

HB

313

HAFIN

FILE

House Finance Committee Vote Sheet

DATE:

5/13

SUBJECT:

Amended #1 Berk

MEMBER

YES

NO

HAWKER		✓
JOULE <i>Kertula</i>	✓	
MEYER		✓
MOSES		✓
STOLTZE		✓
WHITAKER		✓
CHENAULT		✓
GROFF <i>Bulcowitz</i>	✓	
FOSTER		✓
WILLIAMS		✓
HARRIS	_____	
TOTAL:		

PASSED: _____

FAILED: _____

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB313
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title An Act authorizing a pilot program relating to state BRU Centralized Administrative Services
procurement ...and providing an effective date. Component Purchasing
 Sponsor Representative McGuire
 Requester (H)Finance Component No. 60

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The bill would authorize a pilot program related to state procurement and use of electronic commerce tools.

The cost of the pilot program is undetermined. The bill will not require an additional appropriation.

Prepared by: Vern Jones, Chief Procurement Officer Phone (907)465-5684
 Division: General Services Date/Time 5/10/03 2:30 PM
 Approved by: Mike Miller, Commissioncr Date 5/10/2003
 Agency: Administration

Passed as is

23-LS1118W

HOUSE BILL NO. 313

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION**

BY REPRESENTATIVE MCGUIRE

**Introduced: 5/8/03
Referred: Finance**

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing a pilot program relating to state procurement and the use of
2 electronic commerce tools; and providing for an effective date."

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
5 to read:

6 **LEGISLATIVE FINDINGS.** The Alaska State Legislature finds that

7 (1) the fiscal condition of the state requires that any opportunity to reduce
8 state costs in a way that does not directly reduce program delivery must be actively and
9 thoroughly explored;

10 (2) the costs associated with procurement and supply management are
11 significant areas of the state's administrative costs and represent an area of potentially
12 substantial cost savings;

13 (3) as a basic administrative function, procurement and supply management
14 represent appropriate opportunities for achieving cost savings through the use of process

1 management specialists in the private sector;

2 (4) electronic commerce tools offer opportunities to reduce the amount of
3 labor resources required to requisition, procure, and otherwise administer the acquisition of
4 goods and services, as well as to reduce the actual costs of goods and services.

5 * **Sec. 2.** The uncodified law of the State of Alaska is amended by adding a new section to
6 read:

7 **PILOT PROGRAM.** (a) The Department of Administration may enter into a pilot
8 program under which the department contracts (with a person from the private sector) to
9 provide for the delivery of procurement services and electronic commerce tools.

10 (b) The pilot program authorized by (a) of this section may not apply to more than
11 two state departments and two other instrumentalities of the state and may not exceed three
12 years in length.

13 (c) A procurement conducted by the person selected under (a) of this section is not
14 subject to AS 36.30.

15 (d) In this section, "instrumentality of the state" means a state public corporation, a
16 state enterprise, or another administrative unit of state government that handles its
17 procurement and supply management in a manner that is separate from a department of the
18 state.

19 * **Sec. 3.** Section 2 of this Act is repealed July 1, 2006.

20 * **Sec. 4.** This Act takes effect July 1, 2003.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB313
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title An Act authorizing a pilot program relating to state procurement ...and providing an effective date. BRU Centralized Administrative Services
Component Purchasing
Sponsor Representative McGuire
Requester (H)Finance Component No. 60

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Note: Amounts do not include inflation unless otherwise noted below.

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CHANGE IN REVENUES ()						
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1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The bill would authorize a pilot program related to state procurement and use of electronic commerce tools.

The cost of the pilot program is undetermined. The bill will not require an additional appropriation.

Prepared by: Vern Jones, Chief Procurement Officer Phono (907)465-5684
Division: General Services Date/Time 5/10/03 2:30 PM
Approved by: Mike Miller, Commissioner Date 5/10/2003
Agency: Administration

Alaska State Legislature

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Representative Lesil McGuire

Chair, Judiciary Committee

Sponsor Statement for HB 313

"An Act authorizing a pilot program relating to state procurement and the use of electronic commerce tools; and providing for an effective date"

A Pilot E-commerce Procurement and Supply Chain Management Program

In our current fiscal situation, the Alaska Legislature has a duty to seek out cost savings and efficiencies in government. Especially important are savings in the *overhead costs of government* — i.e., "back office" functions. These functions can and should be streamlined, leaving more funds available for core government services such as education, public safety, and transportation.

The costs of procurement and supply chain management represent a substantial portion of the state's back office overhead. With only a few exceptions, the state performs these functions using outdated business processes and systems that do not take full advantage of electronic commerce opportunities and other strategies like the use of third party specialists.

Many Alaskans share a desire to become world leaders in modern logistics and supply chain management. Here in Alaska we have companies that are quickly becoming leaders in Internet e-commerce, procurement and related fields. Utilizing this specialized expertise will not only reduce the cost of government, but also strengthen Alaska's competitive position.

A controlled pilot program is a responsible approach to this opportunity. It will let the Alaska Legislature monitor progress, validate the cost savings and review other benefits (and drawbacks) before making a full commitment. It is a gradual approach that minimizes the risk of failure and provides tremendous potential for reducing the size and cost of government.

It is important that the pilot program be sufficient to justify technological and operational transition costs. The Commissioner of Administration will select a maximum of two departments plus two state enterprises for the pilot.

To be effective, a private sector specialist will need delegated authority to represent the state in performing electronic commerce, procurement and vendor performance management, hence the need for enabling legislation and temporary exemption from AS 36.30 (State Procurement Code). The Commissioner of Administration will be responsible for establishing controls and procurement procedures for the pilot program. This pilot will provide the Alaska Legislature with valuable information with which to evaluate the future modernization of AS 36.30.

Alaska State Legislature

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Representative Lesil McGuire

Chair, Judiciary Committee

Sectional Analysis

HB 313

"An Act authorizing a pilot program relating to state procurement and the use of electronic commerce tools; and providing for an effective date"

A Pilot E-commerce Procurement and Supply Chain Management Program

Section 1 – Amends the uncodified law of Alaska by adding a new section of Legislative Findings which include among other things that:

- The fiscal condition of the state requires any opportunity to reduced state costs in a way that does not directly reduce program delivery must be actively explored;
- The costs associated with procurement and supply management are significant areas of the state's administrative cost and represent potentially substantial costs and
- Procurement and supply management represent appropriate opportunities for achieving cost savings through the use of process management specialists in the private sector.

Section 2 – Amends the uncodified law of Alaska by adding a new section that authorizes the Department of Administration to enter into a pilot program under which the department contracts with a person from the private sector to provide for the delivery of procurement services and electronic commerce tools. Further, Section 2 stipulates that this pilot program may not apply to more than two state departments and two other agencies or political subdivisions of the state, and that the program may not exceed three (3) years in length. Lastly, this section provides that procurement conducted under the pilot program is not subject to AS 36.30, the State Procurement Code.

Section 3 – Provides a sunset date for the pilot program of July 1, 2006.

Section 4 – Provides an effective date for the Act of July 1, 2003.

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Information **PRESS RELEASES****U.S. DEPARTMENT OF DEFENSE SELECTS WEBMETHODS
INTEGRATION PLATFORM TO STRENGTHEN ELECTRONIC
PROCUREMENT SYSTEM***Department of Defense EMALL Will Increase Connection to Suppliers and
Marketplaces for a More Robust Procurement Process Using webMethods
Integration Platform*

FAIRFAX, Va. -- January 03, 2002 -- webMethods, Inc. (Nasdaq: WEBM), a leading provider of integration software, today announced that the U.S. Department of Defense (DoD) selected the webMethods integration platform at the end of the Government's recent fiscal year. webMethods will integrate the Department's internal marketplace and procurement system, called EMALL, to other applications required for managing a robust electronic procurement system.

