

# Privatizing welfare will cost almost \$180M extra

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Associated Press

Indiana will spend nearly \$180 million more than it initially planned to privatize and automate many of its welfare functions just two years into a closely watched 10-year deal that is one of the most lucrative contracts in state history.

The cost of the \$1.16 billion contract Gov. Mitch Daniels signed in late 2006 has risen 15 percent to \$1.34 billion, under changes made to the agreement with a group led by Armonk, N.Y.-based IBM Corp.

The amendments, found in a contract review by The Associated Press, include one that gave the IBM group an additional \$47.3 million — some of which will be used to correct problems with the project. Four top administration officials signed off on the additional money in April, shortly after Daniels told IBM officials they needed to fix a system

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» FSSA: Changes reflect work not included in original deal.

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that critics charge has erroneously canceled benefits even as the recession forces more people to seek food stamps, Medicaid and other government help.

Indiana's welfare project is one of the most ambitious efforts by a state to automate welfare systems and move away from cost-intensive, hands-on work by government caseworkers. The government services industry, federal officials and some members of Congress have scrutinized Indiana's effort after a similar one in Texas ended with a canceled contract with Accenture in 2007.

Daniels has said repeatedly that he inherited one of the nation's worst welfare systems. The Republican governor has made the IBM deal one of the hallmarks of his 4½-year-old administration.

Money for the project comes from appropriations to the state's Family and Social Services Administration. The General Assembly approves the social service agency's funding but did not have a role in approving the IBM contract, which Daniels initiated.

Indiana House Speaker B. Patrick Bauer, D-South Bend, a frequent critic of the effort, expressed dismay over the rising costs.

"I think the whole thing's out of control," Bauer said. "It didn't work in Texas, and it's not working here."

John Cardwell, leader of a group of advocates documenting problems that clients have faced, said the project has been shrouded in secrecy and questioned whether the contract amendments fully reflect the cost. He noted FSSA still has its own employees involved in welfare intake, must invest time and other resources in responding to increased federal oversight, and is defending itself against two lawsuits challenging the contract.

"We need a complete audit," he said.

IBM spokesman John Buscemi acknowledged Friday that additions had been made to the contract but declined to elaborate.

FSSA spokesman Marcus Barlow said the contract amendments reflect work not included in the original agreement, such as processing applications for the Healthy Indiana Plan, or HIP, the state-sponsored medical savings account for low-income adults, and emergency food stamps after floods last year in parts of the state.

Two amendments approved in 2008 provided an additional \$130.2 million for HIP-related work. Barlow said the

IBM team, including Dallas-based Affiliated Computer Services, has 93 people working on HIP.

Nearly 100 changes to the contract had been proposed or executed as of Jan. 12. Some were rejected or withdrawn, and Barlow said many added no cost to the contract.

The increase approved in April by FSSA, the State Budget Agency, the Department of Administration and the state's chief information officer was for changes initiated on June 30, 2008. It includes \$35.14 million for several items that addressed criticisms of the project, such as adding staff and a Web portal for nursing homes, group homes and other entities serving about 140,000 of the state's neediest welfare clients.

Indiana has about 1.2 million welfare clients, including children, the elderly and disabled people.

Barlow said the \$35.14 million was a one-time cost that added staff who will remain on the project.

The April increase also included \$7 million to add staffing and overtime to meet a higher volume of welfare applications than expected and to allow the ACS-staffed call centers to transfer some telephone calls to county welfare offices.

FSSA Secretary Anne Murphy has said that shortly after beginning her tenure in January, she found problems with the IBM team's performance and took the matter to Daniels, who personally called a senior IBM official to demand improvement. IBM performed a 12-week internal review and gave Murphy an improvement plan that adds 350 people and new technology at no additional cost to the state.

Daniels spokeswoman Jane Jankowski said Indiana's welfare system "remains a problem that we must fix."

"We're working hard to resolve issues one way or another so we provide the best service we can to constituents and do it in a way that is responsible to Hoosier taxpayers," she said.

Murphy has said the state will consider canceling the contract if the IBM team doesn't show improvement by fall. However, she and Jankowski have stressed that the Daniels administration wants the IBM team to succeed.

Bauer said the administration has found loopholes in the state budget process controlled by the General Assembly and is exploiting them to expand the IBM contract with no oversight.

"It's really a power grab," Bauer said. "The best thing we can do is to try to limit it legislatively."

Bauer and other top lawmakers have appointed the State Budget Committee to review the IBM contract over the coming months. The legislature's Medicaid Oversight Commission also will review the contract.