so sometimes within one minute of calling, the caller is told to call back.

The agency expanded the number of Orlando inbound call lines to 1,035, and also increased the number of call agents to handle the calls (AWI was unable to provide the number of agents added; however, The Miami Herald noted on 12 April 2009 that “500 additional workers had been hired to manage 1,000 additional lines.”<sup>7</sup>) but customers calling the Orlando IVR still experience difficulty in gaining access to an agent. Currently, according to an agency spokesman, a “high number” of network busies are also occurring, indicating callers can’t even get through to the IVR lines, despite the lines being open day, evenings, and weekends.

**g) Legal Citations Authorizing the Agency’s Performance of this Service or Activity**

The AWI has ultimate authority over the administration of Florida’s UC program pursuant to Sections 20.50 and 443.1317, *Florida Statutes*. The information collected in the administration of the program is confidential and cannot be disclosed except as authorized by laws pursuant to Sections 443.171(5), 443.1715, *Florida Statutes*, and Title 20, Part 603, Code of Federal Regulations (CFR). The UC program provides temporary and partial wage replacement benefits to qualified individuals who are out of work through no fault of their own.

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<sup>6</sup> The Miami Herald, Steve Bousquet and David DeCamp, “Florida’s Jobless Benefits Agency Overwhelmed by Demand,” 12 April 2009, <<http://www.miamiherald.com/news/legislature/v-print/story/996045.html>

<sup>7</sup> The Miami Herald, David DeCamp and Steve Bousquet, “Florida’s Jobless Benefits Agency Overwhelmed by Demand,” <http://www.miamiherald.com/news/legislature/v-print/story/996045.html>, 12 April 2009.

**h) Business Case Options**

- Option 1: Outsource Call Center Volume to an Experienced Call Center Vendor
- Option 2: State Expansion of Existing Call Center
- Option 3: Status Quo

**i) Contract Term**

The initial contract for the program operation is two years and with satisfactory performance and continued funding, three renewals of one year each are anticipated for a total contract period not to exceed five years. The extension periods are available should employment market conditions continue to deteriorate and expected call volumes remain high or continue to increase for longer than 24 months. The three one-year renewal options also mitigate much of the risk of a continued decrease in economic conditions beyond the two years.

**j) Affected Stakeholders**

- UC Services,
- AWI Workforce Services,
- Unemployment Appeals Commission,
- Other State Organizations (Department of Revenue, Department of Children and Families, etc.),
- Employers,
- Unemployed Floridians (Claimants),
- General Public,
- Florida Legislature,
- All 67 Florida Counties, and,
- United States Department of Labor (USDOL).

## **II. Council Analysis**

### **A. Business Case Strengths**

#### **1) Robust Risk Assessment**

The AWI completed a robust risk assessment for this business case, with an almost 100percent transfer of risk to the selected vendor.

#### **2) Thorough Analysis of Three Options**

The AWI completed a fairly thorough analysis of the three selected options, with the exception of a complete cost analysis of the bids from the short-list vendors.

#### **3) Robust Scope of Work**

The ITN, Section 3, "Scope of Work," was quite robust and included important contractual concepts such as liquidated damages, vendor metrics, requirements and deliverables.

#### **4) Contract Award**

To handle the increasing number of jobless as well as handle the overflow calls process and reduce call wait times, AWI has awarded a two-year \$15.4 million contract to Faneuil Inc. to provide additional customer service to the state's unemployed. The Hampton, Virginia-based company will set up a call center in Orlando, and expects to hire about 180 full-time employees to handle the overflow of calls from those seeking information about unemployment benefits. AWI said the call center will handle up to 10,000 calls a day. Overflow calls placed through the IVR to the Orlando Call Center will be routed to Faneuil, who in turn will provide information regarding UC claims to customers. The company currently employs 2,400 people at its twelve Florida offices.

#### **5) Continuity of Operations / Disaster Recovery Plan**

The ITN requires the selected vendor to develop and maintain a current Continuity of Operations and Disaster Recovery Plan to ensure uninterrupted services are provided. This plan must be submitted to the AWI Project Manager within thirty calendar days of the execution of the contract.