DoD EMALL uses the Internet to give single access to enter and to procure off-the-shelf, finished goods from commercial marketplaces and the government's suppliers, to all of its customers throughout the DoD. By leveraging the simple and universal nature of the Internet, DoD EMALL automates purchasing processes that were paper-based and serial-processing intensive. This strategy enables the DoD to leverage the Department's buying power through volume discounts and streamlines the procurement process for commercial items.

webMethods will further deepen the functionality of the DoD EMALL by providing a common integration platform to connect approximately 30,000 new vendors directly to the user's back-end procurement systems, which will enable a paperless purchasing environment. The DoD will also use the webMethods integration platform to integrate DoD EMALL to major marketplaces, exchanges and suppliers, such as the Ariba® Commerce Services Network™, Exostar and Aeroexchange.

"The webMethods integration platform enriches the functionality of DoD EMALL in a way that was not previously possible," said Don O'Brien, DoD EMALL program manager, Defense Logistics Agency, U.S. Department of Defense. "The goal of the DoD EMALL is to improve material availability and reduce cost for the entire Department. webMethods will be an integral partner, helping the DoD EMALL fulfill that vision."

webMethods has a thriving Public Sector Operations organization with customers throughout the Federal Government and across the country in State and Local Governments. DoD customers include the Army, Navy, Air Force, and other DoD Agencies including: Defense Finance and Accounting Service, and Defense Logistics Agency. Civilian Agency customers include the Department of Transportation, Environmental Protection Agency and General Services

Administration.

"webMethods provides the most comprehensive integration solution for today's government. webMethods offers government agencies the opportunity to automate paper-based business processes without sacrificing security, while increasing flexibility and reliability," said Al Fox, director, Public Sector Operations, webMethods, Inc. "webMethods applauds the innovative vision of the Department of Defense, which leverages the best of today's technology to better serve the members of the Department."

About webMethods, Inc.

webMethods, Inc. (Nasdaq: WEBM - news) is a leading provider of integration software. The webMethods integration platform allows customers to achieve quantifiable R.O.I. by linking business processes, enterprise and legacy applications, databases and workflows both within and across enterprises. By deploying the webMethods integration platform, customers reduce costs, create new revenue opportunities, strengthen relationships with customers, substantially increase supply chain efficiencies and streamline internal business processes.

Founded in 1996, webMethods is headquartered in Fairfax, Va., with offices throughout the U.S., Europe and Asia Pacific. webMethods has more than 750 customers worldwide including Global 2000 leaders such as Citibank, Dell, Eastman Chemical, The Ford Motor Company, Grainger, and Motorola. webMethods' strategic partners include Accenture, AMS, BMC, BroadVision, Cap Gemini Ernst & Young, Deloitte Consulting, EDS, Hewlett-Packard, i2 Technologies, J.D. Edwards, KPMG Consulting, Microsoft, Oracle Corp., SAP AG and Siebel Systems. More information about the company can be found at <http://www.webMethods.com>.

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This press release contains various remarks about the future expectations, plans and prospects of webMethods that constitute forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. The actual results of webMethods may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed under the heading "Factors That May Affect Future Operating Results" in the Business section of webMethods' Form 10-K for the year ended March 31, 2001 and in the Management's Discussion and Analysis section of webMethods' Form 10-Q for the quarter ended September 30, 2001, both of which are on file with the U.S. Securities and Exchange Commission. webMethods disclaims any obligation to update or correct any forward-looking statements made herein due to the occurrence of events after the issuance of this press release.

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Department of Information Resources

Assessment of the General Services Commission's Electronic Procurement Project

August 30, 2001

Contents

Executive Summary
Purpose
Background
Project Status
Model Texas Electronic Procurement Environment
Project Strengths and Issues
Next Steps
Appendix A: Texas EP Project Chronology
Appendix B: Pilot User Feedback Details
Notes

Executive Summary

In 1997, the 75th Legislature passed Senate Bill 820 charging the General Services Commission (GSC) to implement an electronic procurement (EP) system for use by all state agencies. In February 2000, GSC awarded a contract to Syscom, Inc., to develop and operate a pilot EP system that would be funded through user subscription and transaction fees. After successful testing in April 2000, GSC encouraged state agencies and political subdivisions to participate in the pilot. Several hundred transactions have been made through the pilot system to date.

During 2000, the Sunset Commission's report on GSC and the Comptroller's e-Texas Report¹ addressed the EP project. While both reports supported electronic procurement and acknowledged progress made by GSC, they identified a number of issues and made recommendations.

In May 2001, the 77th Legislature passed Senate Bill 311, which included several directives concerning electronic procurement.² These directives were based largely on input from the Sunset Commission and the Comptroller. Most significantly, the legislation assigned responsibility to the Department of Information Resources (DIR) to establish and manage the electronic infrastructure of the EP system. Upon passage of Senate Bill 311, DIR immediately began an assessment of the current electronic procurement project and the EP pilot system. This report is the product of that assessment.

DIR finds that, while much progress has been made in the EP project to date and the pilot EP system meets most of the basic procurement requirements, a number of issues must be addressed and resolved before a fully functional Texas EP system can be achieved. In order to advance, it is critical to bring sound project management principles and active stakeholder involvement into the project. The most critical issues are:

- There is no formal definition of project requirements.
- The pilot system does not interface to agency accounting systems.
- The data warehouse component has not been designed.
- The cost recovery model may not generate sufficient revenue.

- Performance and change management standards have not been set.
- The Web site does not comply with state standards.

DIR has identified two major steps needed to successfully complete the EP project: (1) conduct a formal requirements analysis with full input from all project stakeholders, and (2) based on the requirements analysis and addressing the issues identified in this assessment, issue a Request for Offer for development and implementation of a fully functional Texas EP system.

DIR looks forward to working in close partnership with GSC and its successor agency, the Texas Building and Procurement Commission, to develop, implement, and manage a highly successful electronic procurement system for Texas.

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Purpose

The purpose of this report is to summarize the results of a high-level assessment of the Texas Electronic Procurement project. This project has been managed by the General Services Commission since its inception in 1997. In passing Senate Bill 311, the 77th Legislature transferred responsibility for development and management of the technical infrastructure for the state electronic procurement system to the Department of Information Resources, effective October 1, 2001. DIR began its assessment of the EP project in May 2001 as the first step in assuming this responsibility and in order to ensure that no time will be lost in meeting the mandates of the legislation.

DIR recognizes that development of an electronic procurement system shared by hundreds of state agencies and other public sector entities is a very complex undertaking (as DIR's research with other states and industry experts has indicated), involving a wide range of stakeholders and impacting the procurement of goods and services in the state. This initial assessment is a crucial first step in that undertaking.

Although this report addresses some requirements for a Texas EP system, it is important to note that it does not constitute a formal requirements definition. Similarly, although this report identifies some issues with the current EP project, it is not a project audit.

DIR looks forward to working in close partnership with GSC and its successor agency, the Texas Building and Procurement Commission, to develop, implement, and manage a highly successful EP system for Texas.

Organization. This report begins with a background of the electronic procurement project followed by the current project status. Next is a description of a model Texas electronic procurement environment that would meet the Legislature's requirements. The next section describes strengths and issues of GSC's EP project identified by based on its limited research. After drawing conclusions on these strengths and issues, this report suggests the next steps for DIR and GSC to advance the project to a successful conclusion.

