OUTSOURCING IN STATE OF FLORIDA GOVERNMENT

Consideration of the Practice & Process

ACTION REPORT SUBMITTED TO THE FACULTY OF THE COLLEGE OF SOCIAL SCIENCE IN CANDIDACY FOR THE DEGREE OF MASTER OF PUBLIC ADMINISTRATION

PRESENTED BY:

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THE FLORIDA STATE UNIVERSITY

REUBIN O'D. ASKEW SCHOOL OF PUBLIC ADMINISTRATION AND POLICY
July 30, 2006

Mr. John Holley, Esquire
Deputy Secretary of Operations
Department of Management Services
4050 Esplanade Way
Tallahassee, Florida

RE: Letter of Transmittal

Dear Mr. Holley:

I submit to you for your review this action report entitled, *Outsourcing in State of Florida Government: Consideration of the Practice & Process*. As part of my requirements to receive my degree of Masters of Public Administration I have conducted extensive research for the past several months regarding this topic. As you are aware, the topic is debated often and is the subject of current policy discussions between the executive and legislative branches of Florida government. In fact, Governor Jeb Bush signed into law Senate Bill 2518 on June 15, 2005, which implemented many of the below recommendations.

The intent of my research and writing of this report was to explore past and current policies and practices to gain a comprehensive understanding of the topic relative to State of Florida government. I evaluated three policy options against criteria to determine the most feasible and practical policy option for the State of Florida.

After evaluating the three policy options relative to the three evaluative criteria via the above research methodology it was concluded that the State of Florida should implement stronger controls over outsourcing but the following steps are recommended for optimal results:

1. thoroughly review all current laws and policies related to contracting for services in order to simplify and update the patchwork of laws already in existence;
2. thoroughly review all current outsourcing practices across Florida government in order to minimize and mitigate the inconsistent application of outsourcing policy and practice;
3. thoroughly work with all stakeholders, including without limitation, executive branch agencies; legislative leadership and staff; cabinet agencies; state, county and city purchasing officials; and private sector contractors, to
   a. study best practices in outsourcing policy and controls;
   b. compare best practices in outsourcing policy and controls to existing State of Florida policy and practices;
   c. eliminate confusing and redundant policies where possible; and
   d. adapt best practices to Florida’s already existing structure, but with an effort to simplify and not just add to the current patchwork of policy.

Many of these recommendations will be carried out by the Council for Efficient Government formed by Senate Bill 2518, which will operate out of your Department. The policy adopted via your Department’s work with the legislature will result in more effective and efficient government at the taxpayers benefit. Your efforts are commended!

Should you have any questions or comments, please do not hesitate to contact me at laurahosay@earthlink.net.

Sincerely,

Laura P. Hosay
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I. EXECUTIVE SUMMARY

There are few topics today within the domain of public sector business that have drawn the level of attention and debate as the outsourcing of public sector functions to private sector companies. It seems that all stakeholders, including but not limited to, elected officials, candidates for office, government analysts, government auditors, media, academia, unions, consultants, and government operations experts, have engaged in the debate over the concept of government contracting with the private sector for the provision of goods and services. This topic became relevant in the last presidential campaign, and the State of Florida was fodder for the debate (Stockfisch, Dec. 2004; Stockfisch, Nov. 2004; Stockfisch, April 2004; Welsh, Aug. 2004). It will continue to be a partisan issue from local elections through national elections.

Despite the debate, outsourcing has become a way of business in not only the public sector, but the private sector as well. Proponents argue that outsourcing can effectuate efficiency by reengineering antiquated and bureaucratic processes, reduce costs via a new streamlined business process, and offer better service to the taxpayers and customers of the service.

Opponents express concerns that mismanagement of outsourcing contracts is a slippery slope to higher and higher costs while putting service levels at risk. In other words, if government managers do not properly manage contract performance and deliverables then contract change orders result in higher costs to the taxpayers, resulting in delays and decreased service. Labor unions representing government employees vehemently oppose job loss to outsourcing and argue that outsourcing is just a vehicle for elected officials to pay back their political contributors.
The State of Florida is fertile ground for this debate. Stakeholders within the State of Florida, including, the Florida Governor, the Florida Legislature, Florida agency management, Florida Inspectors General, the Florida Office of Program Policy Analysis and Government Accountability (OPPAGA), and the Florida Auditor General, have all expressed concern and criticism of the current outsourcing process in the State

This action report provides a detailed assessment of outsourcing policy and practices in State of Florida government. The report explores three policy options in order to determine what direction the State of Florida policy should take in order to improve the success rate of outsourcing projects. Specifically, the policy options evaluated were: (1) leave outsourcing policy as it currently exists; (2) implement stronger controls over outsourcing; or (3) replace all current outsourcing and procurement policy. All three of the policy options above were evaluated using the following evaluative criteria: (1) fiscal impact; (2) political feasibility; and (3) operational feasibility.

The research methods used to study, analyze and report included all of the following:

1. Study and analyze State of Florida legislative action regarding procurement and outsourcing for the past five years;
2. Read and study texts and journals related to outsourcing, government procurement and outsourcing;
3. Research and review common media;
4. Interview policy and decision makers within State of Florida government;
5. Review and study State of Florida and federal law regarding government contracting and outsourcing;


After evaluating the three policy options relative to the three evaluative criteria via the above research methodology it was concluded that the State of Florida should implement stronger controls over outsourcing but the following steps are recommended for optimal results:

1. thoroughly review all current laws and policies related to contracting for services in order to simplify and update the patchwork of laws already in existence;

2. thoroughly review all current outsourcing practices across Florida government in order to minimize and mitigate the inconsistent application of outsourcing policy and practice;

3. thoroughly work with all stakeholders, including without limitation, executive branch agencies; legislative leadership and staff; cabinet agencies; state, county and city purchasing officials; and private sector contractors, to:
   a. study best practices in outsourcing policy and controls;
   b. compare best practices in outsourcing policy and controls to existing State of Florida policy and practices;
   c. eliminate confusing and redundant policies where possible; and
   d. adapt best practices to Florida’s already existing structure, but with an effort to simplify and not just add to the current patchwork of policy.
4. implement a training campaign to properly inform and educate the State’s day-to-day users of the new policies so that they are consistently and uniformly applied. 

1 During the research and writing of this action report Governor Jeb Bush signed into law Senate Bill 2518 on June 15, 2006. The codification of this bill implements many points made in this recommendation. The contents of this bill are discussed in Section III of this report.
There are few topics today within the domain of public sector business that have drawn the level of attention and debate as the outsourcing of public sector functions to private sector companies. It seems that all stakeholders, including but not limited to, elected officials, candidates for office, government analysts, government auditors, media, academia, unions, consultants, and government operations experts, have engaged in the debate over the concept of government contracting with the private sector for the provision of goods and services. This topic became relevant in the last presidential campaign, and the State of Florida was fodder for the debate (Stockfisch, Dec. 2004; Stockfisch, Nov. 2004; Stockfisch, April 2004; Welsh, Aug. 2004). It will continue to be a partisan issue from local elections through national elections.

Despite the debate, outsourcing has become a way of business in not only the public sector, but the private sector as well. Proponents argue that outsourcing can effectuate efficiency by reengineering antiquated and bureaucratic processes, reduce costs via a new streamlined business process, and offer better service to the taxpayers and customers of the service.

Opponents express concerns that mismanagement of outsourcing contracts is a slippery slope to higher and higher costs while putting service levels at risk. In other words, if government managers do not properly manage contract performance and deliverables then contract change orders result in higher costs to the taxpayers, resulting in delays and decreased service. In addition, skill sets and institutional knowledge may be lost forever when outsourcing reduces the number of government employees by transferring the function to the private sector company.
Labor unions representing government employees vehemently oppose job loss to outsourcing and argue that outsourcing is just a vehicle for elected officials to pay back their political contributors.

