BRIEFINGS
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Florida TaxWatch

106 N. Bronough St. • Tallahassee, FL 32301 • (850) 222-5052 • FAX (850) 222-7476

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The *People First* Contract Reassignment

Florida should renegotiate to enhance taxpayer value before consenting to assignment

The state of Florida' s employee human resource management and services operates through a single system known as *People First*, which is a self-service, web-based personnel information system overseen by the Department of Management Services (DMS). In 2002, DMS contracted with Convergys, a Fortune 500 Human Resource Management firm, to construct and maintain a Human Resource Software system as well as deliver employee and customer services to the state through the *People First* program. The initial seven-year contract between DMS and Convergys was previously extended to expire in August 2011.

In 2008, the Legislature commissioned the Office of Program Policy Analysis and Government Accountability (OPPAGA) and the private consulting firm Equaterra to provide a comprehensive report on the state' s best option for maintaining the *People First* system upon expiration of the Convergys contract. The analysis concluded that the best option for the state was to renegotiate the contract for an additional five-year extension (to August 2016) with Convergys rather than seek new competitive bids in August 2011.[1] DMS entered into and completed the renegotiation process with Convergys in December 2009; The contract was renewed until August 2016 at a lower annual price compared to the original contact price.[2]

Assignment to NorthgateArinso

Shortly after the contract renewal, Convergys announced its intent to sell its Human Resource Management division to NothgateArinso, a global human resource management corporation based in the United Kingdom, which would effectively transfer Convergys' contractual obligations to NorthgateArinso.[3] This transfer, known legally as an assignment, requires the approval of DMS.[4] While the pending assignment

1 "People First Assessment", Report No. 09-PF, Florida Office of Policy and Program Analysis (OPPAGA), January 2009. Available at: http://www.oppaga.state.fl.us/Summary.aspx?reportNum=09-PF

2 "State of Florida Extends "People First" Contract with Convergys", Convergys, Inc., December 2009. Available at: http://www.convergys.com/company/news-events/newsroom/news_release.php?newsid=4728.

3 "Convergys to sell human resources business to U.K. firm", Business Courier of Cincinnati, March 2010. Available: http://cincinnati.bizjournals.com/cincinnati/stories/2010/03/01/daily51.html?ana=yfcpc.

4 Acceptance of Appointment (legal terminology): Appointments of contracts must be signed or personally marked by DMS and a representative of the NorthgateArinso. No party should be allowed to commence duty without having signed acceptance to the appointment. It should be made clear that in signing the contract or appointment offer, the party (DMS) is indicating that they fully understand its contents, their rights, and obligations.
"Section 9.6, Amended and Reinstated Contract By and Between Convergys Customer Management Group, Inc. and The Department of Management Services", p. 61-62. Florida Department of Management Services, August 2009. Available at: http://dms.myflorida.com/human_resource_support/people_first/business_and_contract_documents.

raises concerns about the recent contract extension, it also provides an exceptional opportunity for the state to reevaluate whether the extended *People First* contract with Convergys is in the best interest of the taxpayers and whether Florida should seek to revise it.

One of the main issues in the extension of the *People First* contract is the general absence of competitive bidding in the contractual process. If the contract is assigned to NorthgateArinso in its current form, the *People First* program will remain in place without being competitively bid for 14 years. Competitive bidding for contracts is imperative in order to achieve the best value for Florida taxpayers on state purchases of goods and services and provide the best value to taxpayers. The Florida TaxWatch Government Cost Savings Task Force recommendations emphasize the importance of competitive bidding for state contracts in its published report, *Report and Recommendations of the Florida TaxWatch Government Cost Savings Task Force to Save More Than $3 Billion.*[5] The report's first recommendation proposes the reduction of the number of goods and services exempted from competitive bidding requirements. Robust, continual efforts to competitively bid state contracts help to ensure high quality goods and services at a competitive market price.