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Background

In 1997, the 75th Legislature passed Senate Bill 820, charging GSC to implement an electronic procurement system for use by all state agencies. In order to get input, GSC formed the Texas Government to Business (TxG2B) Coordinating Council to oversee the state's efforts to develop this system. As a result of TxG2B recommendations, GSC contracted with Phoenix Planning & Evaluation, Ltd. to conduct a feasibility study of statewide implementation of electronic procurement. The resulting feasibility report, issued in May 1998, included

the following recommendations:

- Establish an Electronic Commerce Project Management Office to coordinate the EP initiative.
- Migrate the state's procurement system to the Internet.
- Reduce procurement approval processes and automate when possible.
- Survey vendors to determine the most effective means of communication between agencies and vendors.

In October 1999, based on input from TxG2B, GSC issued a Request for Offer (RFO) to establish an efficient, cost-effective, Internet-based electronic commerce pilot program for Texas.³ In February 2000, GSC awarded the contract to Syscom, Inc. The initial contract period was through August 2000, with options to extend the contract for up to four one-year periods. The only income to be collected by Syscom under this contract would be EP system subscription and transaction fees charged to agencies and vendors.

Syscom's approach was to expand its existing electronic procurement system under development for the State of Maine. In April 2000, Syscom demonstrated the ability of its system, called PublicBuy, to conduct Texas procurement transactions (term contract orders and bid solicitations). GSC worked with several agencies who began using the system on a pilot basis. In the fall of 2000, GSC began conducting sessions to familiarize vendors with the EP system.

Reviews initiated during 2000 by both the Sunset Commission and the Comptroller referred to the EP project. Contents of the resulting reports that relate to electronic procurement are summarized below.

Sunset Report. The Sunset Commission issued a report on GSC in October 2000. The report addressed the EP implementation effort and found that GSC was meeting the Legislature's requirements. However, the report identified several issues which, if not resolved, would prevent statewide EP implementation. These included:

- The EP system cannot fully interface with many agencies' financial systems.
- Costs of the transaction fees have not been calculated and could result in increased costs for agencies and vendors.
- The requirement for all agencies to participate is not clearly defined in the statute.

e-Texas Report. The e-Texas Report released by the Comptroller in December 2000 devoted an entire section to Internet-based electronic procurement. This report strongly encouraged Texas EP implementation as a means to save money by improving the state's procurement processes and by ensuring that the state gets the best prices for the goods and services it procures. However, the report warned that the design and implementation of such a system could be an expensive and complex endeavor costing up to \$10 million. The report stressed that a high degree of interagency coordination would be needed, given the decentralized nature of Texas government, the widely divergent needs of its agencies, and the many legacy systems involved. The rapid pace of technology requires that any electronic procurement system must be scalable; that is, able to evolve and grow.

The Comptroller hired a consultant, Booz Allen & Hamilton, to evaluate the TxG2B pilot system in June 2000. Based on the consultant's report, the e-Texas Report characterized the EP project as a well-intentioned, but unfunded, effort without the mandate or executive sponsorship needed to drive process improvements to maximize benefits available from the technologies. Nevertheless, the report stated that considerable accomplishments have been made, and suggested that much of this work will have value beyond the pilot test phase.

The e-Texas Report warned that there are significant risks inherent in such a project and advised that best practices and lessons learned from previous projects be rigorously applied. Finally, the report stressed the need for strong leadership and executive commitment to electronic procurement, including business process reengineering and the elimination of regulatory impediments.

The Comptroller made the following recommendations concerning electronic procurement in the e-Texas Report:

- DIR should work with GSC and other agencies to establish a flexible EP system, linked to TexasOnline, that could be accessed by state and local agencies, including school districts.

- The DIR Program Management Office should consult regularly with TxG2B, the Comptroller, the State Auditor, GSC's Vendor Advisory Committee, and representatives from small, medium, and large state agencies, local governments, and school districts.

Senate Bill 311. In May 2001, the 77th Legislature passed Senate Bill 311, the GSC Sunset Bill. This bill, which abolishes GSC and creates the Texas Building and Procurement Commission (TBPC), includes several directives concerning electronic procurement. These directives, which largely reflect recommendations made in the Sunset and e-Texas Reports, partially include:

- All functions and activities related to the establishment and management of the electronic infrastructure of the electronic procurement marketplace and the electronic commerce network⁴ are transferred to DIR, effective October 1, 2001.
- Small and historically underutilized businesses shall have maximum access to electronic commerce opportunities.
- DIR shall assess whether all or part of the EP system should interface with TexasOnline.
- DIR and TBPC shall adopt standards and rules for use of the EP system. DIR is responsible for the technical infrastructure, while TBPC is responsible for the intended use of the EP system.
- TBPC shall integrate the Texas Department of Economic Development's Texas Marketplace, also called the Electronic State Business Daily, into the EP system.
- All state agencies, with certain exceptions, shall use the EP system.
- DIR shall charge a cost-recovery fee to agencies, political subdivisions, and private businesses for electronic procurement network services provided by DIR or a contractor.

Senate Bill 1458. In May 2001, the 77th Legislature passed Senate Bill 1458,⁵ which included a provision exempting Texas higher education institutions from the requirement to participate in the EP system.

EP Project Chronology. Appendix A provides a more detailed chronology of events related to the EP project.

DIR Assessment. Upon passage of Senate Bill 311, DIR immediately began an assessment of the EP project and the pilot EP system. This report is the product of that assessment effort.

DIR used a number of sources in conducting the assessment, including legislation, procurement statutes, and EP project documentation. DIR also studied numerous reports written by electronic commerce market analysts (Gartner Group, Giga Information Group, META Group). The Comptroller's e-Texas Report and the Sunset Commission's GSC report were valuable resources. DIR also reviewed the two most recent State Auditor's Office (SAO) management control audits on GSC.

DIR interviewed many people in person or by telephone during the assessment. State agencies included the General Services Commission, Comptroller of Public Accounts, State Auditor's Office, and the Legislative Budget Board. Pilot contractors included Syscom and its partners, SiCommNet and iNetPurchasing. Electronic Commerce market analysts included Gartner, Giga and META. Pilot system users included DIR, GSC, the Texas Department of Transportation, and Killeen Independent School District. EP contacts from other states included Michigan, Maine, Massachusetts, Florida, and Jackson County, Missouri. The Department of Information Resources thanks all these organizations and individuals for their valuable input.

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Project Status

This section describes the electronic procurement project resources and Syscom, Inc., the company that holds the pilot contract. Next is a summary of pilot system usage and feedback from some of the users. Finally, this section addresses current EP project development activities and plans.

PROJECT RESOURCES

One person in GSC's Central Procurement Division serves as the project manager and pilot contract manager. There is no dedicated budget for the EP project. The pilot has been operating since April 2000. Several agencies have piloted the EP system, as identified in Pilot System Usage.

Included in the pilot contract between GSC and Syscom is a statement by Syscom that the project would need certain minimum resources from the state to assist in the design and implementation of an electronic procurement system. These minimum resources included a total of four full-time equivalent staff in the areas of procurement, vendor relations, and project management. In addition, Syscom estimated that each agency implementing electronic procurement would need to expend approximately 320 hours of system administration for training and setup in the first two months.

PILOT CONTRACTOR

Founded in 1982, Syscom is a privately-held information technology corporation that has supplied systems development, systems management services, and software solutions for international corporations and governmental entities. Syscom serves as the systems integrator for the Texas EP pilot project.

Syscom partners with two companies in the development of the EP system: SiCommNet and iNetPurchasing. Together these companies provide an Internet-based, interactive competitive bidding system and electronic term catalog system known as PublicBuy.net (or PublicBuy). SiCommNet developed BASEC (Buying and Selling by Electronic Commerce), the electronic bidding component of the EP system. The electronic term contract (e-catalog) component was developed by iNetPurchasing.