The State of Florida is fertile ground for this debate. Stakeholders within the State of Florida, including, the Florida Governor, the Florida Legislature, Florida agency management, Florida Inspectors General, the Florida Office of Program Policy Analysis and Government Accountability (OPPAGA), and the Florida Auditor General, have all expressed concern and criticism of the current outsourcing process in the State. The concerns include but are not limited to:

- Insufficient front-end analysis of as-is processes in order to make informed decisions regarding outsourcing as an option;
- Lack of a sound and consistent business case model resulting in well researched and documented outsourcing decisions;
- Inconsistent procurement processes across agencies, including but not limited to, the solicitation process as well as the negotiation;
- Inadequate contract management within Florida state agencies;
- Inadequately trained contract management personnel with Florida state agencies;
- Lack of performance based measurement methodologies;
- Lack of understanding of government operations within the Florida Legislature, which adopts policies for the Florida state agencies to follow.
This paper will examine the current status of outsourcing policy and procedure and evaluate policy alternatives to improve the current policies and procedures of contracting with private sector companies for goods and services in lieu of performing the function with state employees.
Background

Terminology

In order to explore this particular policy issue we must examine the meaning of “outsourcing” and “privatization.” As of April 2006, neither of the terms were defined in Florida Statute (Senate Staff Analysis SB 2518, p.5 fn13). OPPAGA generally defined privatization as “any process aimed at shifting functions and responsibilities, in whole or part, from the government to the private sector” (OPPAGA Report No. 04-02, p.1). OPPAGA proceeds to give examples of privatization by stating that privatization encompasses a variety of ways that government may contract with the private sector for services that are typically provided by government, including:

- contracting out with a private sector company to perform all or a portion of certain selected government functions;
- outsourcing, which to OPPAGA means that the government entity remains responsible for the service and retains control and management of the service that is provided by a private sector vendor; and
- public-private partnerships, which is explained by OPPAGA to mean that there is a contractual relationship between the government and a private sector company in which activities are performed to promote a public service (Id., p.1-2).

In the second bullet above it is apparent that OPPAGA considers outsourcing as a subset of privatization. Although this is one theory, I submit that the terms are very different and should be used very carefully. Privatization should be used to refer to when government fully relinquishes...
its control over a public service and turns it over to the private sector, i.e., government completely gets out of the business. An example would be government choosing to no longer regulate an industry or choosing no longer to provide a health and human service. In contrast, outsourcing should be used as a term to mean that government will continue to provide the service, retain management and control of the service, and ultimately be accountable to provide the service.

During the 2006 legislative session, both the Senate and the House of Representatives adopted a definition of outsourcing consistent with the opinions above. House Bill 7185 and Senate Bill 2518 defines outsourcing as the process of contracting with a vendor to provide a service …, while a state agency retains the responsibility and accountability for the service or activity and there is a transfer of management responsibility for the delivery of resources and the performance of those resources.

While it may be unclear whether outsourcing and privatization are synonymous terms, it does seem clear that outsourcing involves a government entity contracting with a private sector company (or possibly another government entity) for the provision of services (and goods may be included as well) while maintaining responsibility and control for the provision of the services. For this analysis, the term outsourcing will be used in this general sense.

**Status of Outsourcing in Florida**

Over the past few years, the increase of outsourcing has invited audits, findings and criticism (Senate Staff Analysis SB 2518, p.5). Outsourcing in Florida is occurring in most program areas,
including without limitation, delivery of health and human services, operations of prisons, road building, as well as the delivery of technology services. A 1998 legislative committee study concluded that 30 percent of state appropriations in fiscal year 1997-98 were purchased services, i.e., dollars spent on outsourcing contracts (OPPAGA Report No. 98-64, p.1). In fiscal year 2004-05 state agencies purchased more than $6.4 billion in goods and services (OPPAGA Report No. 06-35, p.1), which equates to approximately 11 percent of the 2004-2005 fiscal year $57.3 billion budget signed by Governor Jeb Bush (EOG, May 28, 2004 Press Release). It is clear that a significant amount of taxpayer dollars is spent paying private sector companies for goods or services.

In fact, the Center for Efficient Government (CFEG) reported that since January 1999 state agencies have outsourced a total of 138 projects (Appendix A). CFEG refined the report to include savings/loss data, which resulted in a total of 107 outsourcing projects compared to the previous released 138 total (Id.). Regardless, four projects alone account for approximately $2.25 billion dollars of outsourced services (Id.; Senate Staff Analysis SB 2518, p.5).

**Chronology of Relevant Events in Outsourcing Policy**

Competitive sourcing requirements in the public sector have been around since the mid 1900s. Specifically, Florida has required competitive bidding when state employees spend tax payer dollars since the 1950’s (Chapter 287, Florida Statutes). From 1950 until now, the legislature has

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2 While comparing the 1998 legislative committee study to the OPPAGA Report No. 06-35 it seems that there has been a significant decrease in dollars spent on contracting (i.e., 30% in 1997-98 to 11% in 2004-05), it is not a proper comparison sense the underlying studies were based on different assumptions and parameters. The point to deduce here is that regardless of whether it’s 11 percent or 30 percent, the dollars spent are a significant portion of the State’s budget.

3 Governor Jeb Bush took office January 1, 1999.

4 Notably, of these 107 projects the State reported a cost savings and cost avoidance of over $661 million dollars. In addition, the projects resulted in a net reduction of 6590 full time government employees (Appendix A).
made piecemeal changes on an irregular basis to address public sector spending and contracting policy and practices (EOG Inspector General Audit No. 2003-3, p.4). Procurement policy is now the responsibility of the Department of Management Services (DMS) within the executive branch of Florida government. Chapter 287 states that DMS is the centralized authority for procurement and contracting policy and execution, but the chapter also provides that each agency may buy services and commodities. Thus, procurement policy is centralized at DMS, while the actual execution of the policy is decentralized and occurs within the state agencies (sections 287.032 – 287.056, Florida Statutes, 2005).

Recognizing that Florida government can and should contract with private sector companies, in 1994 the Florida legislature created the State Council on Competitive Government (SCCG) to facilitate and guide the process (section 14.203, Florida Statutes, 2005). The SCCG is made up of the Governor, Attorney General and Chief Financial Officer (i.e., the Florida Cabinet) and was formed to identify opportunities for outsourcing in the executive branch (Senate Staff Analysis SB 2518, p.6). The SCCG was given authority to recommend that the relevant state agency for the program engage in outsourcing to provide government services, but was mandated to perform due diligence on the opportunity to ensure legal, effective and efficient service. Despite very broad and explicit powers, the SCCG has not met since the late 1990’s. Agency outsourcing projects have been initiated and executed at the agency level instead of the process and authority granted to the SCCG (Id., p.7).

As outsourcing has become more prevalent over the past few years studies, reports and audits have suggested that the State’s procurement process for outsourcing could be improved.
Specifically, the Governor’s Inspector General, the Florida Auditor General, OPPAGA and agency inspectors general have all released reports discussing outsourcing projects and process. A few of the reports released include the following:

- In June 2003, the Governor’s Inspector General, Derry Harper released the audit report entitled *Road Map to Excellence in Contracting*. This report evaluated the effectiveness of controls in contracting by analyzing over 100 audits at seven executive agencies. The report concluded that the majority of problems identified in the 100 audits fall into three categories: performance monitoring (45% of the audit findings); procurement methodology (20% of the audit findings); and contract writing (17% of the audit findings). The report offered several solutions which included without limitation, overhauling the applicable procurement laws (i.e., Chapter 287, Florida Statutes), DMS taking a leadership role in procurement policy to eliminate confusion and inconsistency, implementing a training program for procurement officers, and creating a vehicle for procurement officials to communicate across agencies.

- In January 2004, OPPAGA released a report entitled *The Legislature Could Strengthen State’s Privatization Accountability Requirements*. The report corroborated Mr. Harper’s report and recommended that the Legislature take action and mandate business cases for outsourcing projects; strengthen the requirements for performance-based contracting; and strengthen oversight of outsourcing in general. In addition, OPPAGA released a total of 78 reports from 1996 to 2003 that have addressed outsourcing of programs and services (OPPAGA Report No. 04-02, p.1 fn1).

- During the past 4 years, the Auditor General has performed several operational audits of agency outsourcing projects that recommended a need for legislative oversight and

- Most recently, in April of 2006, OPPAGA released a report entitled *Steps Have Been Taken to Enhance State Acquisition Management, But Further Improvement is Needed*. The report is not outsourcing specific, but it did highlight areas for improvement related to the way the State of Florida procures services. For example, the report recommended that for complex acquisitions (e.g., large outsourcing acquisitions) more complete business cases should be developed to guide the acquisition process and eventual management of the contract.

On March 11, 2004 the Governor created the Center for Efficient Government (CFEG) by executing Executive Order No. 04-45 within DMS. Since outsourcing has increased since Governor Bush has been in office, the Governor wanted to set policy to address the lessons learned from previous outsourcing contracts as well as set policy that would further develop uniform concepts and principles of outsourcing. The Order set up a five member panel made up of agency heads and was housed within DMS. Most importantly the Governor created a centralized Gate Process for initiating, reviewing and evaluating outsourcing initiatives. The Gate Process included the following stages of review for an outsourcing project: (1) Business
Case Development; (2) Procurement Process; (3) Contract Management; (4) Change Management; and (5) Performance Measurement (Appendix B).

In addition, the Order provided for sharing of information with the Legislature, provided for a database of outsourcing projects, provided for a review of past outsourcing projects and provided for a program to help employees displaced by outsourcing projects (Executive Order 04-45).

