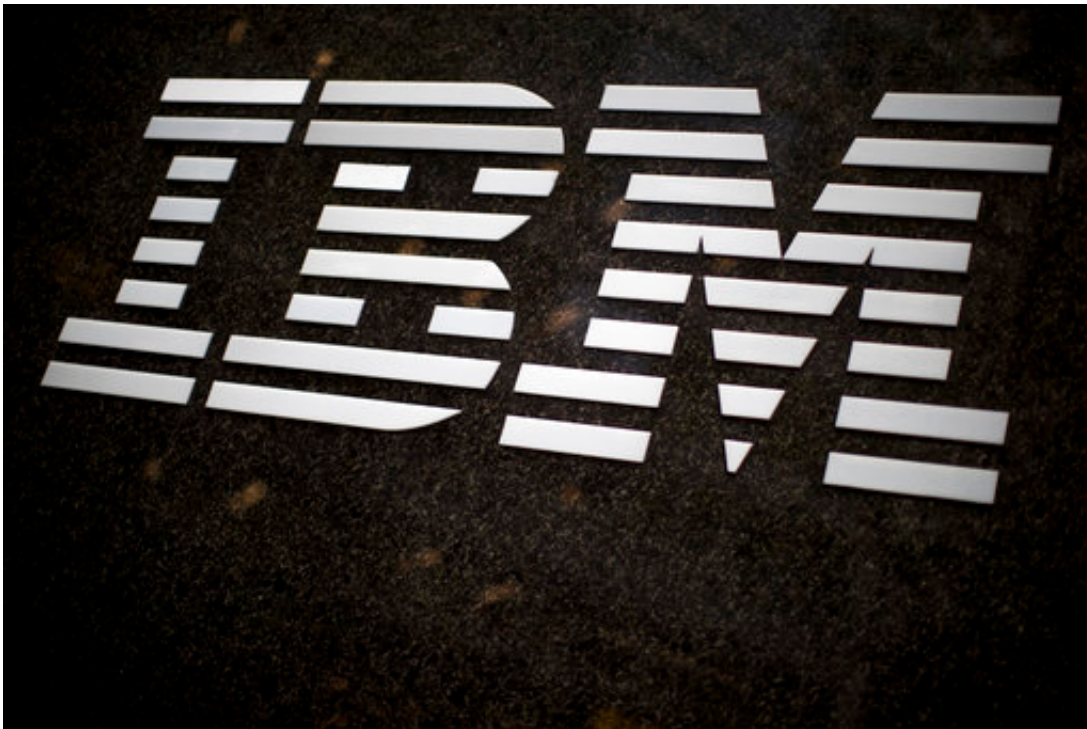


Judge: IBM owes Indiana \$78M for failed welfare automation

August 7 2017, by Rick Callahan And Tom Davies



In this April 26, 2017, file photo, the IBM logo is displayed on the IBM building in Midtown Manhattan, in New York. In a judge's ruling dated Friday, Aug. 4, 2017, IBM Corp. owes the state of Indiana \$78 million in damages stemming from the company's failed effort to automate much of Indiana's welfare services. Indiana and IBM sued each other in 2010 after then-Gov. Mitch Daniels canceled the company's \$1.3 billion contract. (AP Photo/Mary Altaffer, File)

IBM owes Indiana \$78 million in damages stemming from the

company's failed effort to automate much of the state's welfare services, a judge has ruled in a long-running dispute.

Marion Superior Court Judge Heather Welch issued the ruling dated Friday, nearly six months after she heard arguments from attorneys for the state and IBM Corp. The Indiana Supreme Court ruled last year that IBM had breached its contract and it directed the trial court to calculate the damages.

New York-based IBM said Monday it will appeal the decision.

Indiana and IBM sued each other in 2010 after then-Gov. Mitch Daniels cancelled the company's \$1.3 billion contract to privatize and automate the processing of Indiana's welfare applications.

Under the deal, an IBM-led team of vendors worked to process applications for food stamps, Medicaid and other benefits. Residents could apply for the benefits through call centers, the internet and fax machines. The contract was pulled in late 2009, less than three years into the 10-year deal, following complaints about long wait times, lost documents and improper rejections.

The state sought more than \$172 million from IBM, but the judge ruled IBM responsible for \$128 million in damages. That amount was offset by about \$50 million in state fees that the company was owed.

IBM said in an email that it believes the judge's ruling "is contradicted by the facts and the law."

"IBM worked diligently and invested significant resources in its partnership with (the state) to help turn around a welfare system described at the time by Indiana's governor as one of the worst in the nation," the company said.

A different judge ruled in IBM's favor in 2012 and awarded the company \$12 million, mostly for equipment the state kept. An appeals court reversed that decision, finding that IBM had committed a material breach of its contract by failing to deliver improvements to Indiana's welfare system.

Peter Rusthoven, one of the state's private attorneys, said Monday that Welch's ruling would be carefully reviewed before deciding on any additional appeals.

"Overall, we are extremely gratified by the result and thinks it really vindicates the position the state took throughout this really long battle," Rusthoven said.

The state argued that IBM owed Indiana for the cost of fixing the company's problematic automation efforts to make the system workable, paying overtime for state staffers to review and correct those problems, and hiring new staff to help oversee that process, among other expenses.

IBM's attorneys argued that the company had delivered "substantial benefits" to the state that undermined Indiana's damages claims.

Welch heard arguments from both sides on Feb. 10. She was scheduled to rule by early May in the complicated case, but lawyers twice agreed to allow the court more time.

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