SiCommNet is the nation's first multiple-agency-capable Internet commerce site with an automated requisition and procurement system for use in a competitive procurement process. SiCommNet markets the system to both public and private entities. The BASEC system is intended to eliminate government's burden of having to acquire and maintain its own hardware and software, while also eliminating 40% to 60% of the direct labor involved in the procurement process.⁶

iNetPurchasing assists state and local governments in reengineering and reforming their procurement systems by providing automated electronic commerce purchasing services. iNetPurchasing began in 1995 as Electronic Commerce and Catalog Services. A Baltimore-based firm restructured the corporation and merged it into the present iNetPurchasing, Inc.

The states currently using or piloting the PublicBuy system are Texas, Maine, and Idaho. Syscom is also implementing the e-procurement solution in Jackson County, Missouri.

PILOT SYSTEM USAGE

To DIR's knowledge, no Texas agency or local cooperative is currently using both the e-catalog and the bidding components of PublicBuy. Usage information follows for each of these components.

E-catalog. Syscom reports that 129 organizations, primarily cooperatives, have been trained on the e-catalog component. (Cooperatives are political subdivisions, often school districts, that are allowed to procure goods and services under state term contracts.) From April 3, 2000 to August 2, 2001, two state agencies (CPA and GSC) and 19 cooperatives have made orders using the e-catalog component. These 21 organizations have initiated 283 purchase orders through PublicBuy. The dollar amount of these purchase orders totals \$632,000.⁷ Most or all of these purchases are for items under state term contracts.

Bid/response. The only Texas entities that have piloted the bid/response component are the Texas Department of Transportation (TxDOT), GSC, and DIR, although only DIR is currently using it. According to Syscom, these three agencies have generated 35 transactions with a total dollar value of \$143,670.

PILOT USER FEEDBACK

DIR interviewed pilot users from Killeen ISD, TxDOT, GSC, and DIR. In general, these four organizations support the concept of electronic procurement and the PublicBuy system. However, problems in implementation have hindered effective use of the system. Appendix B provides more details on user feedback.

DEVELOPMENT ACTIVITIES

GSC and Syscom are continuing development toward the goal of implementing an operational EP system for Texas using PublicBuy.

Change management. Syscom's business approach is to develop a single government EP application that can be shared across governments. Syscom receives requests from its users for software fixes and enhancements and prioritizes them by severity and number of user requests. Both GSC and Syscom maintain a list of necessary and desired changes for PublicBuy. However, there are no criteria in place for change management, which GSC has no control over the priority of changes and may not even be notified when changes are made.

Accounting interface. Input from the Comptroller's e-Texas Report and from agency feedback at a briefing presented by GSC in January 2001 strongly indicated the need for the EP project to take into account how agencies would interface the EP system to their accounting systems. This is necessary for fund encumbrance and vendor payment. GSC and Syscom have responded by devoting more attention to this critical area.

Texas agencies employ a wide variety of software packages to support their accounting functions, and even agencies that use the same package often have unique, customized versions. Agencies also differ in how their procurement and accounting functions interact—from manual data entry to batch processes to sophisticated real-time integration. Implementing a single EP system that will interface to all these environments is a daunting task.

To better understand what is needed, GSC is developing an interface from PublicBuy to its own accounting system, GFAS. First, GSC contracted with Syscom to add the capability within PublicBuy to generate a digital dataset for each agency daily. This dataset contains all the information recorded by PublicBuy for each transaction made by the agency on that day. GSC then contracted with the company that runs GFAS to develop, at a cost of approximately \$40,000, a procurement module within GFAS to input PublicBuy data, as well as information entered manually for non-EP procurements, into accounting. GSC is currently testing the interface.

The daily transaction file that PublicBuy can now produce is a key to how each agency will interface to its own systems. But the cost and time to develop, test, and implement these interfaces must be taken into account. Over 100 agencies use the Comptroller's Uniform Statewide Accounting System (USAS) internally, so a USAS interface is a high priority. GSC reports that it is working on a pilot relationship with the Texas Natural Resource Conservation Commission (TNRCC), which uses USAS, to develop this interface. How portable the interface will be to the other USAS agencies is uncertain. Similarly, it is desired that one interface can be developed to the Integrated Statewide Administrative System (ISAS) that will be usable by all ISAS agencies.

TxDOT, which is moving forward aggressively to implement the bid/response component of PublicBuy, has chosen to contract with Syscom to develop a custom data structure that will load directly into its accounting system.

Implementation Plan. GSC does not have a formal plan or timeline to complete the pilot phase or to implement an operational Texas EP system. In addition to further technical development, rulemaking will be needed to clarify and codify the requirement that state agencies must participate in the system.

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Model Texas Electronic Procurement Environment

Electronic procurement systems vary widely in scope and target business environments. This section describes, at a high level, the scope required of a Texas EP system, based on legislation and the existing state business environment. A short market analysis is also included to provide relevant information about the general EP market and the experience of other states implementing electronic procurement. Information provided in this section is a basis for the identification of current EP project strengths and issues presented in the next section.

Except in some specific vertical markets, EP systems today are Internet-based and utilize Web browser and e-mail technologies. EP systems typically contain tools that in some way support these basic procurement tasks:

Buyer Tasks

- shopping
- ordering
- receiving
- paying

Vendor Tasks

- posting online catalog
- receiving order
- invoicing
- receiving payment

In 2001, the 77th Legislature mandated that GSC/TBPC and DIR implement an electronic procurement system for use by all state agencies that is Web-based, and that provides tools that support basic agency and vendor procurement tasks. Reviewing the legislation, and taking into account the need to fit in the state's existing business environment, DIR has compiled this basic, but non-exhaustive, list of features that must be supported by a Texas EP system:

- Compliance with state procurement statutes and policies
- Full participation by a wide variety of state agencies and other public sector entities
- Vendor registration/qualification
- Full access by any qualified vendor who wants to do business with the state
- Support for vendors who do not use the Internet and/or e-mail
- Fair, competitive bidding
- Statewide term contracts to leverage the buying power of each buying entity
- Approval processes for requisition, purchase order, and payment
- Audit trails
- Daily public posting of state bidding opportunities (even if the solicitation is not being conducted through the EP system)
- Compliance with state Web site standards
- Interface to agency accounting systems
- Central purchasing data repository to support statewide queries and reports
- High performance, reliability, security, and scalability

For the purpose of this assessment, the conceptual model shown in Figure 1 suggests the basic components and interfaces that an operational Texas EP system must support. Each component is described in the text following the diagram.

Figure 1. Texas EP System Conceptual Model

Manage profile. Each participating buying entity and vendor must have the ability to register themselves and establish and maintain a detailed profile in the system. On the vendor side, this is roughly equivalent to the Centralized Master Bidder List (CMBL).

Shop catalogs & term contracts. Catalog shopping theoretically allows an agency to electronically search for a particular good or service across many vendors and then make the best purchase decision. This wide-open

method of shopping on the Internet is not yet a reality, due partly to the lack of electronic catalog standards and the perceived complexity of vendors maintaining their catalogs online. However, the catalog shopping model is an ideal way to support purchasing of items that are on state term contracts. The term contracts constitute a "catalog" that agencies can easily search by item code or keyword to locate the goods or services they need and to determine the cost.

Process requisition. An agency employee can quickly locate a needed item under contract and generate an electronic requisition form with description, price, vendor, and agency information filled out. A link to the form is automatically routed via e-mail to appropriate staff for approval and then to purchasing staff for further processing.