#### **6) Detailed Listing of Impacted Project Stakeholders**

AWI included a very complete listing of all project stakeholders, including an indication of whether the stakeholders were customers or users. Also accompanying the list of stakeholders was a statement as to the negative impact all of these stakeholders face as a result of the overloaded existing UC call centers.

## **B. Business Case Potential Areas of Concern**

### **1. Cost Analysis**

Funding for the UC program is provided by the USDOL from employer-paid Federal Unemployment Tax Act (FUTA) funds. Benefits are paid bi-weekly from state and federal unemployment tax funds. Funding for the call center services in this business case will be paid by the FUTA base grant funding and will not require state general revenue.

The agency submitted a detailed cost analysis for Option 1 (state expansion of the Orlando call center), but did not provide the same detailed cost analysis for all of the competing bidders. Therefore, the Council could not make a rigorous cost comparison between Options 1 and 2. The selected vendor saves the state \$76,572.00 over a 24-month period, as shown below in Table 1. AWI estimated the price based on the transfer of 10,000 calls per day to a private vendor and the average number of minutes (5.5) needed to handle the calls.

The agency should consider including the following items in its business case submission to strengthen the analytics of the business case:

- a. Cost Analysis,
- b. Cost Savings,
- c. Return on Investment (ROI), if applicable,
- d. Cost Price Analysis (CPA),
- e. Earned Value (EV), and,
- f. Internal Rate of Return (IRR).

Please refer to the Council's website for Schedules XIIA-1, XIIA-2, and XIIA-3 (cost analysis forms) required to support the business case:

<http://www.dms.myflorida.com/ceg>

Total costs for Options 1 and 2 are shown below in Table 1:

Option Number	State / Vendor	Total Cost
2	<b>Total 24-Month Cost AWI</b>	<b>\$15,472,992.00</b>
1	Total 24-Month Cost – ACS	\$19,547,712.00
1	Total 24-Month Cost – Convergys	\$22,209,683.00
1	<b>Total 24-Month Cost – Faneuil (Awarded)</b>	<b>\$15,396,420.00</b>
Δ		\$76,572.00

**Table 1: Total Costs for Options 1 and 2**

### **2. Price Benchmarking**

- a) Although the agency did provide some viable benchmarking examples (the aforementioned DMS, AHCA and FHC), it did not research *price* benchmarking. Price benchmarking in outsourcing deals provides a comparison of service delivery across price, efficiency and effectiveness parameters. In a typical benchmarking exercise, similar peer environments (organizations whose benchmarking data points match the characteristics of the environment being benchmarked) are selected for comparison, and an analysis report is generated.



- b) To ensure all parties involved in the outsourcing deal understand price benchmarking, outsourcing contract negotiators should follow *best practices* to ensure the contract articulates the details of the benchmarking exercise:
- The Council recommends the agency include the following ten *best practices* in the Provider contract:
    - 1) What areas will be benchmarked?
    - 2) What metrics will be used?
    - 3) What peers will be used for comparison?
    - 4) What benchmarking methodology will be used?
    - 5) Who will perform the benchmarking analysis?
    - 6) When will the benchmarking be done?
    - 7) How often will benchmarking be done?
    - 8) Who will pay for the benchmarking exercise?
    - 9) How will the benchmarking results be used?
    - 10) Stipulate in the contract what will be done with the benchmarking results.

When properly negotiated, documented in the contract and completed, price benchmarking is a powerful tool to drive vendor behavior, keep the deal on par with marketplace pricing, and assure delivery of the best results.<sup>8</sup>

### **3. Vendor Requirements, Metrics and Deliverables**

The AWI discussion of requirements, metrics and deliverables is included in both the ITN and the business case, which leads to confusion because there is no one place to find a definitive listing of vendor requirements, metrics and deliverables. For example, the AWI discusses metrics in the business case, Section 2.1.3, “UC Call Center Performance Measures;” however, there are no associated goals for the ten metrics listed. And in the ITN, *different* metrics – some with goals - are scattered throughout Section 3, “Scope of Work.” Most of the vendor metrics are located in Section C.2, “General Vendor Requirements,” however; several other requirements / metrics are located in Sections C.7, “Vendor Responsibilities,” and C.8, “Vendor Deliverables.” To aid in clarity and understanding, the Council suggests that AWI first define “requirements,” “metrics” and “deliverables” and then place each in separate, distinct sections of the ITN’s “Statement of Work.” Lacking this clarity, confusion and scope challenges will likely arise during contract execution.

