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4050 Esplanade Way
Suite 380.6X
Tallahassee, FL 32399-0950
Phone: 850.414.9200
Fax: 850.922.6852

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.

Ms. Vonda Murray
Operations & Management Consultant I
Department of State
Division of Corporations
2661 Executive Center Circle
Suite 300
Tallahassee, FL 32301

Dear Ms. Murray,

Thank you for submitting your division's final business case and 'Request for Proposal' for *Electronic Credit Card Payment Processing* for the Council on Efficient Government's review. The hard copy version of this business case was received by the Council on December 9, 2009, and the soft copy version was received on January 4, 2010.

After a thorough review of the final business case, Council staff recommends this project proceed and offers in its *Advisory Report* a business case summary as well as comments and recommendations. We trust you will find this information helpful to the Department during its procurement and contract period activities.

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

Sincerely,

Torey Alston
Interim Executive Director

cc: Council File 10-0008

cc: Mr. Kurt S. Browning
Secretary of State
R. A. Gray Building
500 South Bronough Street
Tallahassee, FL 32399-0250

Enclosure: Advisory Report V1.1 FINAL

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I. Business Case Summary

1. Proposed Project Title

Electronic Credit Card Payment Processing
Department of State (DOS), Division of Corporations (Division)

2. About the Division

The DOS serves artists, archivists, preservationists, librarians, corporate officers, voters and many more. The Secretary of State serves as Florida's Chief Cultural Officer and Chief Elections Officer, and is custodian of the official state seal. All Florida residents are touched in some way by the programs, services, and activities of the DOS.¹

The DOS' mission to support Florida's economic and commercial growth and foster citizen safety and well-being, in accordance with Chapter 15.16, *Florida Statutes*, is met through the division's operations and maintenance of a central database registry for recording and retrieving commercial information. Additionally, the division provides a statewide registry that certifies/authenticates records and documents and serves as an information resource for virtually all business activities in the State of Florida. In support of the DOS mission, the division:

- 1) Formalizes the legal standing of a business or activity by accepting and indexing the filing or registration.
- 2) Supplies information and certification services regarding the business filings of record.

3. About the Project

In 2000, the division implemented the country's first centralized database ('Corporations Database') for the filing of electronic certifications such as business entities, trade and service marks, judgment liens, fictitious names and lien registrations. The Corporations Database processes these statewide filing requests and the filing fee is accepted by a pre-established Sunbiz e-file account, check or credit card.

The DOS reports customers find payment by credit card to be the most convenient and preferred method of payment for electronic filings. This business case supports the continued outsourcing of the credit card fee collection function to a third-party administrator (TPA). This function has been outsourced since program inception in 2000.

Clients who elect to pay by credit card are directed to the current vendor, Linked2Gov, whose website is used to complete the payment process. This activity operates independently from divisions' filing/certification process; all client credit card data is the sole responsibility of Linked2Gov, who processes the payments and sends approval

¹ Department of State, <http://www.dos.state.fl.us/>, accessed January 6, 2010.

information to the division. Linked2Gov also makes daily deposits into the division's bank account.

4. Hardware and Software Platforms

The division performs all systems support and maintenance on the underlying centralized database, 'Rdb.' Rdb was originally developed by Digital Equipment Corporation (DEC) in 1984 as part of the Virtual Memory System (VMS) Information Architecture, intended to be used for data storage and retrieval by high-level languages. Rdb first ran on DEC's VAX/VMS 8550 server at the division, then on Compaq's Alpha hardware platform after DEC sold the VAX/VMS product line to Compaq. In 1994 DEC sold the Rdb division to Oracle Corporation where it was rebranded Oracle Rdb. The three clustered Alpha VAXes running the Oracle Rdb Version 7.2-2 comprise a formidably powerful platform, capable of processing more than 200 million web transactions annually. All operational and maintenance support is performed by six IT division staff members.

Efforts to upgrade the Corporations' database have been hampered by both the cost of the upgrade and an inability to match the performance of the VAX Alpha servers cluster. More than 200 million web transactions are processed annually through the Corporations website going against the databases located on the three VAX Alpha Servers cluster.

5. Project Stakeholders

The project's major stakeholders include the following:

- a) Citizens of the State of Florida
- b) Credit card industry
- c) Members of Florida's business, science and technology communities
- d) DOS clients
- e) DOS staff members
- f) The Florida Legislature

6. Project Term

According to the fixed price Request for Proposal (RFP) number 973-120-02-09-3 released on September 15, 2009, the contract's planned effective dates are December 1, 2009 through June 30, 2015 (five years and seven months), unless terminated earlier by the division or the vendor under the terms of the RFP. The division may renew the contract or any portion thereof, for one additional five-year period. Any renewal is subject to the same terms and conditions and pricing as the original contract and shall be contingent upon satisfactory performance evaluations by the division. Pricing for services shall not be increased during the term of the contract, including any renewals, if applicable.