The CFEG began operations in April 2004 under the leadership of the Secretary of DMS, William Simon. The CFEG board began to review outsourcing initiatives valued at more than $10 million per fiscal year. The CFEG defined “outsourced function” as a function that was previously performed by state employees and is now performed by a private sector entity while the State retains responsibility for the function and control over management of the function (Senate Staff Analysis SB 2518, p.9).

Since the CFEG was created by Executive Order there was some doubt as to the extent of its authority. The CFEG did not have any statutory authority so the rules, standards and guidelines it enacted did not flow from a legislative policy directive. In addition, the CFEG process and all of its rules, standards or guidelines applied to agencies that had agency heads appointed by the Governor, not Cabinet or non-Governor’s agencies. While the intent of the CFEG was to implement good policy as soon as possible, it needed to be codified in statute so that it would be universally applicable to all state agencies and not just the Governor’s policy (Senate Staff Analysis SB 2518, p.9-10).
Consequently, the Florida Legislature took up the issue and passed Senate Bill 1146 in the 2005 legislative session. Senate Bill 1146 created the Center for Efficient Government (Center) within DMS that would operate very similar to the CFEG already created by Governor Jeb Bush via his March 11, 2005 Executive Order No. 04-45. Much like the Governor’s CFEG, the entity created by the Legislature was required to review outsourcing projects by evaluating the initiatives against a Gate Process. The initiative could not advance through the Gate Process without a vote by a Commission on Efficient Government, which was created in the bill to oversee the statutorily created Center. The bill also had a fiscal impact, which included funds for employees and expenses of the Center (Senate Staff Analysis SB 2518, p.10).

Despite the similarities, the Governor vetoed Senate Bill 1146 on June 27, 2005 because in his view it was overreaching and encroached upon the executive branch of government (Lauer, July 3, 2005; Lauer, July 20, 2005). In other words, it is commonly known that the legislative branch of government creates policy and directs taxpayer dollars, while the executive branch is to operate and carry out the legislature’s direction. The Governor felt that there were parts of Senate Bill 1146 that overstepped the power of the legislative branch of government (Interview top-level manager over State Purchasing and Outsourcing).

Upon the veto of the bill, the CFEG ceased to exist because under Florida law the Governor cannot reinstate a program that was passed by the Legislature and subsequently vetoed by the Governor (Senate Staff Analysis SB 2518, p.10). Despite this apparent moratorium on continuing the CFEG, DMS could not just throw out good outsourcing policy that was created by the CFEG so DMS maintained the policies under its general authority to guide procurement.
policy (Interview top-level manager over State Purchasing and Outsourcing). In addition, the House, Senate, Governor and DMS began to immediately work on politically feasible language for a new bill for the 2006 legislative session.

On May 3, 2006, the Legislature passed Senate Bill 2518 which created the “Florida Efficient Government Act”. The bill created the Council on Efficient Government (Council) within DMS. In addition, the legislation requires agencies to develop a detailed business case before outsourcing government programs and submit the business case to the Council, the Governor, and the Legislature before releasing a solicitation to procure services that cost more than $1 million in one fiscal year. For outsourcing initiatives that cost more than $10 million, the Council must analyze the business case submitted by the agency and report on the agency business case before the agency releases a solicitation to buy the services. The report must be provided to the agency that submitted the business case, the Governor and the Legislature. In addition, the bill also provides the following:

- A lobbying restriction during the procurement process;
- A lobbying protection during the term of the contract;
- Provides explicit intent to include the Cabinet and non-Governor’s agencies in the Council process;
- Provides the contents of what must be included in outsourcing business cases;
- Provides contract requirements for outsourcing contracts;
- Repeals the SCCG created by section 14.203, Florida Statutes.
Essentially, Senate Bill 2518 in the culmination of three years of work that began with the work performed to create the CFEG back in March of 2004. The Legislature has worked with the Governor’s office to form a more complete entity by creating the Council. There are no major policy differences between Senate Bill 2518 and Senate Bill 1146 (vetoed by the Governor); there are process differences that have been cleaned up to mitigate encroachment upon the executive branch powers (Interview top-level manager over State Purchasing and Outsourcing).

**Literature Review**

The intent of this literature is to explore best practices in public sector outsourcing. Outsourcing in the public sector can be challenging but with good policy framework and management the public sector can achieve the benefits that outsourcing has to offer. At a high level, there are at least four steps that an outsourcing initiative must go through:

1. Planning (i.e., what needs to be in your business case analysis to help you determine whether to outsource the function or perform the function with state employees);
2. Procurement (i.e., what purchasing methodology will you use to buy the service and/or product);
3. Contract Negotiation (i.e., what should be included in an outsourcing contract); and
4. Contract Management and Monitoring (i.e., what steps or processes will help ensure satisfactory performance) (Bendor-Samuel, 2000; Brown, 2005; Butler, 2000; McIvor, 2005; Dominguez, 2006).

Understanding the best practices that underlie these steps is very important in order to evaluate and recommend good policy. First, let’s evaluate what steps need to occur upon identifying a
potential outsourcing initiative (i.e., what planning must be done or what analysis is necessary to make a good business decision?). Effective outsourcing starts by establishing clear strategies and goals to guide an agency’s efforts (Healy, p.20). A clear statement of the agency’s goals can make the outsourcing decision much easier. The objectives of outsourcing are important for a number of reasons. The objectives established for outsourcing will assist in selecting the type of outsourcing relationship that should be adopted (Mclvor, p.221). The objectives of outsourcing influence how the relationship with the supplier is managed. Also, it is important that the outsourcing objectives are aligned with the objectives of the organization (Id., p. 222).

The need for adequate planning is to ensure that the business executive makes an informed and smart decision to outsource a program. Obviously, the chances of success increase dramatically with more upfront planning (Brown, p. 66). Essentially, an organization should study and compile certain relevant information. This exercise essentially results in a business case type of analysis that determines the risks and benefits of the outsourcing initiative. The business case analysis should include the relevant following items:

1. a charter that describes the purpose and expected outcomes of the outsourcing initiative;
2. a cost benefit analysis to determine whether the initiative is financially prudent;
3. a statement of the assumptions and constraints to set expectations by identifying parameters and the relevant constraints such as budget limitations, time deadlines, staffing limitations, etc.
4. a scope statement clearly defining the expected deliverables;
5. a clear statement of the success factors that must be ultimately accomplished;
6. a communications plan to ensure the flow of information to the proper stakeholders and affected individuals;

7. a work breakdown structure and roles and responsibilities matrix detailing the deliverables that are expected and that must be accomplished by the relevant parties;

8. a resources plan identifying the human and capital resources needed to accomplish the initiative;

9. a procurement methodology plan that will accomplish the objectives outlined in the preceding documents;

10. a risk analysis identifying risks and offering mitigation strategies;

11. a quality assurance plan detailing how to measure and manage the quality of service;

12. a project schedule to ensure project deadlines and milestones are identifiable and to prevent time slippage and the missing of critical deliverable dates;

13. a budget plan detailing targeted cost to prevent budget overruns;

14. a change management plan to ensure those effected by the initiative are provided adequate attention, communication, training, etc. to navigate the changes; and

15. an implementation checklist to help in tracking and following the progress of the outsourcing initiative (Id., 68-70).

Once the planning is done, then the outsourcing services are ready to be procured. The procurement process is an important step of the outsourcing initiative because selecting the right vendor can be very rewarding but selecting the wrong vendor can be detrimental. There are several procurement methodologies that can result in an outsourcing contract, but the written request for proposal (RFP) is the most common (Butler, p. 105). Depending on the complexity of
the outsourcing it may be prudent to gather information from the marketplace via a Request for Information (RFI). The RFI empowers the outsourcing buyer with additional information before drafting the RFP (Id.).

The content of the RFP is the key to ensure that the subsequent outsourcing contract contains the right services to remedy the objectives of the outsourcing buyer (Id.). Since the RFP is the cornerstone of the contract, it is a critical component and stage on any outsourcing initiative.

In Florida, agencies often use either a RFP or an Invitation to Negotiate (ITN) (Interview top-level manager over Florida government operations, executive branch). The ITN provides more flexibility to negotiate and achieve best value for the State, while the RFP does not include much negotiation and is based on a qualitative analysis comparing the desired solution to the candidate companies’ qualifications (Id.). The ITN is more based on the concept of performance based contracting and is more outcome driven than an RFP. In other words, an ITN may dictate a metric associated with a desired activity that could be measured to evaluate performance, while an RFP may dictate a method for achieving the desired outcome. In Florida, an RFP seems more focused on the means of achieving the outsourcing initiative while the ITN focuses more on the desired outcomes of the outsourcing initiative (Id.).