The included vendor metrics are activity-based rather than performance-based. A research-based effort to discover call center best practices would have assisted the AWI in developing the ITN metrics. Of note is one of AWI’s goals from introducing a vendor is to enhance best practices. Some of these best practices, according to AWI, include web chat sessions, outbound email blasts, timely call center and agent performance monitoring and call agent performance management techniques. It is beneficial to AWI and its stakeholders that in addition to performing the work, the selected vendor will also be an active partner in knowledge building and enhancement of call center best practices.

Superior call centers typically employ best practices that employ at least a dozen, if not more, metrics devoted explicitly to incoming calls, and AWI should do likewise. A call center that absorbs these best practices is often referred to as a “contact”

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<sup>8</sup> Gartner Research, Huntley, Helen, “Best Practices for Negotiating Benchmarking in Outsourcing Contracts,” 26 June 2008.

versus “call” center, because it offers so much more to clients than the basic telephone call. Twenty top metrics for call / contact centers include the following, exhibited below in Table 2:<sup>9</sup>

Metric Category	Metric
Service Measures	Blockage
	Abandon Rate
	Self-Service Availability
	Service Level
	Average Speed of Answer
	Longest Delay in Queue
Quality Measures	First Resolution Rate
	Transfer Rate
	Communications Etiquette
	Adherence to Procedures
Efficiency Measures	Agent Occupancy
	Staff Shrinkage
	Schedule Efficiency
	Schedule Adherence
	Average Handle Time
	After-Call Work
	System Availability
	Conversion Rate
	Upsell/Cross-Sell Rate
	Cost per Call

**Table 2: Top Twenty Metrics of Contact / Call Centers**

#### **4. Vendor-Written Plans**

The ITN requests the vendor indicate for all team members the type of project duties they will perform using one of fourteen categories:

1. Project Management Plan
2. Implementation Plan
3. Acceptance Testing Plan
4. Quality Management Plan
5. Risk Management Plan
6. Problem Management Plan
7. Integration Management Plan
8. Security Management Plan
9. Configuration Management Plan
10. Training and Communication Plan

<sup>9</sup> Multichannel Merchant Operations & Fulfillment, Penny Reynolds, “A New Look at the Top 20 Contact Center Metrics,” [http://multichannelmerchant.com/opsandfulfillment/contact\\_center\\_metrics\\_112006/](http://multichannelmerchant.com/opsandfulfillment/contact_center_metrics_112006/), 01 November 2006.

11. Disaster Recovery Plan
12. Business Continuity Plan
13. Marketing Plan
14. Transition Plan

The AWI, however, provides no vendor guidance as to the required content of any of these plans. Lacking guidelines, the vendor could easily usurp the project and not focus on agency needs and objectives.

## **5. Risk Assessment**

Risk is always a major component when a public entity contracts with a private entity to provide services to its clients. Although AWI completed a thorough risk analysis, there was no mention in the business case of a risk manager and a risk management team. In addition to separate project Contract, QA, and Project Managers, it is a Gartner, Inc.<sup>10</sup> best practice to assign a Risk Manager to every project.<sup>11</sup> The Risk Manager's role has changed significantly in recent years, becoming less technology-focused and more business-oriented.

The Risk Manager has the overarching responsibility for coordinating and executing risk management strategies, promoting common enterprise-wide solutions and related risk practices, and ensuring that risk-related controls and management requirements are enforced. Sound risk-based decision making is critical to the success of any risk management program. For this reason, successful enterprises will move toward the formalization of risk management processes with appropriate accountability, transparency, and measurability.<sup>12</sup>

## **6. Duration Timeline for the Current Economic Recession**

The duration timeline for the current economic recession (two years) is not authoritative. The contract term is two years plus three one-year renewals at the agency's discretion. Basing a contract timeline on undocumented data is not conducive to best business practices. AWI assumes economic conditions will improve in two years, but acknowledges there is "no way to determine the timeframe for the economy to rebound." Actually, there are several sources, experts, and indices for predicting when the turnaround will occur. AWI should have researched these before assuming a rebound was two years off.