Process bid solicitation, process bid response. If the purchaser determines that the item being requested is appropriate for competitive bidding, the purchaser uses the bid solicitation tool to generate an electronic bid solicitation document with appropriate attachments. The EP system automatically notifies, via e-mail or fax, all registered vendors with a class/item code that corresponds to the good or service needed. Vendors have a specific amount of time to submit a bid; they are encouraged to bid electronically via the EP system. The solicitation is also posted on a public Web page so that non-registered vendors have the opportunity to bid (see Review Business Opportunities). At the specified date and time, the EP system releases bids to the purchaser for possible award.

Process purchase order, process invoice. Given an approved requisition for items under term contract (or other non-competitive bid items), or an acceptable best bid following a bid solicitation, the purchaser uses the system to generate an electronic purchase order. Once submitted, the system immediately notifies the vendor. The vendor can use the system to invoice the buying agency.

Process receipt. The system generates a receipt document that is routed to the appropriate parties to verify that the item was received and that it is acceptable. Once receipt is complete, the system performs a three-way match of the requisition, purchase order, and receipt. This match is legally required before the agency can process payment to the vendor.

Download transaction data, process encumbrance/payment. Before issuing the purchase order, the agency must encumber the dollar amount from the appropriate fund. This involves processing in the agency's accounting system, which in turn triggers a process in the state's central ledger system, USAS. Similarly, payment is processed in the agency accounting system, which triggers a payment request in USAS, resulting in the Comptroller issuing a payment to the vendor. While some agencies have their current procurement process electronically interfaced to their accounting system, most do not. In either case, procurement must flow into the accounting system. It is critical that the EP system provide each agency, on at least a daily basis, an electronic containing all the information about that day's transactions required to go into the agency accounting system in order to encumber funds and issue payment requests.

Generate reports. Each agency needs the ability to generate transaction activity reports from the EP system. In addition, GSC must be able to use the system to generate specialized statewide reports required by the Legislature. This will require a central repository or "data warehouse" of all procurement data, probably housed at GSC.

Manage term contracts. The system must allow GSC to add, modify, and remove term contracts. In addition, GSC should be able to analyze EP system data to identify opportunities to decrease expenditures by pursuing new term contracts.

Manage catalog. Initially, the catalog shopping component of the EP system will primarily support state term contract ordering. Eventually, some vendors should be able to post and update their complete catalogs on the system.

Review business opportunities. Currently, the Texas Department of Economic Development maintains the Texas Marketplace, a public Web site that state agencies must use to post notices of any bid solicitations. Any vendor can use this Web site to review opportunities to bid. Senate Bill 311 transfers this responsibility to GSC and requires that it be integrated into the EP system.

MARKET ANALYSIS

Electronic procurement is still relatively new in both the private and the public sectors. Some view EP narrowly as a collection of software tools used by purchasers and vendors. Others view EP more broadly as an end-to-end solution that integrates and streamlines many business functions throughout the organization. Although the term "end-to-end EP" is common, industry analysts report that this ideal model is rarely achieved.

EP Projects in Other States. Typically, the business environment of a state is less centralized or homogeneous than that of a private business. This makes EP deployment even more of a challenge for states, so it is not surprising that they are lagging the private sector in this area. However, according to the Gartner Group, the past 18 months have seen the rapid deployment of EP solutions, as well as the establishment of new EP initiatives. Gartner estimates that 12 to 15 states have EP projects under way. These include Maryland, Washington, Massachusetts, and Texas. Another 12 to 15 states have just begun EP projects. These include Florida, New York, and Ohio. Other states, including Wyoming, have indicated that online procurement initiatives will likely be pursued with in-house resources.⁸

Several states have reported disappointing results with pilot programs. One problem is the level of buy-in by agencies and vendors. Only one state, Virginia, reports significant participation of both agencies and vendors. Virginia Legislature has mandated rapid agency EP implementation, and Virginia has an advantage over Texas in that its government is more centralized. Another problem is that companies selling EP solutions have over-hyped the cost-saving benefits.

No state fully integrates its EP processes with its financial processes. Industry analysts report that commercial enterprises are also in the early stages of integrating EP with other accounting, control, and strategic planning functions.

Thus it appears that Texas is probably in the middle of the pack regarding electronic procurement. It also seems that a quick return on investment, or rapid cost savings are not likely to materialize.

EP Vendors. Giga Information Group recently produced the following list of general purpose EP vendors and system integrators.⁹ Not all vendors with electronic procurement systems are included in the list. Giga does not track Syscom due to its small size. This is also the case with other companies that track the EP market.

Large EP Vendors	<ul style="list-style-type: none"> • Ariba • ASP • Commerce One 	<ul style="list-style-type: none"> • I2/Rightworks • Oracle • PeopleSoft
Medium EP Vendors	<ul style="list-style-type: none"> • MRO Software • J.D. Edwards • Lawson 	<ul style="list-style-type: none"> • Baan • Clarus • iPlanet
Small EP Vendors	<ul style="list-style-type: none"> • eicom • ICG Commerce • SupplyCore 	<ul style="list-style-type: none"> • PurchasePro • Works.com • MarketMile
EP Systems Integrators	<ul style="list-style-type: none"> • KPMG • SAIC 	<ul style="list-style-type: none"> • AMS • Accenture

Even though the EP market is quite young, it is already undergoing consolidation. Ariba is now viewed as one casually that may be procured by a larger vendor or partner such as IBM. Metiom, a partner with SAIC in Maryland's EP system, has declared Chapter 11 bankruptcy, although Maryland's site is still functioning.

One prominent partnership that specializes in the government sector is BuySense.com, a joint venture between American Management Systems and procurement software provider, Ariba. The partnership provides a hosted,

"application service provider" approach similar to Syscom's, but focusing primarily on the top 250 state and local governments and higher education institutions.

Funding an EP Project. Industry analysts indicate that payback for EP systems is turning out to be much slower than proponents advertised; payback should not be expected until the fifth year. The long lead time before a positive cash flow occurs is the main reason analysts are predicting the demise of the fee-based, cost-recovery structure. However, a report by the National Electronic Commerce Coordinating Council (NECCC) on funding EP acquisition indicates that states are not abandoning the self-funding approach at this time, but may be it with various other funding options.¹⁰

Most industry analysts consulted for this report were of the opinion that exclusively fee-based cost recovery would not work as a long-range funding model.¹¹ Feedback from interviews with Michigan, Maine, and Texas suppliers indicate dissatisfaction with paying an additional cost for a service that is perceived primarily to benefit the state. However, Michigan's director of purchasing pointed out that electronic communications eliminate many sources of error on the suppliers' end, and this very likely offsets any fees a state may impose.

According to the NECCC report, few states use an exclusively fee-based approach. Most employ a hybrid funding model in which the state may contribute seed capital, or agencies may pay subscription fees, or participate in similar ways.

The most effective way to reduce funding requirements is to limit the scope of the project or phase in the project over a period of time. For instance, real-time integration with accounting systems represents a huge cost. If this feature is phased in over time, agencies integrating later in the process can build on experiences and designs of early adopters.

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Project Strengths and Issues

This section presents strengths and issues identified by DIR based on limited research performed during the EP project assessment period. This research included interviews with pilot EP system users from TxDOT, GSC, DIR and Killeen ISD.

PROJECT STRENGTHS

The primary strengths of the pilot project are that it satisfies the needs of its primary constituency, agency purchasers. It also requires very few IT resources to implement.

