

City of Minneapolis
Business Information Systems
IT Sourcing Review
August 2007

IT Sourcing Review

- » *Assessment Activities and Findings*
- » Review of Studies, Contract and Finance
- » Interviews with Key Staff
- » Volumetrics Review
- » Recommendations

Assessment Activities and Focus

Review of the City's IT outsourcing agreement with UNISYS Corporation

| Assessment Activities | Focus |
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| <p>Review of: Excipio Study, the UNISYS Contract, BIS Customer Survey Results, recent contract amendments, and recent invoices</p> | <ul style="list-style-type: none"> » Review the results of the mid-term analysis that Excipio conducted » Review the relationship – primarily from a contractual and financial perspective – and compare/contrast it with industry standards |
| <p>Interviews were conducted with: City Coordinator, the CIO, the Director of Management and Budget, BIS Managers and UNISYS Managers</p> | <ul style="list-style-type: none"> » Review the operational elements of the existing agreement. » Assess the current delivery model » Discuss future needs » Assess Stakeholder Alignment |
| <p>High level contractual and financial analysis to establish recommended next steps from which the City may position itself to proceed in its sourcing strategy development</p> | <ul style="list-style-type: none"> » Assess market pricing and best practice alignment with contract structure » Adequacy of the contract for meeting future needs » Recommendation / Decision |

Summary of Findings

- » Overall, the state of IT services have significantly improved under the outsourcing contract
 - Services now include critical areas such as DR and 24X7 Help Desk Support
 - High availability of network and applications, (speed/response time) has increased
 - High quality standard processes have been implemented and efficiency improved

- » Significant areas requiring improvement related to the contract have also been identified
 - A critical lack of consistency related to services, assets and pricing exists
 - Delineation of duties between BIS and UNISYS is unclear and requires redefinition
 - The transfer to and ownership of assets to UNISYS, while initially beneficial to the City, represents the most significant transition risk related to the current contract structure

- » ***Recommendation - engage in contract pre-negotiations immediately***
 - Critical Next Step: Work with UNISYS to build a service-tower-centric delivery model and pricing proposal to be used for a re-negotiation or, if necessary, a re-compete of services

Findings - continued

- » ***Enter phased negotiations now while City leverage is strong***
 - **Problem: The current contract structure doesn't allow for direct management of services or costs associated with this agreement**
 - Services are not aligned in a manner consistent with best practice service towers
 - The current contract scope makes ambiguous the inclusion or exclusion of services in the baseline
 - Some services such as Network management services are embedded, not specifically broken out, making analysis difficult
 - End of life treatment of assets is ambiguously and inconsistently defined in the contract and in the change orders
 - **Recommendation: A scope of work and financial model that aligns with current sourcing best practices** will allow the City to:
 - Truly understand the value it is receiving within the contract
 - Provide the base case material that would be required to re-bid the contract if phased negotiations result in a need to re-compete the contract; for example: Pricing Tables, SOW and SLAs
 - **Why now? - UNISYS is motivated to cooperate at this time in the contract period**
 - The City can give UNISYS an opportunity to provide a standard base case model with the understanding that they might strengthen their opportunity to extend the contract non-competitively
 - UNISYS will be motivated to participate because re-structuring the contract might provide UNISYS an opportunity to expand scope
 - Most importantly, determining that UNISYS may fail to meet the City requirements now or that pricing is truly not market competitive will allow for adequate time to prepare for re-bidding of the contract
 - These initial efforts will be largely reusable as the foundation for an RFP process

Findings - continued

» Governance

- Problem: The governance of the current agreement is solid but is lacking in a number of tactical areas that have exacerbated service delivery problems:
 - The specific service delivery expectations and evidence of completion are not mapped and understood
 - The roles and responsibilities within the service delivery teams (the City and UNISYS) are not fully defined
 - The tactical contract administration activities, e.g., maintenance of the asset Exhibit, have not been performed

- **Recommendation: A formal contract governance activity should be undertaken that addresses immediate issues and positions the City for strong governance in the current and future contract**