Unemployment is not the only economic indicator trending negatively in Florida. Florida posted the third highest state foreclosure rate in May 2009, with one in every 148 housing units receiving a foreclosure filing during the month. Florida, along with California and Nevada, dominated the "Top Ten Metro Foreclosure Rates," with Florida cities accounting for three of the top ten locations faced with housing foreclosures: Cape Coral-Fort Myers at No. 6; Orlando-Kissimmee at No. 8; and, Miami-Fort Lauderdale-Pompano Beach at No. 10.<sup>13</sup> "May foreclosure activity was the third highest month on record, and marked the third straight month where the total number of properties with foreclosure filings exceeded 300,000 — a first in

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<sup>10</sup> Gartner, Inc. is an information technology research and advisory firm headquartered in Stamford, Connecticut. It was known as The Garner Group until 2001. Gartner clients include many large corporation and government agencies (including the State of Florida), as well as technology companies and the investment community. The company consists of Research, Executive Programs and Consulting and Events. Founded in 1979, Gartner has 4,000 associates, including 1,200 research analysts and consultants in 75 countries worldwide.

<sup>11</sup> Gartner Group Research, "Top Five Issues and Research Agenda, 2008: The IT Risk Manager," [http://www.gartner.com/DisplayDocument?ref=g\\_search&id=633015&subref=simplesearch](http://www.gartner.com/DisplayDocument?ref=g_search&id=633015&subref=simplesearch), 27 March 2008.

<sup>12</sup> Ibid.

the history of our report,” said James J. Saccacio, chief executive officer of RealtyTrac.<sup>14</sup>

The agency should cite an appropriate source for its two-year calculation, e.g., the Index of Leading Economic Indicators [LEI] and / or other economic indicator(s). Many factors could impact the UC call center volumes – for example, the continued increasing population growth trend in Florida (already the fourth largest state, following California, Texas, and New York). Such population growth and accompanying high unemployment could result in a decision to insource rather than outsource. The decision to outsource a fourth call center hub was based on risk aversion: Shift the risk of increasing staff numbers and equipment to a vendor, who will be responsible for either downgrading or upgrading resources according to the rise and fall of State of Florida unemployment rates. It appears AWI is unwilling to invest in additional staff and equipment to meet what it assumes is approximately a two-year recession resulting in rising unemployment rates. Again, if unemployment rates remain high for an extended period of time - whatever the reason - insourcing may prove to be a best practice for the agency.

## **7. Consideration of Additional Options**

AWI did not present additional research options in the business case, including:

- a) An option to upgrade or totally replace the aging call center infrastructure, followed by the addition of an appropriate number of operators. According to The Orlando Sentinel, the computer system that runs Florida's unemployment insurance program is in danger of crashing. The 1970's computer system is difficult to maintain and cannot keep up with the rising number of unemployed people. Even IBM technicians who fixed the computer system in 2008 said any fixes would only be temporary, and added the system was too expensive to keep running. Although the AWI has approached the legislature for \$2 million in funding for a new computer system, the agency did not include this as an option in the business case.<sup>15</sup> Estimates are that it would take a total of three years to stand up a new call center system. Although AWI commented in their business case that the IVR was upgraded to 1,035 lines and The Miami Herald indicated 500 staff was added at the same time, no timeline was given for these two events. These two events may have occurred in early 2009.
- b) Another option open to AWI was to potentially partner with agencies they had previously researched and discovered the existence of established vendor-run call centers (Florida Agency for Health Care Administration (AHCA) and Florida Healthy Kids (FHK)). Perhaps these agencies could absorb some or all of AWI's overflow calls.
- c) AWI did seek a partnership with the Department of Management Services (DMS), but realized the vendor solution provided through DMS would have required changing both the call center system and business processes. Other state agencies who manage multiple call centers, such as the Department of Revenue and the Department of Children and Families, should also have been

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<sup>14</sup> Ibid #4.