- **The contractor understands public sector procurement.** The partnership behind PublicBuy includes three members with extensive background in public sector procurement. This is an important element of their strategy because nearly all states share the same basic procurement code sponsored by the National Institute of Government Purchasers (NIGP). This code can be procured from NIGP at:

<http://www.nigp.org/press/020101RevCode.htm>

- **Basic procurement functionalities are met.** The marketing strategy of the partnership has been to pursue government markets exclusively. Hence they ensured that the government procurement rules were met. Industry analysts note that e-procurement products in general "...are maturing, but still in the early stages of functionality development for government."¹² Interviews with vendors of current products, as well as states that have implemented electronic procurement, indicate that current commercial offerings must be heavily tailored to meet the demands of government procurement.

As described in the Project Status section, several agencies and political jurisdictions are successfully using PublicBuy to process real transactions (requisitions and purchase orders).

- **Syscom's EP tools can be implemented easily by agencies.** Part of the marketing focus was to create a system in which purchasing users can be quickly trained. For the most part, this objective seems to have been met. The vendor has well-designed, paper-based training materials for users, as well as hands-on training classes for both users and administrators.

Typical training for a purchaser takes about four hours for the catalog system and 2.5 days for creating a bid solicitation. System administrator training takes about two days. This does not appear to be excessive in the industry. Similar systems that require workflow administration often require as much as a week of training for administrators.

A key aspect of the system is that agencies do not host their own servers. Thus users need only an Internet browser. Aside from supporting a browser and some slight increase in network traffic, agency IT departments are not affected.

- **Agency pilot users have endorsed the system.** No agency is using both parts of the product. However, current users and procurement officers who have reviewed the entire product voice support for it. This includes some users who have been through several demonstrations of competing products. The primary reason that purchasers give for liking the product is the way it handles the idiosyncrasies of government procurement.

PROJECT ISSUES

The assessment team identified a number of issues relating to the EP project management, design, and pilot implementation. Issues will arise in any effort as large and complex as implementing electronic procurement for the State of Texas. Identification and resolution of these issues are critical to successful project completion.

- **Project requirements have not been clearly defined.** One of the earliest products of a project such as this should be a requirements document that clearly defines the scope of the project and of the final product. This document, approved by the project sponsor and communicated to all stakeholders, provides the bedrock for subsequent project activities and ensures that the project does not deviate from its original requirements without a formal change process.
- **Stakeholder involvement has been insufficient.** After a good start, the role of the TxG2B Coordinating Council has diminished. Active involvement by all classes of stakeholders is essential for project success. Stakeholders need to be able to monitor project progress and have input at all stages of system design and implementation. This ensures that the resulting EP system will meet their needs, and it improves user buy-in.

Who are the project stakeholders? Since all state agencies (except higher education) will be required to use the EP system, all are stakeholders. Specifically, agency executive directors, purchasing directors, financial officers, and information resources managers need to be informed about the project, have input to the project, and plan in advance for changes that will be needed to accommodate the EP usage requirement. Every vendor that sells goods and services to the state is a stakeholder. EP will have a significant impact on how vendors do business with the state. The system has been mandated to allow maximum participation by small and historically underutilized businesses, so it is essential to receive their input during EP system design. Because of their particular duties, the Comptroller and the State Auditor are a special class of stakeholders; it is imperative that EP system design and implementation have their approval. Finally, the Legislature, which mandated the establishment of a Texas EP system, is certainly a stakeholder in this project, as are the tax-paying citizens of Texas.

- **Standard project management principles have not been followed.** It is critical that a large, complex information technology (IT) project such as an EP system follow proven principles of project management. Adherence to these principles ensures that the product will satisfy requirements and that optimum choices are made between trade-off factors such as scope, time, cost, risk, and quality. One of the first steps for an organization starting such a project should be to adopt a specific IT project management methodology and to acquaint all project participants with it.

GSC has not applied a clear set of project management principles to the EP project. One missing component, a requirements definition, has already been identified. Other critical components that have not been formally addressed include identification of a project sponsor, documented project plan, identification of deliverables, risk analysis, implementation strategy, business continuity/disaster recovery planning, change control process, and task scheduling.

- **Insufficient staff and funding have been committed to the project.** The 75th Legislature called on GSC to implement an EP system for Texas, but no funds were appropriated specifically for this purpose. The theory was that the system could be self-funded through small transaction fees. These fees may provide sufficient revenue to cover the EP system's ongoing operating expenses. However, a project of this magnitude requires significant up-front resources for development and implementation.¹³ GSC has been able to direct only a small amount of staff and funds to the EP project. GSC requested, but did not receive, additional funding for EP in its 2000-2001 Legislative Appropriations Request; no additional funding was sought for 2002-2003.
- **The system may not be viable outside the hands of the pilot contractor.** PublicBuy consists of three separate databases, designed, managed, and hosted by three separate companies. Policies and procedures exist for version control, and for data and program backups. However, if any of these companies were to go out of business or abandon the project for any reason, it is not clear that Texas would be able to use the escrowed code and data backups to reconstitute and operate PublicBuy's complex hardware and software environment. No disaster recovery and business continuity plans exist at GSC for this project.
- **The system does not interface to agency accounting systems.** The lack of an interface to agency accounting systems is the largest barrier to statewide use of the EP system. The Comptroller's e-Texas Report states that interfaces must be developed to integrate existing state computer systems and that the EP system needs to be compatible with TexasOnline.¹⁴ In an interview, SAO stated that an EP system that does not provide an electronic accounting interface would be a step backward for some agencies that already have their purchasing functions electronically linked to their accounting systems.¹⁵
- **The project has not been monitored by the Quality Assurance Team.** Due to the significance of this project and the impact it will eventually have on all state agencies, DIR feels that this project should be monitored by the Quality Assurance Team. External quality assurance review can help minimize risks and ensure a successful project outcome.
- **The data warehouse component has not been fully designed.** The data warehouse, a central repository of all procurement transactions processed by the EP system, was not part of the original project. The concept evolved as a way to help interface the procurement system with existing accounting applications, and to support statewide queries, analysis, and reports.

Without statewide data and reporting, the state lacks basic information needed to evaluate vendor performance and negotiate better term contracts to take full advantage of volume buying to obtain lower prices. The State Auditor's Office emphasized these needs in GSC management control audits released in 1997¹⁶ and 1999.¹⁷

- **The proposed cost recovery model may not generate sufficient revenue to sustain the system.** Industry analysts believe that the self-funding model may collapse during 2001. Some even assert that the volume of transactions alone will never be able to fund EP systems. However, analysts offer no alternative funding schemes. A survey by NECCC found that states tend to favor self-funding.

Part of the difficulty in determining fees for such an approach is developing cost estimates that indicate where savings result from efficiencies of electronic procurement. Washington developed a business model

based on extensive analysis of procurement workflow, and reported that the model accurately predicted the system costs.

The NECCC report also noted many areas in which requirements must be carefully specified because of their impacts on the cost model. At this point, so few requirements have been finalized for the Texas project that any cost recovery models are tentative at best.

- **Procurement tools are not fully integrated.** The pilot EP system is composed of two essentially unconnected subsystems, one handling term contract purchases and the other handling solicitation (bid/response) purchases. Each of these subsystems has its own user interface and database. Common components of these two purchase options, including requisitions, purchase orders, buyer information, vendor information, and approval workflows, are separately implemented in the two subsystems. Data from these two systems is merged through a third "integration database" on a daily basis.

Syscom's response to GSC's Request for Offer for a pilot program proposed a solution "that can integrate the components of an electronic catalog system with those of the electronic competitive bidding model." The current pilot system does not fit this description. Agencies have to load and maintain detailed buyer profile information in two different formats. Also, the person creating a requisition has to know which is the appropriate buy type (catalog or bid/response) and access the corresponding requisition tool. The purchaser may have to cancel the requisition and regenerate it from scratch using the other buy type.