While executing the right procurement methodology is key, the contract negotiations are incredibly important as well because the negotiations set expectations and further define the service that is to be provided for the agreed remuneration (Brown, p. 139-41; Butler, p. 113-115). An outsourcing contract must be comprehensive and balanced. Also, the contract should be
flexible enough to accommodate changes as they occur through the engagement (Brown, p. 141-42). Unforeseeable changes are inevitable in complex outsourcing arrangements.

Outsourcing contracts should be negotiated to allocate risks among the parties. Details such as a specific project timeline, terms of payment, defined deliverables and terms of employment (Id.).

If the outsourcing initiative is properly planned, procured and negotiated, then it must be managed and monitored. The performance of the vendor is critical to manage but the management of the outsourcing relationships is just as important (Domínguez, p. 123). The organization must transform from managing day-to-day activities to managing outcomes (Id.).

Managing an outsourcing contract requires expertise in the buyer organization just as it requires the expertise of the outsourcing vendor (Brown, p. 145). Overseeing the contract requires proper controls, tools and communication lines in order the root out problems proactively so that they can be discussed and solved before they become critical (Id.).

A large part of managing the contract revolves around proper monitoring of the outcomes sought in the contract. Generally, it is difficult to manage what you do not measure. Consequently, proper management of an outsourcing contract often involves intense measurement of performance indicators. An example would be monitoring the amount of time it takes a vendor to answer help desk calls. If the measure indicates that calls are being dropped or the time to answer is unacceptable then monitoring this particular measure enables the outsourcing organization to manage the outsourcing contractor to better outcomes in this area.
IV. RESEARCH METHODOLOGY & EVALUATIVE CRITERIA

Research Methodology

This action report explores three policy options in order to determine what direction the State of Florida policy should take in order to improve the success rate of outsourcing projects. Specifically, the policy options are: (1) leave outsourcing policy as it currently exists; (2) implement stronger controls over outsourcing; or (3) replace all current outsourcing and procurement policy. These options can be fundamental in addressing any public sector policy issue. In other words, one can always argue in public sector policy whether no more action or policy should be implemented, whether more action or policy should be implemented, or whether less action or policy would be more appropriate. The research methodology utilized in this paper is intended to relate this debate to outsourcing policy in Florida and result in a recommendation of what direction the State should head based on the State’s current status in this particular arena.

The research methodology used to study, analyze and report included all of the following:

1. Study and analyze State of Florida legislative action regarding procurement and outsourcing for the past five years including but not limited to the following items:
   - Committee Substitute/Senate Bill 1132 of the 2002 legislative session (refer to House Bill 1977)
- House Bill 1819 of the 2004 legislative session (died on calendar)
- Senate Bill 2932 of the 2004 legislative session (died on calendar)
- Senate Bill 1146 of the 2005 legislative session (vetoed by Governor 6/27/2005)
- House Bill 1835 of the 2005 legislative session (refer to Senate Bill 1146)
- House Bill 7185 of the 2006 legislative session (refer to Senate Bill 2518)
- Senate Bill 2518 of the 2006 legislative session (pending action by Governor)
- Study and review all committee and staff analysis related to the above House and Senate bills
- Study and review any interim committee projects related to outsourcing and procurement

Study of legislative action proved very helpful in determining the legislative branches perspective on outsourcing policy and what, if any, changes were needed to addressing outsourcing practices within the State of Florida executive branch and cabinet agencies. Furthermore, the legislative analysis proved helpful in establishing a detailed understanding of State of Florida policy on the topic.

2. Read and study texts and journals related to outsourcing, government procurement and outsourcing found via research in the Florida State University library.

The study of literature helped formulate a base understanding of the concept of outsourcing. In addition, the texts provided an understanding of some of the best practices of outsourcing which related directly to determining which of the proposed policy options is best for the State of Florida.
3. Research and review media including but not limited to the following:

- State of Florida newspaper articles regarding outsourcing and state contracting
- Tallahassee area and Capitol news reports
- Research on numerous world wide web search engines

Persistent review of common media proved helpful in accessing the popular perception of the State of Florida citizenry. Furthermore, the media highlighted many of the perceived problems in outsourcing projects in Florida, which directly relates to determining which policy option is best for the State of Florida.

4. Interview policy and decision makers within State of Florida government including the following:

- Top-level manager over Florida government operations, executive branch
- Counsel to Governmental Oversight and Productivity Committee, legislative branch
- Top-level manager over State Purchasing and Outsourcing, executive branch
- Top-level manager over Council for Efficient Government, executive branch
- Counsel to Governmental Operations Committee, legislative branch

Interviews of the above State of Florida officials provided an operational view of current outsourcing policy as well as ideas for less, different and more outsourcing policy in order to increase the effectiveness and efficiencies in future outsourcing endeavors.
5. Review and study State of Florida and federal law regarding government contracting and outsourcing including but not limited to:

- Chapter 287, Florida Statutes
- Section 14.203, Florida Statutes
- Chapter 60A, Florida Administrative Code
- Federal Acquisition Regulation codified at 48 Code of Federal Regulations Chapter 1

Review of the relevant and current State of Florida and federal laws proved helpful in establishing a detailed understanding of codified policy. The review provided an objective understanding of the massive amount of policy already in place.

6. Review and study OPPAGA, State of Florida Auditor General and Inspector General publications including but not limited to:

- Audits
- Reports
- Studies

The study and review of the State’s auditors and analysts provided a good history of Florida’s path in outsourcing over the past several years. In addition, the audits, reports and studies provided tangible examples of State of Florida outsourcing policy issues.

**Evaluative Criteria**

This action report used three evaluative criteria to determine which policy option would be best for the State of Florida. The three evaluative criteria are listed below:
1. **Fiscal Impact**—This criterion is intended to capture the administrative cost or economic feasibility with implementing the policy direction. Generally, a policy is economically feasible when the long-term benefits of implementing the policy are more rewarding and exceed the initial cost of implementing the policy. In contrast, if a policy option is extremely expensive and it is not likely that costs will be recovered or that the cost-benefit analysis is not positive then a policy option may not be economically feasible because the fiscal impact is too great. The data sources for analyzing this criterion include the legislative research, review of literature, review of general media, interviews, and review of relevant audits, studies and reports.

2. **Political Feasibility**—This criterion is intended to capture whether the political stakeholders in state politics would support the policy option. For example, if the legislature passes legislation and it gets vetoed by the governor then the policy is not politically feasible. While this is a very concrete example, often times political feasibility is much more subtle in that a policy option may never become an active issue because stakeholders never raise the issue because it is known that certain stakeholders may not approve of the policy. The data sources for analyzing this criterion include the legislative research, review of literature, review of general media, interviews, and review of relevant audits, studies and reports.

3. **Operational Feasibility**—This criterion is intended to predict whether the policy option is capable of being implemented based on the operational or administrative challenges in implementing the policy option. The data sources for analyzing this criterion include the legislative research, review of literature, review of general media, interviews, and review of relevant audits, studies and reports.
While sources have been sought from the legislative branch, executive branch and neutral auditors and analysts, a methodological weakness may include limited capture of policy decision makers and stakeholder opinions.
This action report explores three policy options in order to determine what direction the State of Florida policy should take in order to improve the success rate of outsourcing projects.

Specifically, the policy options are:

1. Leave outsourcing policy in its current form;

2. Implement stronger controls over outsourcing; or

3. Replace all current outsourcing and procurement policy.

These options can be fundamental in addressing any public sector policy issue. In other words, one can always argue in public sector policy whether no more action or policy should be implemented, whether more action or policy should be implemented, or whether less action or more consistent policy would be more appropriate. The research methodology utilized in this paper is intended to relate this debate to outsourcing policy in Florida and result in a recommendation of what direction the State should head based on the State’s current status in this particular arena.

All three of the policy options above have been evaluated using the evaluative criteria presented in Section IV above, which includes fiscal impact, political feasibility and operational feasibility.
Policy Option 1—Leave Outsourcing Policy in its Current Form

For over 50 years, Florida has had a statutory scheme for competitive bidding. Since implementing competitive bidding in the 1950’s the Legislature has amended the statute several times (House Staff Analysis HB 7185, p.2). In 1982 the Legislature added contractual services to the statutes requiring competitive bidding, which made it clear that if Florida government contracted for services then it should be a competitive procurement process (Chapter 82-196, Laws of Florida). Since most, if not all, outsourcing contracts involve the acquisition of services, Florida has been competitively bidding outsourcing contracts for over a quarter of a century.

Chapter 287 provides the codified policy for when government acquires commodities or services. The statute provides that the Department of Management Services (DMS) is the centralized authority for overseeing competitive bidding requirements. In addition, DMS has rulemaking authority to promulgate uniform rules for procurement. DMS has promulgated rules at Chapter 60A, Florida Administrative Code.