Findings - continued

» Future State Planning - IT Sourcing/Retained Services

- The City of Minneapolis Business Information Services is at an inflection point in its development
 - It is entering stage 2 outsourcing: preparing for contract extension or re-bid, having weathered the enormous initial cultural changes that accompany first outsourcing of services
 - There is new leadership; the City has recently selected a new CIO
 - The City is harvesting and experiencing the indirect benefits of outsourcing
 - **While the primary focus at this time is the UNISYS contract, during the time that the City is preparing its base case and reviewing both progress and remaining challenges, it may be timely to re-assess its retained and potentially sourced services and to plan for the building of new competencies for retained staff and services**

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Review of Studies, Contract and Finance

- » Many of the problems uncovered during document review could be effectively addressed by a more robust metrics program
 - City needs to establish and report on qualitative metrics, – establish CPIs, KPIs, GPIs with a mechanism to modify/add/delete SLAs included in the agreement
 - CPIs (Critical Performance Indicators)
 - Critical to the welfare of the City and its business
 - Represented by a Target and a Minimum Service Level
 - Service Credits attach
 - KPIs (Key Performance Indicators)
 - Measurements are meaningful to the City and its business
 - Represented by a Target and a Minimum Service Level
 - No Service Credits / Investigation and Correction Remedy
 - May be candidates for promotion to CPI
 - GPIs (General Performance Indicators)
 - Measurements are of interest to the City and its businesses
 - Service Provider will report on the Service Level upon request
 - Same format (Target / Minimum) as CPI
 - May not be candidates for promotion to KPI
 - No Service Credits / Investigation and Correction Remedy

Review of Studies, Contract and Finance

» Review of the Excipio Study

- Many of the Excipio Study findings relate to already identified needs to improve the outsourcing services governance structure and are related to need for improvement in role definition, defined responsibilities and communications improvements
 - These changes will facilitate BIS taking a more strategic role
 - BIS increased focus on retained organization design and competencies will address the Excipio findings as well
- The study has outlined and recommended many service improvements that might more appropriately be addressed globally through the redefinition of process scope of work and through a best practice SLA approach as defined earlier
- The study points to a variety of problems seemingly caused by UNISYS's lack of integrated tool sets and while this may be accurate, best practice would suggest that the City focus on service outcomes and not suggest specific solutions to UNISYS
- The study points to “value leakage”, that is, savings not realized after the outsourcing and this is a common concern in outsourcing which is most meaningfully addressed through a robust governance process
- The study points to contract ambiguity related to server refreshes and desktop assets as identified risks requiring remediation and not current best practice and identifies potential problems related to future commitment/encumbrance of funds

Review of Studies, Contract and Finance

» Review of the UNISYS Contract and Attachments

- The City entered into a services agreement with UNISYS and the transfer of City assets was made to UNISYS in consideration of transition costs
- The intent was to relinquish City responsibility for equipment ownership, however, the contract language is not clear as to all areas of asset control
 - It is clear that in Exhibit VI, equipment buy-back charges to the City decrease to zero over the life of the contract
 - A note to the exhibit indicates that the dollar amounts listed in the table will be amended but not in what manner
 - We interpret that this likely means that any equipment subsequently purchased by the City and transferred to UNISYS would **lower** the buy back charges since an asset is transferred to UNISYS without consideration
 - We also interpret that it is likely for all equipment purchased through a refresh program, that UNISYS is recovering costs through depreciation expense charges and that City liability for buy-back increases to the extent that such costs are not currently recovered at a point in time

Review of Studies, Contract and Finance

» Review of the UNISYS Contract and Attachments

- The contract includes base charges with fee for service pricing (ARC/RCC) above or below a defined dead band as is current best practice, however, as previously noted, it combines equipment purchase associated with base services and does not adequately address refresh of desktops and servers
 - By providing for a 2.6% year on year adjustment, it does not anticipate or plan for price/performance improvements in hardware or changes in technology types, for example; decreased desktop and increased laptop usage, explicit server performance increases and virtualization efficiencies
 - IMACs are not baselined at minimum levels but are rather all charged specifically (this may be a public sector preference to direct identify charges when possible)
 - Adding desktops over time will lengthen the refresh cycle times to longer than best practice with the current contract stipulated refresh numbers too low
 - Additional servers are added ad hoc, not best practice, and refresh cycles are unclear here as well although there is language in the contract which refers to a “aggressive server consolidation strategy” without specifics and further does not give explicit decision rights to the City as regards selection of technology which has had the effect of allowing UNISYS to implement proprietary server technology