- **Performance and change management standards have not been set.** When fully implemented, a Texas EP system will be required to support a huge volume of data traffic, and agencies will depend on the system to support mission-critical functions. It is essential that the EP system be designed, implemented, and managed according to a defined set of performance and change management standards to ensure acceptable levels of reliability, response time, security, and scalability.

The importance of scalable design must be emphasized. The current pilot system often requires negotiation by telephone between the pilot contractor and vendors to complete a transaction. While frequent human intervention may be acceptable in a pilot test, it would be unworkable in a fully operational EP system processing thousands of transactions daily.

- **The Web site does not comply with state Web standards.** The administrative rule on state Web sites outlines the standards that all state Web sites must follow.¹⁸ The EP system home page address:

<http://www.st.tx.publicbuy.net/home/>

does not follow the state protocol. Other examples of non-compliance are the use of frames, the lack of "alt tags" providing text descriptions of graphic images, the lack of a privacy policy, and the lack of links to the State of Texas home page and statewide search. The site should comply with the standards because it serves a primary point of business with the State of Texas and state employees will be using the site for procurement purposes.

A related issue is that the Web site lacks a consistent "look and feel." The pages should be designed so that buyers and sellers can quickly become familiar with the site, can easily navigate through the various pages, and can access general information about Texas procurement rules and procedures. The ability to go "back" to the previous step is an important user feature that is not always available.

- **The EP system is not customized to users' operational needs.** An example of a real-world operational need is editing a purchase order. Often a purchaser needs to add or drop an item; change a description, quantity, or price; or change the shipping address on a purchase order (PO). The current EP system does not allow a PO to be edited; the purchaser must cancel the purchase order and start a new one.

- **Procedural errors and exceptions are not handled well.** If not detected, a fault or inaction in the e-procurement process can lead to a significant delay. For instance, some vendors don't receive notification of a purchase order because their e-mail address on the CMBL is incorrect. The system lacks a mechanism to detect and respond to this situation (such as looking for an "undeliverable e-mail" reply message and forwarding it to the originating agency). Additionally, some vendors may not read the e-mail message informing them of a purchase order. The system lacks a mechanism to inform the originating agency that the vendor has not accessed the electronic purchase order within a certain amount of time. Finally, some users have reported delays due to poor technical support response from GSC and Syscom staff.
- **The system is not accessible to the public.** Legislation requires that the Texas Marketplace be integrated within the EP system. However, the pilot system can only be accessed by registered buyers and sellers. The Texas Marketplace is intended to inform the public about all opportunities to bid for state business. In addition, it may be the Legislature's intent that agency spending information be more accessible to the public.

CONCLUSIONS

While much progress has been made in the EP project to date and the pilot EP system meets most of the basic procurement requirements, a number of issues must be addressed and resolved before a fully functional Texas EP system can be achieved. In order to advance, it is critical to bring sound project management principles and active stakeholder involvement into the project. The most critical issues identified in DIR's initial assessment are:

- There is no formal definition of project requirements.
- The pilot system does not interface to agency accounting systems.
- The data warehouse component has not been designed.
- The cost recovery model may not generate sufficient revenue.
- Performance and change management standards have not been set.
- The Web site does not comply with state standards.

In addition to these issues, recent technology advances and volatility in the electronic procurement market are significant factors that must be taken into account. Selection of the best contractor to develop and implement a fully functional Texas EP system will only be possible after the state clearly defines its requirements and implementation strategy.

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Next Steps

The assessment team found both strengths and issues with the current management of the EP project and the pilot EP system itself. This final section outlines the next steps needed to successfully complete the project and to achieve the practical and widespread use of electronic procurement by both state governmental entities and vendors.

Develop a partnership between DIR and GSC/TBPC. DIR and GSC/TBPC must work in close partnership to ensure a successful pilot outcome. The technical expertise of DIR combined with GSC/TBPC's knowledge of the functional needs of a procurement system will be an excellent match to making Texas EP a success.

Sign an interagency contract with GSC for EP. Senate Bill 311 requires DIR to establish and manage the electronic infrastructure of the EP system as of October 1, 2001. The bill requires that an interagency contract be signed before October 1, 2001. Terms of this contract should include all resources that will be shared by both DIR and GSC during the development and implementation of the EP system.

Extend the pilot contract. The contract with Syscom should be extended for one year in order to finish the pilot

with TxDOT, GSC, DIR, and the local cooperatives. An extension of the contract will also give vendors, including Syscom, time to mature in providing the necessary components that Texas needs in an EP system. The contract extension should address (1) resolution of the issues identified in this assessment, and (2) the ability to conclude the pilot prior to the end of the one-year extension.

Reconvene and expand TxG2B Coordinating Council. TxG2B is currently inactive. In a project like electronic procurement that will affect every state agency, a group of stakeholders needs to meet regularly to provide guidance and to monitor progress. A strategy meeting should be scheduled in September 2001 to discuss the direction of electronic procurement and the roles and responsibilities of the Council, GSC/TBPC, and DIR. TxG2B needs the involvement of agency executive directors, information resources managers, chief purchasers, and chief financial officers. In addition, agencies of all sizes—small, medium, and large—need to be represented. Likewise, vendors of all sizes are needed, especially small businesses and historically underutilized businesses (HUBs).

Ensure that Legislative Intent for EP Is met. DIR and GSC/TBPC must fully consider issues and concerns of the legislative leadership to ensure that legislative intent is met.

Conduct a detailed requirements analysis. A study should be conducted to determine the detailed functional requirements for the Texas EP system, including the scope, timeline, and potential costs of the project. The requirements should outline the specific functionality expected of the EP system within a specified amount of time. A phased implementation approach should be carefully outlined. In addition, the study should explore what technical requirements are needed to interface the EP system with TexasOnline, either in whole or in part. This study should be started in the Fall 2001 and completed by Spring 2002.

Develop a cost model. Based on the results of the requirements analysis and input from TxG2B, a cost recovery model should be developed to ensure that costs of maintenance, operation, and ongoing development of the EP system will be recovered through fees charged to system users in a fair and reasonable manner.

Issue a Request for Offer for a fully functional EP system. After completion of the above steps, and with full input from TxG2B and GSC/TBPC, DIR should issue an RFO for a fully functional Texas EP system. The RFO may describe a phased implementation approach; if so, the first phase should address agency accounting interfaces, customer support, marketing, public access (providing, at a minimum, public access to state agency bid solicitations), and a Web-based user interface that is simple, consistent, and Texas-branded.

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Appendix A: Texas EP Project Chronology

May 1997

The 75th Legislature passed SB820, which charged GSC with establishing and operating an EP system so that purchasing could be accomplished electronically. This 1997 legislation also committed all state agencies capable of participating in EP to do so. GSC was given authority to charge these agencies a fee for using the EP system.

July 1997

GSC formed the Electronic Commerce Task Force (ECTF). The following agencies were involved: GSC, Office of the Governor, Legislative Budget Board, Comptroller of Public Accounts, Texas A&M, Texas Department of Economic Development, Department of Health, DIR, Department of Mental Health and Mental Retardation, Department of Transportation, Railroad Commission, University of Texas Health Science Center, and the University of Texas System. The task force later renamed itself the Texas Government to Business (TxG2B) Coordinating Council.

December 1997

ECTF contracted with Phoenix Planning & Evaluation, Ltd. to conduct a feasibility study of statewide EP implementation.

FY 1997

State Auditor's Office (SAO) issued a management control audit report on GSC.¹⁹ The report addressed deficiencies in the procurement process. The SAO found that GSC continued to conduct business with poorly performing vendors and there were no assurances that the state was taking full advantage of volume buying to obtain lower prices. Both of these shortcomings in the procurement system stemmed from the fact that GSC had no formal or regular evaluation of procurement trends. Without this evaluation, GSC was not able to analyze vendor performance, nor could they calculate the advantages of volume buying.

