MINUTES

House Select Committee on E-Procurement

Wednesday, February 15, 2012
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
Rep. Dale Folwell, 74th district *(Absent)* — Rep. Grey Mills, 95th District *(Absent)*
Rep. Elmer Floyd, 43rd District — Rep. Rosa U. Gill, 33rd District
Rep. Pricey Harrison, 57th District *(Absent)*

Clerk: Beverly Slagle

Attending House Sargent at Arms: Martha Gadison — Fred Hines

II. Staff:
Mark Bondo (Fiscal Research) — Bill Patterson (Research)
Tim Hovis (Research) — Barbara Riley (Research)
Karlynn O'Shaughnessy (Fiscal Research)

III. Speakers:

A. Mr. Ken Craig, Associate VP of University Business Operations and Shared Services, UNC General Administration; Randy Duncan, UNC at Charlotte; Scott Brechtel, UNC at Charlotte; Martha Pendergrass, UNC at Chapel Hill

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

C. Jim Macaulay, Manager, NCAS Model, Office of the Controller

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IV. Call To Order:

With a quorum being present, the House Select Committee on E-Procurement (the committee) meeting was called to order at 1:10 PM by the presiding Co-Chair, Representative Fred Steen, II who welcomed members, staff, and guests attending the meeting.

V. Approval of the Minutes:
The Minutes for the October 26t, 2011 and December 5, 2011 meetings were approved.

VI. UNC SciQuest E-Procurement Presentation (See Attachment A):

A. Kin Craig, UNC General Administration: Mr. Craig gave an overview of the presentation and an update on SciQuest E-Procurement and how UNC ended up being strategically aligned with the SciQuest application as an E-Procurement tool. He presented a *spend analysis* and discussed some of the operating costs associated with the application, both from an implementation perspective and the annual operating cost of the program. He demonstrated

through presentation slides how the application is fully integrated within the state's higher education enterprise resource planning (or ERP system) --- and how user friendly and easy it is to use the SciQuest application fr om a campus perspective. He went through the steps of how UNC end up with the SciQuest e-procurement tool. He explained that first and foremost the vender itself, SunGuard/Banner ERP system, is strategically aligned with SciQuest. It is an established relationship maintaining an ongoing interface with the SunGuard/Banner application. It provided the lowest cost of investment getting to an electronic platform for the least amount of cost and to achieve the greatest amount of efficiency. It also allowed for a seamless electronic purchase-to-payment process. What differentiates SciQuest from other e-procurement applications that UNC looked at is that it went all the way to the full spectrum of electronic payment for UNC within the single instance application. This provided huge benefits which were demonstrated later on in the meeting (See Attachment A). The Banner application is an established market leader in the higher education platform; fourteen (14) of our universities use that tool. Over six hundred (600) universities across the nation use the higher education application. UNC documented a business case.

B. **Randy Duncan, Scott Brechtel and Martha Pendergrass**: The presenters demonstrated with an online real-time example of the e-procurement process showing how easy the SciQuest application is to use through a common workflow. The demonstration showed where the integration points are between the application and as a software service solution and how it is integrated into the Banner application as a real-time interface application within UNC's system. Banner sits in the middle and SciQuest is all around interfacing into UNC's application.

Banner has made UNC smarter. UNC has many work flows that go outside of a traditional procurement transaction --- control points, approvals, and notifications have been imbedded within the existing purchasing approval process. In doing this, UNC has electronically enabled all of that through one workflow for all of procurement-to-pay on campus. It was shown how cost avoidance was achieved through stable pricing by data mining, which takes little time with big results.

By actually going to the live portal, it was demonstrated how the user can go out and pull data to see if vendors are changing prices. Small increases can have a big impact because of volume buying, so when UNC see prices rising they can go to that vendor at the quarterly vendor meeting and talk to them about reimbursements for a particular item, due to overcharges.

There were no questions from the committee.

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

A. <u>Sam Byasse</u> (See Attachment B):

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. 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.

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%. He pointed out that, at this time, he believes there is an opportunity to *rethink* the way we pay for our system, but added that that is for another day.

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.