While it appears that procurement policy is centralized at DMS, much of the actual purchasing is performed at the agency level; thus, purchasing operations are decentralized and occur in every agency of government (Id.).

Amid a move toward contracting for services on a more regular basis, Governor Jeb Bush created the Center of Efficient Government (CFEG) at DMS via Executive Order No. 04-45 on
March 11, 2004. The CFEG implemented outsourcing best practices to provide guidance to agency procurement officials.

Clearly, an abundance of outsourcing and procurement policy and guidelines already exist. For more detail, please refer to Section III.

**Fiscal Impact of Option 1**

The fiscal impact of leaving outsourcing policy in its current form would not be an impediment to implementing this policy direction since additional State dollars would not have to be expended for new programs and/or employees. Although choosing to do nothing is an option that would not directly require additional appropriated dollars, it is possible that collateral expenses could be substantial if appropriate policy is not in place. For example, it can be argued that improperly procured outsourcing contracts, improperly managed outsourcing contracts, or poorly negotiated outsourcing deals can cost millions of additional dollars. While impossible to quantify in this action report, I would be remiss not to mention this indirect cost albeit difficult to capture and measure.

**Political Feasibility of Option 1**

Today’s perception is that the State of Florida has increased its propensity to outsource services and that the outsourcing initiatives have not been successful (House Staff Analysis HB 7185, p.2; Lauer, July 3, 2005; Lauer, July 20, 2005; Sharockman, May 2006; Stockfisch, Dec. 2004; Stockfisch, Nov. 2004; Stockfisch, April 2004; Welsh, Aug. 2004). As discussed in Section III, numerous reports, audits and studies have been completed by State of Florida government
watchdogs criticizing and calling into question the State’s outsourcing practices. Whether
perception or reality, it seems that the political feasibility of “doing nothing” is not likely.
Outsourcing has become a political hot topic. The practice is often discussed and debated in
political campaigns. It appears that State of Florida legislative leadership has made addressing
outsourcing policy a priority for the past three years.⁵ Whether outsourcing is more prevalent or
just a hot topic in the media and politics is hard to determine since the number of outsourcing
projects and their practices were not measured or studied until the recent few years. Regardless,
leaving outsourcing policy in its current form is not politically feasible.⁶

**Operational Feasibility of Option 1**

The current statutory scheme on outsourcing policy allows state agencies to outsource
government functions. In addition, recent efforts have been taken to implement best practices in
outsourcing (Summary of CFEG Gate Management Process Standards attached as Appendix C).
Since outsourcing has been such a hot topic politically and in the media it is hard to substantiate
whether the increased attention to outsourcing is based on tangible and objective pitfalls and
mistakes or whether the increased exposure on the topic has drawn more attention to the topic
and thus created perceived pitfalls and mistakes. Additional policy and oversight of outsourcing
could decrease the efficiency and effectiveness of outsourcing. For example, too much oversight
and policy leads to higher costs and redundant processes. As stated by a top level manager in the
executive branch, “outsourcing has been going on since the beginning of government and we
learn as we go; random and arbitrary policy implemented on a whim because of political
pressure can substantially hurt government operations.”

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⁵ See bills reviewed in Section IV showing legislative action for consecutive years.
⁶ See e.g., Senate Bill 2518 passed by the 2006 legislature addressing outsourcing policy.
In contrast, the implementation of well balanced oversight and the codification of appropriate best practices can drastically improve outsourcing practices where agency resources are not experienced in outsourcing practices. Like any other area of government, checks and balances are beneficial if the checks and balances are not overly burdensome. Consequently, leaving outsourcing policy in its current form is operationally feasible although policy improvements may be needed. Random and arbitrary legislative mandates could be more harmful than beneficial; however, improvements must be made at the agency policy level to decrease media and political attention to the issue.

**Policy Option 2—Implement Stronger Controls Over Outsourcing**

Implementing stronger controls over outsourcing has been a hot topic in the media, in political campaigns, the Florida legislature and the Florida executive branch of government. In fact, the Florida legislature began making changes to Florida’s public sector procurement laws in 2002 (House Bill 1977 of the 2002 legislative session (signed into law 4/29/2002)). In addition, the executive branch recognized the increasing propensity to outsource services and began to make policy changes in 2005 (March 11, 2005 Executive Order No. 04-45 creating the Center for Efficient Government).

**Fiscal Impact of Option 2**

The fiscal impact on implementing stronger controls over outsourcing is really an unknown unless you identify the specific policy change with the additional resources, if any, required to implement the policy changes. However, it is safe to assume that there would be some type of
fiscal impact that would result if the legislature and executive branch implemented stronger controls consistent with the bills proposed over the past couple of years. For example, Senate Bill 1146 passed by the 2005 Florida legislature included a fiscal impact of over one million dollars (SB 1146, section 19). In addition, SB 2518 passed by the 2006 Florida legislature included the following appropriations and authorizations:

- $1.25 million in recurring funds from general revenue;
- 10 full time employees were authorized for forming the Council on Efficient Government program; and
- $500,000 to implement a program to train State of Florida employees that are involved in outsourcing projects.

In addition to the above appropriations it is apparent that the policies contemplated by Florida government do have a recurring fiscal impact. However, it is possible to minimize this impact via the Governor’s original formation of the Center for Efficient Government, which was staffed by existing resources. While this approach did minimize the fiscal impact, it apparently was not politically feasible since the legislature engaged quickly and passed its own version of outsourcing policy (Senate Bill 1146 passed by the 2005 Florida legislature).

**Political Feasibility of Option 2**

It appears that implementing stronger controls over outsourcing is politically feasible but a contentious topic filled with healthy debate. According to a top-level manager over the Council for Efficient Government, the Florida legislature’s attempt at passing outsourcing policy in 2005.

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7 While section 19 of SB 1146 included a $1,023,554 appropriation out of general revenue for nine full-time positions, it is unlikely that this figure would be the only fiscal impact because organizing and setting up the CFEG would involve costs as well. The costs could be absorbed within existing resources or dollars could be transferred from other budget areas to cover the expense. Regardless, there would be additional fiscal impact but it would be difficult to quantify.
was vetoed by Governor Jeb Bush because the executive branch’s perception was that the proposed policy changes encroached upon the executive branch’s authority to run government and manage contracts. While praising good points in the bill, the Governor also stated in his veto letter to Secretary of State Hood that he was concerned that the bill would:

- Unnecessarily increase the burden on procuring agencies, especially as it relates to procurement of small projects that may not rise to the level of an extensive multi-agency head review process [as required by the bill].
- Substantially delay State procurements by basing their approval upon legislative schedules, very likely resulting in ineffective and inefficient operations.
- Subject small, simple, and even routine procurements to the “gate” process—items that would be more efficiently handled through improved processes within the procuring agency.
- Create additional bureaucracy and procedures that over-burden and complicate, rather than simplify and strengthen, the procurement process.

While it is clear that the legislative branch of government creates policy and appropriates money, and the executive branch executes the policy via the appropriations it receives, it is not clear where the line is drawn in this division of responsibility. This executive and legislative power struggle is apparent in Florida government’s attempts to pass outsourcing policy.
It appears that both branches of government feel outsourcing policy is necessary; however, the details of the policy have proven to be difficult. Consequently, the collective desire to adopt new policy will most likely prevail and result in newly passed legislation, but after intense political and policy debate.

**Operational Feasibility of Option 2**

It is very likely that outsourcing policy will be passed and continue to evolve. For the past three years the executive and legislative branches have either adopted or attempted to adopt outsourcing policy. For example, the executive branch formed the Center for Efficient Government that adopted a Gate Process and Outsourcing Guidelines for agencies to follow. Further, the legislative branch passed law providing guidelines for outsourcing (SB 2518 passed by the 2006 Florida legislature). With this in mind it is clear that it’s operationally feasible to implement stronger controls over outsourcing in Florida.

Although it is operationally feasible to implement additional controls does not mean it is operationally feasible to implement the controls into everyday government operations. For example, since agency procurement is decentralized among the state agencies it may be difficult implement new outsourcing policy in a consistent manner (House Staff Analysis HB 7185, p.2). In other words, the legislature and the executive branch can dictate policy but it may not work well in application. One risk to newly mandated outsourcing policy is that it just creates more confusion and inconsistency within the already patchwork and piecemeal procurement laws and policies.
Policy Option 3—Replace All Current Outsourcing and Procurement Policy

One criticism is that the existing patchwork of laws, rules and guidelines has failed to provide consistency in contracting practices (EOG Inspector General Audit No. 2003-3, p.1). The key to this policy option is that it would likely result in a reduction of governing laws. Decreased policy could actually reduce redundant, inconsistent and confusing laws that govern the contracting practices of outsourcing.

