Texas Gov. Perry "Uses Hatchet" on Data Transfer to IBM: Concern Surrounding Outsourcing Rises

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As a result of IBM's failure to back up data for over 20 state agencies, **Texas Governor Rick Perry has issued a freeze** on the transfer of all state documents to the IBM data management program. His office will conduct an assessment of the situation before work with IBM will resume. **Brian Rawson** (member login required), Chief Information Office (CIO) of the **Department of Information Resources (DIR)** for the **State of Texas** (member login required), stated that IBM has not been meeting expectations and they have been fined $900,000 for failure to comply with the back-up terms of the contract.

In 2006, IBM began providing Texas with **Data Center Management and Consolidation Services** (member login required). The seven-year $863 million contract, designed to save money and provide better services to citizens and government agencies, put IBM in charge of managing operations for and overseeing the consolidation of 31 data centers. 27 agencies are currently at various stages of the transition. Despite warnings from several government agency officials that documents were not being backed up properly, the project progressed without any major glitches until this past July.

A **massive computer crash** caused the Tyler Medicaid fraud division to lose approximately 50% of its files, triggering Governor Perry's freeze and investigation. 81 criminal cases have been lost due to this crash. IBM hired specialists to recover the data, but results have been shaky – recovery estimates range from 50% to 80%. Over 10 other agencies, including the Department of Transportation and the Health and Human Services Commission, have reported various levels of concern with IBM's services, ranging from network breakdowns to server back-up issues.

IBM has stated that they will continue to work closely with Mr. Rawson to resolve the problem. They admit that mistakes have been made in regards to back-up procedures and they are taking steps to ensure that the problem does not happen again.

This is not the first time Texas has encountered serious problems with outsourcing. The Health and Human Services Commission actually ended a contract with the Texas ACCESS Alliance (TAA), a consortium of vendors led by Accenture, in early 2007. TAA ran the **Texas Integrated Eligibility Redesign System (TIERS),** (member login required) a browser-based application used to determine eligibility for Food Stamps. TAA had similar problems to those IBM is now experiencing, and eventually, the state determined that it was in the best interest of the citizens to end the contract with Accenture.

So what do these obstacles mean to government officials considering outsourcing as a solution to major IT projects? Well, for starters, it reiterates existing concerns regarding security. Large government agencies handle large amounts of very sensitive data. An agency needs to know right off the bat that a contractor will place the same importance on security that the agency itself would if they were managing the project.

These debacles also make officials question whether it really is more efficient to outsource a project. Can the contractor really execute this project for less than us? Or are they simply cutting corners that shouldn't be cut? Outsourcing that requires close interaction or even divides the work between the contractor and the agency can be difficult to orchestrate. However, data center management is supposed to be one of the "easy" outsourcing projects. Practically 100% of the work is managed by the contractor – it is a "forget-about-it" solution that can be very attractive to government officials for time-consuming projects. However, if agencies suddenly feel the need to check up on the contractor to ensure that all the requirements are met and no corners are cut, one of the main attractions to the solution is eliminated. Even with simple outsourcing, officials might wonder if it would actually be easier to manage the project in-house.

Situations like the one in which Texas currently finds itself mean that contractors will need to increase performance measurement mechanisms. Risk management strategies could become an even more critical criteria in the evaluation of proposals. Vendors will need to be able to ensure that they will not make the mistakes made by IBM.