MINUTES

House Select Committee on E-Procurement

Monday, December 5, 2011
1:00 PM
Room 415 / Legislative Office Building

I. Committee Members & Staff:

Co-Chairs: Rep. G. L. Pridgen, 46th District
Rep. Fred F. Steen II, 76th District

Members: Rep. Glen Bradley, 49th District *(Absent)*   Rep. Bill Brawley, 103rd District *(Absent)*
Rep. Dale Folwell, 74th district *(Absent)*   Rep. Grey Mills, 95th District *(Absent)*
Rep. Elmer Floyd, 43rd District   Rep. Rosa U. Gill, 33rd District *(Absent)*
Rep. Pricey Harrison, 57th District

Clerk: Beverly Slagle

Attending House Sargent at Arms: Martha Gadison   Fred Hines

II. Staff:

Mark Bondo (Fiscal Research)   Bill Patterson (Research)
Tim Hovis (Research) (Absent)   Barbara Riley (Research)
Karlynn O'Shaughnessy (Fiscal Research)

III. Speakers:

A. Sam Byassee, State Purchasing Officer / Department of Administration (DOA)

B. Ms. Gwen Canady, Project Management Officer, UNC General Administration E-Procurement

C. Mr. Ken Craig, Associate VP of University Business Operations and Shared Services, UNC General Administration

D. Ms. Martha Pendergrass, Director of Procurement Services, UNC-Chapel Hill

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IV. Call To Order:

The House Select Committee on E-Procurement (the committee) meeting was called to order at 1:15 PM by the presiding Co-Chair, Representative G. L. Pridgen.

V. Approval of the October 26, 2011, Meeting Minutes:
Due to the absence of a quorum, the Chair deferred calling for a vote to approve the Minutes of the October 26th, 2011 meeting.

VI. Welcome and Introductions:

The Chair welcomed members and guests attending the meeting then introduced the first speaker, Mr. Sam Byassee from the Department of Administration / Division of Purchase and Contract.

VII. NC-Procurement @ Your Service / An E-Procurement System Overview:

A. <u>How To Source Goods and Services and the Process Of Solicitation and Bids, Particularly Through Our Ariba Buyer Procurement System</u> (See Attachment A):

Mr. Sam Byassee, State Purchasing Officer, DOA, informed the committee the General Assembly provided authorization to set up the E Procurement system, as we know it today; Chapter 143-48.3. provided a mandate for an electronic procurement system operated by the Department of Administration with the cooperation and hosting by ITS and gave the universities and community colleges an "opt out" of that system until May of 2003. He referred to the timeline in the presentation (Attachment A). In Chapter 66-58.12, Electronic procurement, allows any agency to provide access to services through electronic and digital transactions and authorizes fees for that which must be approved by OSBM. The revenue from those fees goes into an agency reserve account which then can be used only for additional ecommerce initiatives and projects with the approval of the State Chief Information Officer and consultation with the Joint Legislative IT Oversight Committee.

Mr. Byassee pointed out to the Committee that the e-procurement system is not comprehensive; it is the Ariba Buyer software along with an equal market place for small orders, a vendor registration system, and also our interactive purchasing system. The interactive purchasing system is a home-developed system which allows the posting of solicitations and notification of vendors that those solicitations are available.

The initial implementation of the e-procurement was in October of 2001. There was a significant contract amendment in June of 2004 which resolved a monetary loss due to a fair amount of use which differed from the projected use. The next significant development in October 2009 was a contract amendment which provided for a fixed fee to our operator. Beginning in March of 2010, we began our upgrade to our most current version of the Ariba software. The last item is the expiration of the current operations agreement in December 2012.

In discussing transaction fees, Mr. Byassee said the Department of Administration is agnostic as far as to the source of the funds, whether it is on goods only, whether it should be placed on goods and services, or whether it could come from an annual registration fee from the vendors who use the system or whether it should come from Appropriations. He said there was some equitable appeal to putting one fee on both fees and services which would lower that 1.75% down to below 1%.

See Attachment A for details of the High Level Purchasing Flow, Compliance and Accountability, and Data Aggregation and Reporting.