The current statues, rules and guidelines were developed over several years in a piecemeal fashion to address specific abuses or concerns (Id., p.4). Many laws that are passed are reactionary (i.e., passed to address a problem, policy concerns, or political hot topic of the day). It appears that the State of Florida’s procurement guidelines that control outsourcing have evolved in this fashion over a number of years.

A policy option to solve the currently existing spider web of procurement guidelines would be to repeal all the old law and policy and replace it with simple and cohesive statewide policy. Presumably the new policy would actually reduce policy and controls but actually provide clear guidelines and best practices for procurement officials to follow. In addition, the policy would update antiquated procurement laws and make them more applicable to government needs and operations of today. Reduced policy and controls that are clear and precise could eliminate the selective and fragmented application that results in bad outcomes.
Fiscal Impact of Option 3

If you assume this policy option equates to implementing best practices (i.e., a unified and effective system of controls) to replace antiquated and cumbersome policy then the fiscal impact of said policy would be minimal and could potentially generate savings if the policy was more effective and efficient.

Political Feasibility of Option 3

Since the topic of outsourcing has been such a hot topic of debate over the past few years it would not seem possible to characterize a policy initiative as reducing outsourcing policy and controls. The perception of the general public and elected officials is that outsourcing flaws must be addressed and that generally means creating more policy not less. Consequently, reducing outsourcing policy and controls does not seem politically feasible. However, it may be possible to accomplish a comprehensive rewrite of all purchasing policy that would actually be a reduction in controlling policy by characterizing it as implementing best practices.

Operational Feasibility of Option 3

It is clear that confusion, fragmentation and inconsistent application have resulted in the perception that outsourcing initiatives have failed. Thus, policy changes seem to be imminent. Policy changes do not solve the problems apparent in outsourcing since the policy must be implemented and actually be functional within the operations of Florida government. It is also clear that the current patchwork of statues and rules have resulted in inconsistent and fragmented application, thus, the operational feasibility of the current scheme is poor. This policy option of replacing all current outsourcing policy could prove to be the most feasible from an operational
standpoint if the repeal of current bad policy results in a unified, effective and efficient system for outsourcing procurements.
VI. CONCLUSION/RECOMMENDATION FOR ACTION

This action report thoroughly examined the status of outsourcing in the State of Florida by studying and discussing outsourcing policies and practices for the last decade. The review revealed multiple occasions of Florida government contracting with private sector businesses to perform needed services and tasks. Many audits of the outsourcing contracts resulted in findings consistent with poor management of the contracts and antiquated contracting policies. In addition, the review substantiated claims of patchwork and antiquated outsourcing policies and procedures that are practiced in an inconsistent manner across Florida government. Further, the intensity of the issue has continued to percolate as a policy issue and a heavily debated political topic.

Since government has always and will continue to supplement its provision of services by contracting with private sector companies, this report sought to improve the State of Florida’s outsourcing policies and practices by considering three policy options in relation to three evaluative criteria to reach a conclusion and recommendation for remedial action.

In order to quantify the policy options relative to the evaluative criteria, a ranking system was utilized to assist in the conclusion and recommendation. Each policy option was evaluated against each evaluative criterion and given a score of low (1), moderate (2) or high (3). A policy option received a low score in relation to evaluative criteria when the result or impact would be negative or not likely; whereas a policy option receives a high score when the impact or result
would be positive or likely. Table 1 below states the relative scores, while Table 2 summarizes the rankings.

Table 1. Chart of Policy Option compared to Evaluative Criteria

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Policy Option 2 – Implement Stronger Controls Over Outsourcing</td>
<td>Moderate (2)</td>
<td>Low (1)</td>
<td>Low (1)</td>
</tr>
<tr>
<td>Policy Option 3 – Replace All Current Outsourcing and Procurement Policy</td>
<td>Moderate (2)</td>
<td>Low (1)</td>
<td>High (3)</td>
</tr>
</tbody>
</table>

Table 2. Summary of Rankings of Policy Options Relative to Evaluative Criteria

<table>
<thead>
<tr>
<th>Policy Option 1 – Leave Outsourcing Policy In Its Current Form</th>
<th>Total</th>
<th>Average</th>
<th>Quantitative Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Option 2 – Implement Stronger Controls Over Outsourcing</td>
<td>7</td>
<td>2.33</td>
<td>1</td>
</tr>
<tr>
<td>Policy Option 3 – Replace All Current Outsourcing and Procurement Policy</td>
<td>6</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>
Table 2 shows that policy option 2 (i.e., implementing stronger controls over outsourcing) is the most likely and beneficial option for improving the State of Florida’s outsourcing policies and practices. The conclusion quantified in Table 2 is completely consistent with the materials and research studied and critiqued in this report. However, option 3 (i.e., replacing all current outsourcing and procurement policy) could be very beneficial as well, which is depicted by its score relative to option 2.

While it may be a forgone conclusion that stronger controls over outsourcing must be implemented due to popular perception that outsourcing needs an overhaul, it may be optimal for the stronger controls to be implemented after a thorough review of current antiquated policy. In other words, stronger controls over outsourcing should be implemented but it should be done strategically so that the patchwork of current laws does not become even more confusing.

Consequently, it is concluded that the State of Florida should implement stronger controls over outsourcing but the following steps are recommended for optimal results:

1. thoroughly review all current laws and policies related to contracting for services in order to simplify and update the patchwork of laws already in existence;
2. thoroughly review all current outsourcing practices across Florida government in order to minimize and mitigate the inconsistent application of outsourcing policy and practice;
3. thoroughly work with all stakeholders, including without limitation, executive branch agencies; legislative leadership and staff; cabinet agencies; state, county and city purchasing officials; and private sector contractors, to
   a. study best practices in outsourcing policy and controls;
b. compare best practices in outsourcing policy and controls to existing State of Florida policy and practices;

c. eliminate confusing and redundant policies where possible; and

d. adapt best practices to Florida’s already existing structure, but with an effort to simplify and not just add to the current patchwork of policy.

4. implement a training campaign to properly inform and educate the State’s day-to-day users of the new policies so that they are consistently and uniformly applied.  

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8 During the research and writing of this action report Governor Jeb Bush signed into law Senate Bill 2518 on June 15, 2006. The codification of this bill implements many points made in this recommendation. The contents of this bill are discussed in Section III of this report.
REFERENCES


APPENDICES

Appendix A: The Center for Efficient Government Outsourcing Report
Appendix B: The Center for Efficient Government Gate Process Diagram
Appendix C: The Center for Efficient Government Gate Process Standards
OUTSOURCING SUMMARY

Background
In 2004, the Center conducted an inventory of projects outsourced since January, 1999. Agencies reported a total of 138 projects and provided data that included information such as cost savings/loss. Much of the data was subjective, unverifiable or not available.

Current Situation
In January, 2005 the Center, with assistance from OPB, developed a specific set of guidelines and parameters for agencies to report savings/loss data on the 138 projects previously reported to the Center. The goal was to obtain consistent and justifiable information in order to provide the most accurate, reliable and valid data.

How did we get to where we are? What were the principles applied?
• Agencies were instructed to provide information for each project listed on the original inventory of 138 projects, including:
  o Project resources while performed by the state;
  o Project resources while outsourced;
  o Savings or loss on the project (Calculation is the difference between the previous two bullets);
  o Comments to explain savings/loss or general information regarding the project; and,
  o Methodology used and adequate back-up documentation including LAS/PBS reports, spreadsheets or other agency documents that justify the numbers provided to the Center/OPB.
• Data submitted by agencies was compiled by Center staff and provided to OPB for review and analysis.
• Because of incomplete data submitted by agencies, Center staff facilitated meetings with agency staff to gather further data and verify numbers reported. In many cases, the agency’s respective OPB Budget Chief attended the meeting.
• Once the Center received information from agencies, it was determined that some information was not quantifiable (from LAS/PBS standards), such as cost avoidance or collateral savings.
• So, in order to capture cost avoidance and collateral savings information, the Center went back to the agencies and asked agencies two basic questions to determine these:
  1. Why was this project outsourced?
  2. How much would it have cost the state to perform this function?
• Thus, agencies reported cost avoidance and collateral savings information.

What do the numbers mean?
• Savings/Loss by Fiscal Year and Project Total – These amounts have been verified by Center staff and OPB. Agencies provided adequate backup documentation, including LAS/PBS reports or other agreed upon information such as spreadsheets, contracts, internal agency documents or other verifiable information. The project total also includes OPB provided growth factors on FTE eliminated.
• **FTE Reduced** - These amounts have been verified by Center staff and OPB. Agencies provided adequate LAS/PBS reports to verify the FTE reduced in conjunction with the project.

• **Cost Avoidance/Collateral Savings** – These amounts are self-reported by the agencies and have not been verified by OPB. However, Center staff have been engaged with agencies to obtain the best available data and methodologies to support these numbers.