<u>Florida TaxWatch Recommendation: Contract Should Be Competitively Bid Out in 2012</u>

Florida TaxWatch recommends that DMS renegotiate key aspects of the current contract to the greatest extent permitted by law before accepting assignment of it to NorthgateArinso and has identified several ways in which DMS can take advantage of this situation to benefit the taxpayers. Given this change in circumstances, it is appropriate that the state shorten the length of the recently extended contract. As part of the assignment, DMS should renegotiate the contract with NorthgateArinso, to end in August 2012 rather than August 2016. At the same time, DMS should initiate a competitive bidding process immediately so that the new *People First* system is in place and operational with the chosen vendor by August 2012. (NorthgateArinso would be welcome to bid for the contract in the same manner as any other possible vendor.)

A perceived problem with a new competitive bid has been that a new vendor would require upfront costs to develop another resource management system to replace the *People First* platform; however, Florida TaxWatch analysis concludes that the state has the necessary licenses and software to operate the human resource management system under the current contract. This means another vendor will be able to use the existing software platform, which makes the building of another system and the upfront associated costs unnecessary. DMS has confirmed this conclusion to Florida TaxWatch.[6]

<u>Florida TaxWatch Recommendation: Require NorthgateArinso to have at least 60% of North American Workforce and Headquarters in Florida</u>

To further ensure the best deal for the state, Florida TaxWatch recommends the *People First* contract be amended as part of the assignment-consent to include certain provisions assuring of job retention in

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5 "Recommendations of the Florida TaxWatch Government Cost Savings Task Force to Save More Than $3 Billion," Florida TaxWatch Government Cost Savings Task Force, March 2010. Available at: http://floridataxwatch.org/resources/pdf/03042010FullReport.pdf

6 "Amendment 10, Amended and Reinstated Contract By and Between Convergys Customer Management Group, Inc. and The Department of Management Services", p. 39-50. Florida Department of Management Services, December 2009. Available at: http://dms.myflorida.com/human_resource_support/people_first/business_and_contract_documents.

Florida. As part of the assignment, NorthgateArinso should agree in writing to ensure that Florida becomes NorthgateArinso's North American headquarters and that at least 60% of its North American workforce is in the state, as has been previously stated by the company The current contract already has established provisions to prohibit "offshoring," where services cannot be rendered from and no information can be sent outside of the continental United States. [7] The provision prohibiting offshoring should remain and the abovementioned assurances should be included within the contract to better ensure more economic opportunity and growth for Florida under this contract.

Conclusion

It should be noted that this process and acceptance of appointment is representative of several other contractual transfers that have occurred in Florida. However, none of these contracts should be exempt from meticulous scrutiny and due diligence throughout the process. In the process of this contract assignment, Florida TaxWatch recommends that DMS renegotiate the *People First* contract for a period ending in August 2012 and to include provisions for at least 60% of NorthgateArinso employees to be located in Florida and locate its North American headquarters to Florida. DMS should simultaneously begin preparation for and execute a formal competitive bidding process for the contract. These recommendations should be implemented as DMS proceeds through the assignment process with Northgate Arinso, which will help to ensure that the taxpayers' dollars are spent wisely, the renegotiations are meaningful and productive, and that the participants in this process are held accountable for their actions in providing vital services to state employees and the state of Florida.

This Florida TaxWatch *Briefing* was written by **Katherine Hayden**, Research Assistant, under the direction of **Robert Weissert, Esq.**, Special Council to the President and CEO, and **Dominic M. Calabro**, President and CEO of Florida TaxWatch.

David A. Smith, Chairman; Dominic M. Calabro, President, Publisher, and Editor.

Florida TaxWatch Research Institute, Inc.

www.FloridaTaxWatch.org

7 "Amendment No. 10 to the Convergys Contract," p.1-3. The Florida Department of Management Services, May 2008.

About Florida TaxWatch

Florida TaxWatch is a statewide, non-profit, non-partisan taxpayer research institute and government watchdog that over its 30-year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies, and programs, and to increase the productivity and accountability of Florida Government.

Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policy makers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than $6.2 billion -- approximately $1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

Florida TaxWatch has a historical understanding of state government, public policy issues, and the battles fought in the past necessary to structure effective solutions for today and the future. It is the only statewide organization devoted entirely to Florida taxing and spending issues. Its research and recommendations are reported on regularly by the statewide news media.

Supported by voluntary, tax-deductible memberships and grants, Florida TaxWatch is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch bring about a more effective, responsive government that is accountable to the citizens it serves.

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