He then went through the work flow management and data aggregation and explained that his demonstration of the data aggregation would not be live but performed on a preset "demo" version. As part of the Department of Administration's procurement transformation initiative, with the increased use of strategic sourcing due to the General Assembly providing us with the ability to join cooperative buying programs, we can leverage our spend along with other states to get the best possible pricing in particular areas. As part of the upgrade we will be taking what were twenty-six different rules, or approval flows, and condensing them down to six more flexible, and a much simpler, framework the approval flow can run. We will also have a "watcher-role" to monitor the process. In the new version accountability will be provided through a compliance field to ensure everyone will input what their justification is for making the purchase, and gave examples.

Mr. Byassee told the committee that the Department of Administration would like to be able to set up an end-to-end system. It is possible, he thinks, keeping the Ariba Buyer and adding on modules. The modules don't have to necessarily come from Ariba; they could be SciQuest or another vendor. We would like to do electronic bidding so that all the bidders can send bids electronically and automatically trigger a requisition. That does not happen today, everything is manually entered. If this occurred we could store data and get rid of paper files that are physically housed. As long as we use NCAS, the electronic payments part of the end-to-end is problematic. The one thing we desire is a more user friendly spend-analysis-business-intelligence system.

B. **Demonstration:** Mr. Byassee then walked the committee through a demonstration of the system on a "Demo" program he compared as very similar to the previous demonstration given by UNC.

C. **Discussion:** During and after the demo there was a discussion comparing the two systems. There was a difference of opinion as to the cost savings through the UNC System versus the software the Department of Administration (Ariba) is using. The way each system is paid for was also discussed, with differing estimates of the cost of SciQuest and its maintenance cost. Mr. Byassee noted that if the General Assembly wants to appropriate the money to replace NCAS, he was certain the Controller's office would be thrilled to have an end-to-end system. Without replacing NCAS or allowing electronic payments to be done independently, the

department will not be able to have an end-to-end system. Mr. Byassee noted that if we acquire the modules described in the presentation, his department would have the same quality system as the university system and said that if we go to one system, rather than adding pieces to the system that we have, we will have to retrain fifteen thousand (1,500) users and recreate all of the interfaces, again. Mr. Byassee said that is the reason he is recommending adding the modules, because in his opinion it is much more cost effective.

D. **Q & A:**

(Q) Representative Gill: Do you [Mr. Byassee] have an idea of the cost that would be incurred if the system were to be upgraded?

(A) Mr. Byessee: He did not have any figures but would get back to the committee, but he estimated somewhere between $1.5M to $5M being generous on both ends.

(Q) Follow-up by Representative Gill: If we were to implement the e-procurement system used by the UNC system across the state how much appropriation would be required?

(A) Mr. Craig projected that the system could be self-funded but does not have an exact figure.

(A) Mr. Byassee agreed that the system would be self-funded, but he guaranteed that it would cost in excess of $10M to implement SciQuest or any other system on a state-wide basis and probably in excess or $20M as a ballpark figure.

(Request) The Chair asked for a cost estimate.

VIII. **Payment Processing for NC Accounting System (NCAS) Agencies:**

Mr. Macaulay, Manager, NCAS Model, Office of State Controller (See Attachment C): Mr. Macaulay gave an overview of the NCAS system which is clearly explained in the Attachment.

He commented, in his opinion, adding modules would not accomplish a true end-to-end system, in his definition of that term. In his mind, end-to-end takes you through the entire cycle down to the 1099's. At this time, he would not advocate change just to get to a more modern system; eventually maybe but not now. Mr. Macaulay pointed out that there is a lot of functionality that we don't use or integrate on an enterprise level with the current system. As an example, Banking does the banking on a separate financial system, but it is a financial function; the Budget Office does the budgeting on a separate system, but it is a financial function. All of the grant money that comes into the state is done on multiple systems. He commented that if we could get an enterprise-wide approach to all of those functions then your investment makes sense. In 1999, there were two of us dreaming e-procurement, it is a good system. There should be an enterprise, no one is looking broadly and I am not certain how you do that. From a system perspective only, it would be nice if we could make these decisions based on an umbrella look.

IX. **Comments/Input:** The Chair requested that the committee members submit any ideas that they may have and welcomed anyone in the audience (vendors, etc.) who would like to weigh in on comments made.

X. **Adjournment**: With no further discussion or questions, the committee meeting was adjourned at 3:09 pm.