7. Purpose of the DOS Electronic Credit Card Processing Project

To achieve its objectives, the division has developed various system applications and manual processes. The acceptance of electronic credit card payments is secondary in accomplishing the division's core functions. However, the increasing demand for electronic processing, incurred budget cuts and subsequent staff reductions have made

the ability to accept electronic credit card payments a vital element in the filing/certification process. The division wants all filing types available electronically and the ability to accept credit card payments is vital if this goal is to be achieved.

8. Operations and Financials

Operations The division maintains more than eight million business records and files more than one million commercial documents annually.² Also, Sunbiz receives more than thirteen million hits per week.³ The division's credit card transactions have increased from 145,840 in Calendar Year (CY) 2002 to 1,148,390 in CY 2008.

The DOS released the RFP on September 15, 2009, after a series of negotiations with the Department of Financial Services and Bank of America, American Express and Discover failed to meet the division's requirements. Although all the vendors attempted to meet the division's needs, their products are very similar to commercial-off-the-shelf (COTS) software, which either require extensive software modifications by the vendor (unacceptable to vendors), or requires the division to completely revamp its business processes (also unacceptable). For this reason, the division proceeded with the fixed price RFP and anticipated receiving three to five competitive responses.

Two responses were received, from JP Morgan and Metavante. Both bids were disqualified, but Metavante accumulated the most combined points and was awarded the contract, which will be executed upon final business case review. (Linked2Gov, the current vendor, is a subsidiary of Metavante.)

Financials The division now discounts the filing fee(s) by the amount of the surcharge imposed by the credit card companies and vendor. In this way, an end user surcharge was avoided, which, if implemented, would likely have discouraged electronic filings and resulted in an increase in the cost of doing business.

DOS had estimated in its initial business case that the new contract would cost the state between \$3.1 and \$7.7 million annually. No basis was provided for this estimate in the final business case. In addition, the total and precise costs to insource the Corporations Database were not calculated, but approximated. Therefore, the Council cannot empirically state which of the two options, insource or outsource, is financially viable.

In an addendum to the final business case, DOS indicates the current vendor costs are \$5,312,481.75 and the successful vendor's (Metavante) annual costs will be \$4,282,940.41 (based on 2008 statistics). This represents a significant annual savings and/or cost avoidance of \$1,029,541.34 to the state.

9. Project Funding

The funding source will be General Revenue at an annual cost of \$4,282,940.41, or \$23,913,083.95 for the initial five-year, seven-month contract term. The cost for fiscal year 2007/08 was \$5,200,523.00 from general revenue.

² Council on Efficient Government, "Advisory Report 09-0023," May 20, 2009.

³ DOS website.

10. Project Authority

This business case to outsource is a response to Section 15.16 (5) (d), *Florida Statutes*, and its intent was subsequently made clearer by the passage of Section 15.16 (9), *Florida Statutes*.

II. Council Analysis

A. Business Case Strengths

1. Probability for Success

Staff conducted an analysis on the business case submission and projects a good probability for attaining the desired result, primarily due to the division's experience in outsourcing the electronic credit card payment process. The Department has successfully contracted these services for more than eight years.

In addition, there are a number of advantages to the continued outsourcing of this project reflected in the business case, including:

- a) Capability for the DOS to remain 100 percent focused on its core mission and critical functions.
- b) DOS need not invest capital into the project.
- c) DOS need not increase FTEs.
- d) The ability of the TPA to focus on the needs of consumers and the industry.
- e) The TPA can increase system capacity and performance at will without direct instructions or reimbursement from the state. (TPA revenues increase with volume, allowing flexibility and responsiveness to both the short- and long-term needs of the program.)

2. Project Costs – Comparison of Options

As indicated below in Table 1, outsourcing to an outside TPA vendor via the procurement process potentially saves the state approximately \$2.9M annually.

Option #:	Option Name:	Development Costs First Year:	Recurring Expenses:	Credit Card Processing Fees	Vendor Cost	TOTALS:
1	Discontinue Payment by Credit Card	Detailed costs not provided-dismissed as impractical by DOS.				N/A
2	Division Processes Credit Card Payments	\$1.1M	Approx. \$1.4M	Approx. \$6.1M	\$0	\$8.6M
3	Use DFS Credit Card payment Contract	Detailed costs not provided-dismissed as unacceptable by DOS.				N/A
4	Secure New Contract via Procurement Process	\$0	Approx. \$1.4M	Not Provided	\$4,282,940.41	\$5.7M
Approximate Net Annual Savings to State if Option 4 is Selected						\$2.9M

Table 1: Comparison of Options

B. Potential Areas of Concern

1. Risk Assessment, Mitigation and Risk Management Plan

The division provided a risk assessment that adequately addressed most of the project risks. A risk assessment, however, is not a risk management plan. No risk management plan was submitted with the final business case or the RFP.