Review of Studies, Contract and Finance

- » Review of the May 2006 BIS Customer Survey Results
 - These results are generally consistent with the previously identified need to strengthen governance, focus on retained staff competency building, and to expand overall IT governance such as has been recently announced with the establishment of the new Information Service Governance groups
 - The survey provides useful information that can be incorporated into a review of retained services and future state services as well

Review of Studies, Contract and Finance

- » Review of City selected recent contract amendments
 - The review of selected contract amendments reflects a diverse collection of projects
 - UNISYS is providing infrastructure architecture and design services which might be incorporated into a general services agreement rather than on a per project basis; the City has requested dedicated services in this area and UNISYS does have a designated solutions architect but the funding mechanism may require further clarity as these costs may be recovered through projects
 - UNISYS is assisting in providing systems integration services and it would be possible to establish improved capacity and demand planning with established contract pricing to address/improve the current variable pricing scheme
 - Some of the services that are bid, for example, server implementations and increased NAS storage are incorporated into many of the project amendments and it would seem that at a minimum that these parts could be handled as part of a regularized ARC/RRC arrangement and not on an ad hoc basis
 - Finally, some projects are clearly one off and specific criteria might be established to guide when competitive bidding might be appropriate for such projects

Review of Studies, Contract and Finance

- » Review of the UNISYS MOU and related spreadsheet progress report
 - In essence, the Excipio mid-term review identified several issues which resulted in a mobilization of BIS and UNISYS to address the identified problems
 - In many cases, not surprisingly, several generalized areas have been targeted
 - Contract ambiguity
 - Services governance
 - Increased partnering with City business units
 - Increased focus on service improvement and continuous improvement
 - Increased focus on explicit and implicit SLAs

Review of Studies, Contract and Finance

» Review of recent invoices

- The current invoicing system is well aligned with the form and intent of the contract
- Appropriate checks and balances appear to be in place
- The acknowledged complexity that exists in the invoicing process is a function of the current contract and services structure
- There appears to be a clear separation between internal cost allocation and charges per service by the service provider
 - However, to some extent, the current contract and invoice structure may be overly related to City business user charge backs and this should be explored to establish whether or not an alternative or more standardized means can be established as previously discussed

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Interviews with Key Staff - BIS

- » There is considerable diversity of view amongst the BIS managers, however, there are broad areas of general agreement with regard to strengths in the current operating model
 - There is consistent agreement that the operational elements of the existing agreement have dramatically improved services and that this most likely would not have been possible to achieve internally, perhaps not at all, and certainly not at the recognized cost savings and not as rapidly
 - There is a general acknowledgment that the many new services and applications that have been implemented would likely not have been successfully completed without the outsourcing services agreement in place
 - There is a general acknowledgment that costs and implementations times are more accurate and predictable since the outsourcing agreement
 - There is acknowledgment that UNISYS has brought standardized processes and procedures and increased efficiency – that applications run and that performance/response time has improved

Interviews with Key Staff - BIS

- » There is considerable diversity of view amongst the BIS managers, however, there are broad areas of general agreement with regard to challenges in the current operating model
 - UNISYS is not viewed as pro-active, many improvements have been aggressively pursued by BIS and eventually implemented by UNISYS and staff is seen as lacking public sector domain knowledge
 - Inventory management is viewed as a major concern which impacts charged costs to the City and also to individual City departments as well
 - Lack of single point of contact/accountability with UNISYS is a common theme as is the observation that UNISYS is too siloed and not coordinated
 - There is some sense that the escalation path for problems is unclear
 - UNISYS is viewed as unable to adequately solution for the City
 - There are complaints concerning inadequate server monitoring
 - There are complaints regarding UNISYS tools that are not integrated and which make problem tracking and resolution difficult
 - There are complaints concerning the lack of documented processes and procedures – the lack of appropriate manuals which has only now been addressed – and lack of appropriate technical skills within UNISYS