Mr. Byassee suggested that the Committee might want to explore is a "Cloud Based" data repository that would be fed by data from all of the different state systems and would give everyone access to all of the data to all strategic source and reporting needs. Even though it is not available now it could be helpful to all agencies across the state.

Based on the familiarity of the system that has provided dependability and satisfies our core needs we chose to go with the Ariba system.

B. **Ariba Upgrade Benefits:**

1. Latest Software Version with Best Practices Built In
2. New State of the Art Hardware & Operating System Environment
3. Lower Total Cost of Ownership (TCO)
4. Workflow & Process Optimization
5. Enhanced Spend Visibility & Usage of State Term Contracts
6. National Institute of Government Purchasing (NIGP) Commodity Code Update
7. NC Identity Management Interface (NCID)

C. **Q & A:**

(Q) Representative Pridgen: Have you provided any examples of how this system works?

(A) Mr. Byessee: I have not included any demonstrations today, but we can provide that at the next meeting and show how this process works.

(Q) Representative Floyd: During the process, at what time does the vendor receive payment, and how long does it take?

(A) Mr. Byessee: When the goods are received, the agency that has received those goods reports it in the Ariba System. That gets fed to the Encast System which is in the controller's office which will then confirm goods were received and will the authorized payment for goods received. All invoices are to be paid on time (within 30 days after receipt).

Representative Floyd: We have been hearing that some payments are received 120 days after delivery, but not necessarily in this system. This situation makes it very difficult for the vendor and is a concern.

Representative Pridgen requested that someone from the Controller's office attend the next scheduled meeting to address that question.

(Q) Representative Pridgen: The system in place has been used for 10 years?

(A) Mr. Byessee: Yes, that is correct.

VIII. **UNC General Administration (UNCGA) E Procurement Update:**

A. **SciQuest E-Procurement Update**: Ms. Gwen Canady, Project Management Officer, UNCGA (Attachment B/pgs. 2-7).

Canady recapped the history of choosing SciQuest described in the Attachment. SciQuest is a NC corporation operating in the e-procurement emerging technology sector. One point emphasized was that SciQuest is a strategic partner with SunGuard's Banner Financial System.

B. **UNC Solution Overview** presented by Ken Craig, Associate VP of University Business Operations and Shared Services, UNCGA (Attachment B/pgs. 8-13).

He related the desire of Mr. Bowles, President Emeritus UNC, which was to have an end-to-end solution that would create the largest amount of efficiencies and one most impactful for the UNC System.

An good example of this is as follows: if new releases over a weekend are implemented by SciQuest, no additional IT integration support is required. They will have run the required scripts to interface and upgrade all the prerequisite interfaces with member institutions. They have a large portfolio of private and public universities, and state governments, i.e., state of Georgia, Idaho, and Colorado, who have uniformly adopted the SciQuest tool for similar functionality. They are breaking into the general government area and are "big-time" players in hospitals and higher education which is why it was a best value for our model.

He reviewed the diagram showing an overview of the UNC Solution. He pointed out that the Forms Functionality is something the university has extensive interest in exploding out to take the complex myriad of 60 – 100 state and university contracts to create an able work flow for those contracts. It is a very simplified approach.

The Settlement Manager has been the most impactful tool for the university that is related to our SciQuest implementation. Taking that last step of e-commerce and enabling that piece of it -- where the payment piece and the invoice payment process is seamless and pays on time. If receiving matches the purchase for the department and the invoice that comes in matches those two documents there is zero accounts payable processing required. An example of UNC Charlotte with 20% or one fifth (1/5th) of all invoices processed through the SciQuest New Settlement application are now electronically matched resulting in zero processing by personnel. This speaks to Representative Floyd's question regarding timely payment. This process also produces very clean data which leaves you with a significant savings and a rich data to negotiate future contracts.

Costs are centrally managed across the institutions which has been an effective model up to this point.

C. **PeopleSoft E-Procurement System Overview for UNC-CH** presented by Martha Pendergrass, Director of Procurement Services, UNC-Chapel Hill (Attachment B/pages 14-18).