<sup>15</sup> CentralFloridaNews13, "Report: Florida's Unemployment Program Uses Too-Old Computer," [http://www.cfnews13.com/Business/LocalBusinessHeadlines/2009/4/12/Florida39s\\_unemployment\\_computer\\_at\\_risk\\_of\\_crashing.html](http://www.cfnews13.com/Business/LocalBusinessHeadlines/2009/4/12/Florida39s_unemployment_computer_at_risk_of_crashing.html), 12 April 2009.

investigated for potential partnerships. The business case also did not validate the capacity or the support costs of any of these potentially viable partnerships.

- d) The AWI also discovered that the Florida Agency for Health Care Administration (AHCA) and Florida Healthy Kids (FHK) programs have each established vendor-run call centers. An AWI oversight, however, was not inquiring of AHCA, FHK and other state government entities (such as the Department of Revenue and the Department of Children and Families, who operate multiple call centers) if they could handle some or all of the AWI overflow calls. (AWI did query the Department of Management Services (DMS) re accepting AWI overflow calls; however, the vendor solution provided through DMS would have required changing the call center system and processes.)

#### **8. Long-Range Program Plan (LRPP)**

This project is not included in the agency's Long-Range Program Plan (LRPP), although UC may be. The business case did not discuss the agency LRPP. Project inclusion in the agency LRPP is mandated by Chapter 216.013, *Florida Statutes*, "Long-range Program Plan." This statute dictates that state agencies and the judicial branch shall develop long-range program plans to achieve state goals using an interagency planning process that includes the development of integrated agency program service outcomes. The plans shall be policy based, priority driven, accountable, and developed through careful examination and justification of all agency and judicial branch programs.

Projects included in an agency's LRPP take on added meaning, as they are a part of the framework and justification for the agency's budget. The framework contained within the LRPP is directly linked to the agency budget and accountability structure. The LRPP is a goal-based plan with a five-year planning horizon. The LRPP focuses on agency priorities in achieving the goals and objectives of the state.

#### **9. Greenhouse Emissions and Green Trending**

Section 10 of the business case complies with Florida's Executive Order Number 07-126,<sup>16</sup> "Establishing Climate Change Leadership by Example: Immediate Actions to Reduce Greenhouse Emissions from Florida State Government," signed into law by Governor Crist in July 2007.

The business case did not, however, address "green trending," which has been legislatively mandated by Senate Bill 713 and Executive Orders. This senate bill, among other requirements, will strengthen green building codes and energy efficiency standards for appliances. This is normally a provider requirement and should not be a burden to the agency.

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<sup>16</sup><http://www.flgov.com/pdfs/orders/07-126-actions.pdf>. Accessed 08 May 2009.

### III. Council Recommendations

The Council on Efficient Government recommends the agency proceed with modifications on this outsourcing initiative.

#### **1. *Probability for Success***

The Council's analysis points to a good probability for success in attaining the agency's goals as documented in the business case.

#### **2. *Missing Detailed Cost Data***

The Council was unable to obtain detailed cost data for all the short-listed vendors from the agency. Lacking detailed vendor cost data, the Council can only determine with any level of confidence that Option 1, "Outsource Call Center to Vendor," is the short-term course of action that will result in cost savings for the agency. The estimated total cost savings to the agency is, as referenced in Table 1 of this document, \$76,572.00.

#### **3. *Cost Savings***

The cost savings of \$76,572.00, while modest, does represent a complete shift in risk from AWI to the selected vendor. And AWI has reserved the right to manage the number of calls transferred to the selected vendor: Calls could number 10,000 one month, and, should an economic recovery occur prior to the end of the two-year contract, 2,000 another month. Thus, AWI has contractually averted the personnel operations necessary to deal with shifting workloads and the resultant reductions and / or increases in staff.