Interviews with Key Staff – Management and Budget

- Generally, managers in this area referred to the Excipio report in which they were directly involved administratively
- The concerns were direct and easily identified and related to efficient provisioning of goods and services at best value for the City
- There were explicit concerns that whatever process was adopted regarding the extension or re-bidding process, that a rigorous process be implemented that could demonstrate cost effective defensible decision making

Interviews with Key Staff - UNISYS

- » Service could be improved if UNISYS was more involved with the end client in solutioning
 - UNISYS has little/no contact with City managers who need solutions
 - Therefore scope and response to solution requests miss the mark often
 - A technical architect position has been added to improve solutioning
- » Decisions are difficult to make and take long to make; perhaps more efficient processes could be adopted
- » Account team
 - About 20 FTEs dedicated
 - 10 additional in projects
 - Flexible pool
- » Priority setting is a problem – 30 proposed projects at any given time, mostly less than 50K

Interviews with Key Staff - UNISYS

- » Historical issues revolve around client/service provider relationship and this has improved
- » The engine (base services) is running fairly well, however, new projects are problematic
- » New BIS CIO is trying to introduce a fair amount of culture change and this should help
- » SLAs need to be changed – we need to get rid of interpretation/ambiguity
- » Some problems are associated with initial project/contract scope reduction, for example, no application monitoring except for red/green on/off monitoring is what was agreed to at contract signing and now this is somewhat in dispute
- » It would be beneficial to all parties if scope creep could be better controlled
 - For example, the NAS project for storage originally built for 100 hours of effort; UNISYS has booked 1200 hours because of scope creep

Interviews with Key Staff - UNISYS

- » UNISYS is exploring at how the contract could be renewed at cost reductions
 - Costs can be reduced but it may impact services
 - One possibility is to reduce 24X7 coverage and include intrusion detection
 - We can increase footprint (scope) and save money – but would need to do this cost effectively
 - Refreshes may be more frequent by contract than actual required and this might be reduced

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Volumetrics Review

- » The method of volumetric review consisted of;
 - Review of the Contract, attachments and selected recent amendments
 - Review of the most recent invoice and the invoicing process
 - Interviews with Key BIS and UNISYS managers to validate the review analysis
 - Analysis of current pricing and comparison to EquaTerra market data
 - It should be noted again that the combining of services and hardware makes “apples to apples” comparisons difficult and that the potential for transition and transformational pricing engineering also complicates the analysis as does the absence of traditional best practice tower cost elements
 - Methods used in the contract for IMACs and new projects also make consistent analysis difficult and recommendations for changes in these areas have been previously noted

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Recommendations

» **Contract Phased Negotiations**

- Critical Next Step - complete a Detailed Base Case Analysis to be used as a component of phased negotiation or a re-compete of services

» **Improvement Opportunity - Governance Health Check** to address City and service provider relationship best practice - structure, roles and responsibilities

» **Future State Planning - IT Sourcing/Retained Services Health Check** to solidify future state regarding services to be sourced and retained activities/competencies

NOTE: The City has adopted a progressive outsourcing approach that ultimately may involve several providers of service:

Recommendations

» Recommendation - Contract Phased Negotiations

- Critical Next Step – complete a Detailed Base Case Analysis to be used for phased negotiation or, if necessary, re-compete of services
- The recommended approach here is to work with UNISYS and BIS to develop a base case analysis that can be used to:
 - Prepare for contract extension
 - Provide the required base case material to be used in re-bidding, if necessary
- While this process will follow the current EquaTerra sourcing transaction methodology, special emphasis will be placed upon immediately securing provisions and current contract revisions and stipulations that reverse and/or clarify issues of concern, particularly those associated with asset ownership
 - If UNISYS wishes to be considered for contract extension, and indeed to be included in the re-bid service provider list, then this issue must first be resolved to the City's liking