The outcome of the risk assessment indicated a “low” project risk. Nevertheless, the risk assessment should be recalculated by the division, since there were numerous discrepancies observed when comparing the risk questionnaire responses to the final business case and the RFP.

- a) Risk assessment question number 2.01: The division indicates it has “experience” working with, operating and supporting this technology in a production environment,” and in number 2.02, DOS claims its knowledge of the proposed technology is sufficient to implement with only internal resources. This contradicts the final business case, where in Section II.1, page four, it states: “The division does not have the staff, knowledge, or means to effectively process electronic credit card payments.”
- b) Risk assessment question number 3.03: If the division’s organization structure will change only “1 percent or less,” (in question 3.04) an Organizational Change Management Plan may not be needed.
- c) The division indicates in its response to numbers 3.08 and 3.09 that “minor or no changes” are reported to impact the State of Florida citizens and other state or local government agencies. Further, we have no record of the Organizational Change Management Plan. It was not included with the final business case or the RFP.
- d) Risk assessment question number 4.03: The division indicates the project’s tangible and intangible benefits have been defined and documented. These were not included in the final business case or in the RFP.
- e) Risk assessment question number 4.04: The division indicates “Just-in-time purchasing of hardware and software is documented in the project schedule.” No project schedule was included in the final business case or the RFP.
- f) Risk assessment question number 5.01: The division indicates a “detailed and comprehensive” project work plan addressing the entire project lifecycle has been defined and documented. No detailed work plan was included in the final business case or the RFP.
- g) Risk assessment question number 5.02: The division indicates the existence of a high-level, documented change management plan. No high-level change management plan was included in the final business case or the RFP.
- h) Risk assessment question number 5.09: The division indicates all required communication channels and interfaces have been identified and documented. No communication or interface plan was included with the final business case or in the RFP.
- i) Risk assessment question number 5.10: The division indicates the existence of a project staffing plan specifying the number of required

resourced and their corresponding roles, responsibilities and skill levels. This staffing plan was not included in the final business case or in the RFP.

- j) Risk assessment question number 5.11: This risk assessment question deals with agency staff members having the necessary knowledge, skills and abilities (KSAs) to staff the project team with in-house resources. According to the final business case, in Section II. 1, Option 2, "...the division does not have the staff, knowledge or means to effectively process electronic credit card payments."

The Council observes that if the Risk Assessment were readdressed with the items above, the project risk might move from "low" to "medium," thus requiring additional mitigation and cost to the division.

2. Request for Proposal (RFP)

The RFP is missing several components usually found in a robust RFP, including the following:

- a) A requirement for the vendor to prepare a Quality Assurance Plan.
- b) A "Scope of Services" or "Services to be Delivered" section of the RFP, where all project requirements can be found.
- c) Service Level Agreements (SLAs).
- d) Performance metrics with associated goals that effectively measure contract and vendor performance.
- e) A requirement for the vendor to prepare a detailed Transition Plan.
- f) Statement of ownership with regard to intellectual property.
- g) A requirement for a vendor performance bond that eliminates operational risk. The division elected to require a surety bond, which is required by the federal government and protects the division against vendor theft. The surety bond is detailed in Section 7.10, Collateralization, of the RFP. The Council continues its recommendation that the division require the vendor to post a performance bond. The risk of default or breach of contract is a viable outcome in the procurement arena. Data would be lost and operations adversely affected until a solution could be implemented.
- h) The risk that operations would suffer significant downtime would be further offset by the requirement of the current RFP that all program source code must be escrowed in favor of DOS should a breach of contract or event of default occur.
- i) A requirement for the vendor to complete a detailed transition plan.
- j) In keeping with best business practices, there should be at least ten metrics and associated goals for both the electronic filings and the call center.

3. Call Center Operations

The Call Center operations are not detailed in the final business case. The division indicates on page seven of the final business case that a call center would be a required component of an insource; however, no FTEs or budget was

requested for this. Also, the total cost of a call center was not calculated and no service level agreement or metrics with goals are included in the RFP for a call center.

4. Limited and Unclear Number of Division Staff Members Assigned to Project

The DOS has very limited staff allocated to this project. The contract manager, information technology (IT) manager, and customer service supervisor oversee the daily operations and resolve any problems. The DOS accountant and an IT employee verify payment and reconcile funds daily. IT staff also run nightly batch jobs to update the day's payment information associated with each filing or certification. The estimate of available, total staff time committed to this project for customer service and reconciliations, as indicated in the final business case, is one FTE. A division spokesperson, however, indicated a staff of six supports this system. Uniform knowledge and communication on the division's staffing allocation would result in more precise cost estimation for the preferred Option 4.

III. Council Conclusion

The Council is pleased to partner with the Department of State, Division of Corporations in continuing to attain excellence and innovation in the planning and procurement processes. We look forward to working with the Department on future outsourcing or insourcing initiatives.

If you have any questions or issues concerning this *Advisory Report*, or if the Council can be of further assistance, please call us at (850)414-9200.