#### **4. *AWI Should Examine a Longer-Term Solution***

On the other hand, as AWI readily acknowledges, should the recession linger longer than two years, the option of replacing the entire call center infrastructure becomes far more attractive. The vendor contracted cost of \$15,396,420.00 represents a significant 76 percent of the estimated \$20 million investment required to replace the entire call center infrastructure. For this reason, the Council finds AWI should have given more consideration to a longer-term solution.

#### **5. *Extensive Financial Data Required for Business Cases to Support Effective and Successful Projects***

The agency was able to provide a sufficiently robust cost comparison of only one of the three proposed options. Minimally, the Council would like the following financial data included in all future business cases (for all options) from the agency:

- a. Cost Analysis,
- b. Cost Savings,
- c. Return on Investment (ROI), if applicable,
- d. Cost Price Analysis (CPA),
- e. Earned Value (EV), and,
- f. Internal Rate of Return (IRR).

The Council welcomes the opportunity to offer training on these tools and other business case terminology to AWI staff. Classroom training or one-on-one training is offered by the Council, at the discretion of the Council's Executive Director. There is no fee for training.

## **6. Appointment of a Risk Manager to Complement the Contract and Project Managers**

- a) As organizations become more dependent on service providers to offer and support increasingly complex and changing services, risk management becomes a business-critical capability. The demand for new evaluation practices will be driven by the growing cost to the organization and service provider of hidden risks that come to light after the contract has been signed. Contract managers need to take and maintain control of risk management when developing outsourcing deals.
- b) Some key contract risk adversity clauses that should be included during the contract development phase include the following:
  - Innovation,
  - Key Personnel,
  - Transition and Implementation Planning,
  - Term,
  - Project Schedules and Deliverables,
  - Sub-vendor Approval,
  - Out-of-Scope Work,
  - Price Benchmarking,
  - Audit,
  - Termination, and,
  - Work Migration Plans (in the event of termination).
- c) In addition, as previously discussed in Section B.2 of this report, the project should have a full-time Risk Manager assigned to the project to complement the Contract and Project Managers. The Risk Manager would periodically review and correct for risk adversity, which changes throughout the course of a project. The Risk Manager also has the overarching responsibility for coordinating and executing risk management strategies, promoting common enterprise-wide solutions and related risk practices, and ensuring that risk-related control and management requirements are enforced. Sound risk-based decision making is critical to the success of any risk management program. For this reason, successful enterprises will move toward the formalization of risk management processes with appropriate accountability, transparency and measurability.<sup>17</sup>

## **7. No Reference to Federal Laws**

Although the business case adequately references *Florida Statutes* applicable to UC; it does not reference any federal laws. The Council suggests the agency include references to appropriate federal laws and Statutes concerning the state's UC.

## **8. Lack of a Defined Quality Assurance Plan**

The ITN does indicate that the vendor is responsible for fourteen plans, including a Quality Assurance Plan, as discussed earlier in Section B.3. The AWI in both its business case and ITN neglected to require the winning vendor to write a definitive Quality Assurance Plan. This written plan should be the responsibility of the vendor and not a burden to the agency. Lacking a defined plan, AWI has only "customer satisfaction surveys" to fall back on for quality assurance – an end result that lacks definition without a written quality assurance plan. The plan should be written in accordance with an industry-accepted standard, such as the International

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<sup>17</sup> Gartner Group Research, "Top Five Issues and Research Agenda, 2008: The IT Risk Manager." [http://www.gartner.com/DisplayDocument?ref=g\\_search&id=633015&subref=simplesearch](http://www.gartner.com/DisplayDocument?ref=g_search&id=633015&subref=simplesearch), 30 March 2008.

Organization for Standardization' (ISO) 9000 family of quality standards. A well-defined, written quality assurance plan is even more critical when undefined "consistently poor service quality ratings shall result in contract termination."<sup>18</sup>

*The Council would like to thank the Agency for Workforce Innovation for this opportunity to participate in the agency's planning and procurement processes. We look forward to working with AWI on future outsourcing, or insourcing, initiatives.*

*If you have any questions or issues concerning this report, or if the Council can be of further assistance, please call us at 850.414.9200.*

*Thank you again.*

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<sup>18</sup> AWI, ITN # 09-ITN-005-MG, 16 February 2009.