Ms. Pendergrass began by describing the diagram on page 14. She referenced Representative Floyd's interest in the payment explaining that E-Settlement allows paying ACH to the vendor by way of CXML. She explained that payments were made every 30 days, on the 25th of each month. Overall, our average payment days are 31.5. The system is *completely integrated* and the *strategic sourcing* allows us to compare pricing.

In March of 2007 the university signed a contract with Oracle, and at that point that was the result of an RFP. We went out to look for a system to replace the Student System right away. The goal was to have a finance system and an HR system totally integrated. In December of 2008, a very nice donor donated to UNC a Bain & Company contract to look for efficiencies in the way we do business. In their report, e-procurement was one of their top areas where we could gain efficiency. At that time, we had no data to compare purchases so we needed a data capture procurement system so we could look at what was being spent across campus. We decided that the most efficient strategy for UNC was to partner with NCSU, who already had PeopleSoft up and running. We have been on the system for almost one year, and we adopted Educational Advisory Board's data analyze tool. This tool takes the data and normalizes it to allow us to compare pricing, etc., and enables us to track vendor pricing, P-Card data, etc. UNC-CH can actually go out and compare its pricing against what was charged. We have a discussion with the vendor, quarterly, in terms of receiving money back. As an example, for one vendor alone, we received a check for $47,000 dollars back for July – September 2011. That same vendor

will be getting $32,000 back to us by end of December. The dollar amount is getting smaller because as we identify areas where there are problems we fix them. Without that visibility into the data there is no way we could do that.

We will have a collection of historical pricing data and the neat thing about this tool is the benchmarking data it provides. They have 200 hospitals, and 68-69 college and research universities presently and they are expanding that number. The great thing about the system is you can put in an item and it will give you the lowest price to the highest price paid for that item over the last three months. This is a powerful tool when receiving bids because we have the pricing data to use as leverage with vendors.

Ms. Pendergrass explained the diagram on page 17 which shows the annual costs to UNC-CH annually. Their actual costs are $80K a year; UNC-CH is getting an exceptional return on their money. They have already recovered more than that in three months, since the contractual relationship. We can save, speaking conservatively, $15M through contract compliance, strategic sourcing, processing savings, and bill payment savings. For example, if you can give the vendor an ACH for that payment guaranteed on the 25th of the month, that is usually worth 3% off of the contract price for their entire catalog; whereas, if you pay with other mechanisms (credit card, etc.), you would not be able to achieve those savings. It saves the vendor money on processing fees for credit cards or checks.

Questions & Answers

Q) Representative Harrison: Are there any Energy Savings Initiatives in place?

A) Yes, we have eight campuses and eight contracts on the Energy Savings Initiative, and we added UNC-Charlotte in November at the last Board of Governor's meeting. We are continuing to implement those, to realize savings in the millions of dollars.

Q) Representative Steen: How much Asset Management do we have across agency platform coordination, and is that something we can move toward if we are not already there?

A) Mr. Byassee, Administration, said that it has occurred to him in listening to the presentation today that this really isn't a question among PeopleSoft and SkyQuest and Ariba. All three of those entities provide pretty much the same modules and functionality. Our payment process is outside of the E-Procurement systems and the difficulty we have with some payment issues is because we have to pass data to NCAS and NCAS has to pass data back with no integration capability. We could use SkyQuest -- but as long as we have NCAS as our accounting system we are going to have the same issues. Administration does have some asset management capabilities, unfortunately the main asset capabilities are in NCAS and not in our E-Procurement system. In defense of the Controller, I am sure there are valid reasons for doing things as they do, i.e., security, cost savings, etc.; but if that log jam could be broken it would greatly enhance our ability to integrate systems. I hope this committee will be able to address this problem.

Request: Representative Pridgen: Going forward, we need to look at the pricing of new systems, system integration between and across the different systems/agencies, user-friendly system considerations, and the ease of collecting vendor and user data for a central source. This information needs to be looked at before we can look at cost savings. He asked that these issues be reviewed between now and the next meeting.

IX. **Adjournment**: With no further discussion or questions, the committee meeting was adjourned at 2:33 pm.