**Changes to original number of projects (138)**

• Number of projects reduced from 138 to 107

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>138</td>
<td>Original Projects</td>
<td></td>
</tr>
<tr>
<td>(39)</td>
<td>Original Projects Removed</td>
<td>+8 New Projects Added</td>
</tr>
<tr>
<td><strong>107</strong></td>
<td><strong>TOTAL</strong></td>
<td></td>
</tr>
</tbody>
</table>

• Projects were removed because:
  o Were duplicative
  o Not truly outsourced
  o Never got off the ground
  o Occurred prior to January, 1999

• The new projects added are those not previously reported to the Center on the original inventory.

**Why are there projects with $0 savings?**

• Insufficient backup documentation to verify agency-reported data;
• Unavailable agency information of what it cost the state previously, thus no cost to compare the outsourcing cost;
• Function was transferred to another state agency or community based group, resulting in no savings.

**Why do some projects cost more to outsource?**

• Some projects increased the service delivery, scope of services or overall delivered a better product
• Increase demand and/or the number of clients served
• Urgency – compliance with statutory changes/deadlines or industry standards

**What needs to be done from here?**

• Continuing to obtain data from agencies and refine agency reporting
• Work with agencies to develop quantifiable cost avoidance/collateral savings data

**Conclusion**

The data provided contains verified data for actual project savings/loss totals and FTE reduced, while cost avoidance/collateral savings information is self-reported by the agencies. The verified data is complete and cost avoidance/collateral savings data will be updated by the Center on an on-going basis, as information is provided by the agencies.

**Appendix A**
## Outsourcing Summary

### Total Number of Projects
- **107**

### Total FTE Reduced
- **6,590.75**

### Total Amount Saved
- **169,279,511**

### Costs Avoided/Collateral Savings
- **382,647,290**

### Total Amount Saved and Costs Avoided/Collateral Savings
- **551,926,801**

## Outsourcing Detail by Program Area

<table>
<thead>
<tr>
<th>OPB Unit</th>
<th>Number of Projects</th>
<th>Total FTE Reduced</th>
<th>Amount Saved</th>
<th>Cost Avoidance/Collateral Savings</th>
<th>TOTAL Amount Saved and Cost Avoidance/Collateral Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
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<td>0</td>
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<td>36,138,916</td>
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<td>(50,562)</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>107</strong></td>
<td><strong>6,590.75</strong></td>
<td><strong>169,279,511</strong></td>
<td><strong>382,647,290</strong></td>
<td><strong>551,926,801</strong></td>
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## Outsourcing Detail by Agency

<table>
<thead>
<tr>
<th>Department</th>
<th>Number of Projects</th>
<th>Total FTE Reduced</th>
<th>Amount Saved</th>
<th>Cost Avoidance/Collateral Savings</th>
<th>TOTAL Amount Saved and Cost Avoidance/Collateral Savings</th>
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<td>2,508,111</td>
<td>3,943,388</td>
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<td>(1,552,958)</td>
<td>1,825,122</td>
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<td>8,493,506</td>
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<td>(1,289,767)</td>
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<td><strong>107</strong></td>
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<td><strong>169,279,511</strong></td>
<td><strong>382,647,290</strong></td>
<td><strong>551,926,801</strong></td>
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**Appendix A**

as of February, 2005
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<tr>
<th>OPB Unit</th>
<th>Department</th>
<th>Project Title</th>
<th>FY 1999-00</th>
<th>FY 2000-01</th>
<th>FY 2001-02</th>
<th>FY 2002-03</th>
<th>FY 2003-04</th>
<th>FY 2004-05</th>
<th>Project Total</th>
<th>FTE Reduction</th>
<th>Cost Avoidance/Collateral Savings*</th>
<th>Comments</th>
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<td>1 HHS O AHCA</td>
<td>AHCA Compliant &amp; Information Call Center</td>
<td>0</td>
<td>43,090</td>
<td>139,798</td>
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<td>0</td>
<td>595,463</td>
<td>23.00</td>
<td>1,000,000</td>
<td>Cost avoidance of $700,000 initially and annual operation and maintenance of $75,000 (4 years - $300,000 for a total of $1 million) New service not provided by the state. Needed a cost analysis to show what it would have cost in order to determine savings. Per AHCA, they would have to hire professors with PhD in statistics and math to calculate and run the complex algorithms that analyze Medicaid claims history. In addition a new platform would have to be developed. These costs would at least be the same or more than the current contracted cost. Companies currently exist with staff on hand to do exactly what the agency would have to do and maintain in house.</td>
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<tr>
<td>2 HHS O AHCA</td>
<td>Fraud &amp; Abuse Detection Services</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>IT support. Agency would have to hire staff to FT to have knowledge base to address new systems the agency is using. The agency estimates a cost avoidance of $255,628.</td>
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<tr>
<td>3 HHS O AHCA</td>
<td>Maintenance of Legacy Applications</td>
<td>0</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
<td>255,628</td>
<td>Agency analysis indicates $254,945,354 in cost avoidance. This agency compared 3-year averages prior to privatization ($1,939,635,851) to the 3-year average after privatization ($2,224,581,202), for a total of $284,945,354.</td>
</tr>
<tr>
<td>4 HHS O AHCA</td>
<td>Medicaid 3rd Party Recovery Services</td>
<td>0</td>
<td>719,782</td>
<td>466,113</td>
<td>(47,961)</td>
<td>(182,736)</td>
<td>0</td>
<td>955,163</td>
<td>35.00</td>
<td>284,945,354</td>
<td>The Florida Healthy Kids Corporation (FHK) receives KidCare program applications and forwards them to third party administrator who conducts a type XIX pre-screening for all children applying for the Florida KidCare Program. Children who appear to eligible for the program are referred to Medicaid eligibility determination in Department of Children and Families. Children who are not eligible for Title XIX are processed for enrollment in the appropriate Title XIX KidCare program component (Medkids, Healthy Kids or the Children's Medical Services Network). Medkids is the Title XIX program component for children between the ages of one and five and account for 11 percent of the Title XIX program. No estimated savings.</td>
<td></td>
</tr>
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<td>5 HHS O AHCA</td>
<td>Medkids Choice Counseling</td>
<td>0</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>This project was related to accommodate changes in both program scope and service delivery. The 2003 Florida Legislature changed Section 465.188 (1) F.S. Per Chapter 2002-274, Laws of Florida, DBPR outsourced the compliance portions of this program. There were no position or funding allocated for this program. However, DCA estimates that if the program had remained in the department, it would have cost $58,333. (Collateral Savings for FY 2003-04 = salary for 2 months ($50,000/12) * 2 = $8,333 and for FY 2004-05, the full $50,000 for a total of $58,333).</td>
</tr>
<tr>
<td>6 HHS O AHCA</td>
<td>Pharmacy Audit Program</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
<td>0.00</td>
<td>0</td>
<td>The FTE and budget were shifted from operating categories to “pass-through” funds sent to Work Force Boards for the same purpose.</td>
</tr>
<tr>
<td>7 TED O AWI</td>
<td>Food Stamp Employment and Training Outsourcing</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,435,277</td>
<td>1,435,277</td>
<td>100.00</td>
<td>0</td>
<td>The FTE and budget were shifted from operating categories to “pass-through” funds sent to Work Force Boards for the same purpose.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 TED O AWI</td>
<td>Fraud Investigative Services</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>Began contracting with FSC to perform background checks after 9-11. AWI does not have the capabilities, nor would they be able to acquire them in-house, to perform this function.</td>
</tr>
<tr>
<td>9 TED O AWI</td>
<td>Imaging Project</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>Project conducted prior to the creation of AWI. Consequently, AWI was unable to provide any cost data.</td>
</tr>
<tr>
<td>10 TED O AWI</td>
<td>Payroll Services</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>The former Dept. of Labor outsourced mail services. AWI uses a temporary staffing agency to help stabilize the workforce high turnover rate the agency was experiencing.</td>
</tr>
<tr>
<td>11 TED O AWI</td>
<td>Survey</td>
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<td>0</td>
<td>0</td>
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<td>0.00</td>
<td>0</td>
<td>An initial pilot survey was attempted with existing staff and the agency determined it had insufficient staff availability and skills. AWI determined it would cost approximately $265,000 per year to operate a similar survey unit at the Labor Market Statistics Unit so contracting has been cost effective. The agency estimates collateral saving for FY 2002-03, $160,836, FY 2003-04, $177,485, FY 2004-05, $179,560 for a total of $578,318.</td>
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<td>12 TED O AWI</td>
<td>Unemployment- Jan 2004 Contract</td>
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<td>0</td>
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<td>0</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>AWI has a temporary staffing agency to help stabilize the workforce high turnover rate the agency was experiencing.</td>
</tr>
<tr>
<td>13 TED O AWI</td>
<td>Workforce Program Monitoring</td>
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<td>0</td>
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<td>0.00</td>
<td>0</td>
<td>AWI estimates they would need $750,000 to perform these functions in-house. However, there was a strong desire to have an independent 3rd party perform the monitoring, especially because financial monitoring requires skill sets not currently available with existing staff. The performance monitoring component is currently being procured for FY 2004-05.</td>
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<td>14 TED P DCA</td>
<td>Senate Inspections</td>
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<td>0</td>
<td>0.00</td>
<td>0</td>
<td>Per Chapter 2002-274, Laws of Florida, DBPR outsourced the claims and processing of these services. There were no budget or FTE reductions since this was a small portion of what the investigators duties included.</td>
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<tr>
<td>15 GG O DBPR</td>
<td>Architecture &amp; Interior Design Enforcement Functions</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>Never performed by the State. DBPR was unable to provide what it would have cost if the agency conducted this project in-house.</td>
</tr>
<tr>
<td>16 GG O DBPR</td>
<td>Education Program for Condominium &amp; Cooperative Unit Owners and Board Members</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>Never performed by the State. DBPR was unable to provide what it would have cost if the agency conducted this project in-house.</td>
</tr>
<tr>
<td>17 TED P DCA</td>
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<td>38,542</td>
<td>38,542</td>
<td>38,542</td>
<td>28,064</td>
<td>182,232</td>
<td>1.00</td>
<td>0</td>
<td>Florida statutes require this to be performed by private or public entities with the oversight by the Florida Building Commission. This was done in May, 2003. There were no position or funding allocated for this program. However, DCA estimates that if the program had remained in the department, it would have cost $58,333. (Collateral Savings for FY 2003-04 = salary for 2 months ($50,000/12) * 2 = $8,333 and for FY 2004-05, the full $50,000 for a total of $58,333).</td>
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<td>0</td>
<td>0</td>
<td>0.00</td>
<td>58,333</td>
<td>Nuts to zero. No savings are realized since DCF transfers the resources to the various community-based care providers. The goal is to achieve the community-based child welfare delivery system that is locally driven. Per DCF, if the department operated the community-based care child welfare programs, in the in-house the cost would be the same as the current contractual amounts.</td>
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<tr>
<td>19 HHS O DCF</td>
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<td>0</td>
<td>0.00</td>
<td>0</td>
<td>Nuts to zero. No savings are realized since DCF transfers the resources to the various community-based care providers. The goal is to achieve the community-based child welfare delivery system that is locally driven. Per DCF, if the department operated the community-based care child welfare programs, in the in-house the cost would be the same as the current contractual amounts.</td>
</tr>
<tr>
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<td>Eligibility Determination for Cash Assistance</td>
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<td>0.00</td>
<td>0</td>
<td>Waiting on information from agency.</td>
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### Appendix A

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<tr>
<th>OPB</th>
<th>Unit</th>
<th>Department</th>
<th>Project Title</th>
<th>FY 1999-00</th>
<th>FY 2000-01</th>
<th>FY 2001-02</th>
<th>FY 2002-03</th>
<th>FY 2003-04</th>
<th>FY 2004-05</th>
<th>Growth Factor</th>
<th>Salary Increase/Health Insurance Adjustment</th>
<th>Project Total</th>
<th>FTE Reduction</th>
<th>Cost Avoidance/ Collateral Savings*</th>
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<td>0</td>
<td>74,158</td>
<td>74,158</td>
<td>0.00</td>
<td>Estimated cost avoidance of 8% compared to previous operational costs of functions such as lawn maintenance, cleaning restrooms and cleaning cabins.</td>
<td></td>
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<tr>
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<td>0.00</td>
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<td></td>
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<td>National Public Health Elimination System (NPDES) Stormwater Regulatory Program</td>
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<td>0</td>
<td>0</td>
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<td>100,469</td>
<td>100,469</td>
<td>7.00</td>
<td>Increased cleanup appropriations have enabled the DEP to expand the Petroleum Cleanup Program, and use private contractors, resulting in an increase in cleanup sites from approximately 2.5 to over 5.0. It was deemed more efficient and cost effective to acquire the needed technical expertise through outsourcing. whereby services of contractors are engaged at a level commensurate with annual appropriations and workload. As an efficiency result, the department reduced FTE.</td>
<td></td>
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<td>Outsourced at inception in FY 2000-01. never performed by the state.</td>
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<td>(64,900)</td>
<td>5,748</td>
<td>(241,703)</td>
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<td>0</td>
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<td>0</td>
<td>0.00</td>
<td>Outsourced at inception in FY 2000-01. never performed by the state.</td>
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<td>0.00</td>
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*The policy decision to outsource this function was because the IT department was not trained and the technology did not exist within the agency. However, the service level has increased since the system has been implemented.**
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<th>FY 2002-03</th>
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<th>Outdoor Advertising</th>
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<th>Tolls</th>
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*The cost avoidance/collateral savings reflects self-reported numbers from agencies.
Project Gate Management Process

Appendix B
## Center for Efficient Government
### Gate Process Overview

<table>
<thead>
<tr>
<th>Stage 1 – Business Case Development</th>
<th>Definition of Respective Stage</th>
<th>Key Activities Addressed in Standards Provided</th>
<th>Key Inputs for proceeding through the Stage</th>
<th>Key Outputs upon completion of the Stage</th>
</tr>
</thead>
</table>
| Encompasses project conception through the development of a detailed analysis supporting the project concept and validating the potential value to be delivered to the state. | • Develop current situation benchmark data.  
• Develop criteria rationalizing outsourcing.  
• Evaluate options against criteria.  
• Detail recommended solution. | • Existing service or program data including, at minimum, prior 12 month’s fiscal data.  
• Industry best practices (where available).  
• Statutory requirements. | • Business case document outlining (at minimum):  
- Analysis of options evaluated  
- Recommended solution  
- Transition management strategy  
- Identified performance metrics  
- Recommended procurement process. |

| Stage 2 – Procurement | Encompasses the development and issuing of the solicitation document, through the evaluation of responses and the selection of a vendor. | • Identify and build procurement team.  
• Develop procurement strategy.  
• Develop and distribute solicitation document.  
• Develop evaluation methodology  
• Select and train evaluation team.  
• Evaluate and award procurement | • Approved business case.  
• Florida Statute, 287.057.  
• Florida Administrative Code, 60A-1. | • Solicitation document.  
• Updated business case (if appropriate).  
• Evaluation criteria and methodology.  
• Evaluation documentation. |

| Stage 3 – Contract Management | Encompasses the drafting, negotiation and signing of an outsourcing contract as well as ongoing management of the contract terms and conditions. | • Identify appropriate contract provisions.  
• Develop the contract.  
• Negotiate the contract.  
• Manage the contract (ongoing). | • Approved business case.  
• Florida Statute, 287.057.  
• Florida Administrative Code, 60A-1.  
• Solicitation document. | • Contract workbook containing:  
- Signed contract  
- Check list of contractual provisions  
- Checklist of deliverables as appropriate. |

| Stage 4 – Transition Management | Encompasses the development and implementation of a Transition Management Plan for affected state employees. (Note: This activity commences during the business case development.) | • Identify workforce implications.  
• Assess vendor proposals for assistance with transition.  
• Develop a Transition Plan.  
• Assist employees with transition per existing state guidelines. | • Approved business case, with initial transition management strategy.  
• Contractual document detailing vendor transition requirements.  
• State Managing Change Guide. | • Transition Management Plan.  
Workforce Transition Plan incorporating state guidelines for managing change resulting in workforce reduction. |

| Stage 5 – Post Implementation | Encompasses the actual management of the project through implementation and ongoing performance management through the life of the contract. | • Establish project management office (PMO) and associated processes.  
• Identify PMO deliverables.  
• Establish baseline performance data.  
• Track performance against plan. | • Approved business plan.  
• Contract workbook with check lists for contractual provisions, including service level agreements and deliverables. | • Project Plan detailing timeline for key activities and deliverables.  
• Project Implementation Plan detailing PMO processes and associated deliverables. |

The key elements of this process are as follows:

1. Each stage is linked (i.e. the output from each stage is a required input for the next stage), to ensure the business objective and the expected performance measurements remain consistent throughout the process, providing for increased accountability.
2. There are defined outputs associated with each stage that must be completed before moving to the next stage.
3. As appropriate, the business case is revised and expected performance measurements are validated throughout the process to enable periodic assessment of continued project viability, particularly as more detailed information becomes available.
4. Tools will be provided for each stage to assist driving consistency in the application of best practices for all major outsourcing projects.

Appendix C