May 1998

Phoenix issued the feasibility report.

January 1999

ECTF issued a report and recommendations to the Legislature.

January 1999

GSC requested approximately \$860,000 in its 2000-2001 Legislative Appropriations Request for an Electronic Commerce Project Office. The funds were intended for five FTEs and operating expenses.²⁰ The funds were not appropriated.

FY 1999

State Auditor's Office issued a follow-up management control audit report to its 1997 report on GSC.²¹ The SAO found the same problems in the procurement process and recommended that GSC, in order to ensure maximization of the state's purchasing power, do the following:

- Establish specific criteria for evaluating procurement trends;
- Identify the information needed to perform periodic evaluations and develop a system to track it; and
- Formally evaluate procurement data on a regular basis (quarterly, semi-annually).

October 1999

On behalf of ECTF, GSC issued a Request for Offer (RFO) to establish multiple electronic commerce pilot programs for the State of Texas. The objective of the RFO was to develop a cost-effective and efficient method to conduct EP via the Internet.

February 2, 2000

GSC contracted with Syscom Inc. to develop a pilot EP system.

April 2000

The first term contract orders and bid solicitations were made through Syscom's PublicBuy system by CPA and TxDOT.

June 2000

GSC held a Statewide Electronic Procurement Project Conference in Austin. Over 300 state agency and cooperative purchasing members gathered to hear about the EP initiative and see a live demonstration of the EP system.

August 31, 2000

GSC signed first 12-month extension of the Syscom contract.

October 2000

The Sunset Commission issued a report on GSC. One of the topics addressed was the implementation of EP.

October/November 2000

GSC conducted term contract vendor outreach in six locations across Texas. Term contract vendors were invited, but only ten percent of those invited attended.²²

December 2000

The Comptroller's e-Texas Report recommended that Texas move toward a statewide electronic purchasing system, as maintaining the current paper process will cost more in the long run.

January 8, 2001

GSC briefed agency Executive Directors and Information Resources Managers on the EP project.

February/March 2001

GSC conducted additional vendor outreach sessions in 12 locations across Texas. The sessions focused on how Centralized Master Bidder List (CMBL) vendors use the EP system, PublicBuy. A total of 800 vendors, about 5% of the total CMBL vendors, attended these sessions.

May 2001

The 77th Legislature passed SB311, transferring responsibility for implementation and management of the electronic infrastructure of the EP system to DIR. DIR began an assessment of the GSC electronic procurement project.

August 30, 2001

DIR issued this report, Assessment of the General Services Commission's Electronic Procurement Project.

August 31, 2001

Last day of the contract between GSC and Syscom for current contract extension period.

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Appendix B: Pilot User Feedback Details

Killeen Independent School District. Killeen ISD is the largest user of the e-catalog component, accounting for

almost 75% of total Texas e-catalog usage to date. Killeen uses the e-catalog to procure goods on state term contracts. Previously, Killeen faxed orders for these goods to GSC, who in turn generated the purchase orders and sent them to the vendors.

Killeen ISD reports that, when the system works correctly, users save time compared to the earlier fax process. However, the system frequently does not work perfectly, resulting in the process being more time consuming. Killeen's purchasing director recognizes the potential benefits of EP and understands that "early adopters" should expect a number of problems. He is confident that the pilot system will meet their needs once the bugs are worked out.

Killeen has experienced a variety of problems with the system. Users find the keyword search function that locates contract items to be non-intuitive and time-consuming. Sometimes, when an expected order has not arrived, Killeen calls the vendor and is told that the vendor never received a notification. Sometimes this problem can be tracked to an incorrect e-mail address in the vendor profile (apparently there is no exception process in the system triggered by receipt of an undeliverable e-mail message). Users sometimes have difficulty getting support when they encounter a problem. Users also have been frustrated that they do not receive advance notice of software upgrades that change the way the system works.

Texas Department of Transportation. TxDOT piloted the bid/response system with approximately 12 transactions in 2000. The agency's purchasing director was happy with the pilot results and is preparing to operationally use the PublicBuy bid/response component agency-wide in the near future, after completion of an electronic interface to TxDOT's online purchasing system, APS. TxDOT has contracted for training from Syscom; this training is complete for the General Services Division, Fort Worth District, and Brownwood District.

General Services Commission. Ten procurements have been attempted in the bid/response system, although DIR has not been able to determine the status of these procurements. One group within the agency has received training. GSC/TBPC is developing a procurement module within its GFAS accounting system. This module will streamline the processing of all procurement transactions, and it will input flat files generated by PublicBuy on a daily basis. GSC projects that the entire agency will be using the bid/response system operationally by December 1, 2001.

Department of Information Resources. DIR is the only state agency actively piloting the bid/response system, although it has conducted only two bids to date. These bids are currently in the bid evaluation process and a third bid is in preparation. Overall, DIR staff has had a positive experience with this system. Making a requisition was as easy to do electronically as it is manually. Staff responsible for approving requisitions found the system easy to use after minimal training. The purchaser reaps the most benefits from the bid/response system because he does not have to spend time making paper copies and preparing packets for mailing, spend funds on postage, and mail the requests. He estimates that the turnaround time from requisition to bid release has decreased from three weeks to three days.²³

DIR's purchaser noted a shortcoming in the DIR electronic bidding process. The system does not inform the purchaser how many or which vendors are sent the e-mail request for bid.

DIR found vendor response through the bid/response system to be lower than expected. Despite GSC efforts to market the EP system to vendors, many do not seem motivated to use it. And, of the bids received, the majority were submitted via paper, rather than electronically through PublicBuy. The first bid request (for computer projectors) produced one electronic bid and six paper bids. The second bid request (for servers) generated three electronic bids and seven paper bids.²⁴ The experience that DIR has had with the bid/response system indicates that vendor education and acceptance is key to implementing EP.

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Notes

[1] State of Texas, Comptroller of Public Accounts, *Report of the e-Texas Commission*, Austin, Texas (2000).

- [2] Tex. S.B. 311, 77th Leg., R.S. (2001).
- [3] State of Texas, General Services Commission, "RFO Electronic Commerce," Austin, Texas. October 1, 1999. Retrieved September 26, 2001. <http://www.gsc.state.tx.us/elec_comm/ectf.html>
- [4] The terms *electronic procurement marketplace* and *electronic commerce network* are collectively referred to as the electronic procurement system or the EP system in this report.
- [5] Tex. S.B. 1458, 77th Leg., R.S. (2001).
- [6] SiComm.Net. About Us. Retrieved August 8, 2001. <http://www.sicomm.net/about_us.html>
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- [9] Bartels, Andrew, "E-Procurement in 2001," Giga Information Group telephone conference, July 16, 2001.
- [10] National Electronic Commerce Coordinating Council, E-Procurement Funding Models and Measurements for Success, December 2000. Retrieved August 6, 2001. <<http://ec3.org/>>
- [11] Hope-Ross, David, "Procurement in the Marketplace" Gartner Symposium Itxpo 2001 presentation (Stamford, CT: Gartner Group, 2001).
- [12] Accenture presentation to the Texas Association of State Systems for Computing and Communication, (TASSCC). Dallas, Texas, August 7, 2001.
- [13] State of Texas, Comptroller of Public Accounts, *Recommendations of the Texas Comptroller. e-Texas: Volume 1, Cross-Cutting Issues*. "Chapter 2: Competitive Government," (2000). Retrieved August 10, 2001. <<http://www.e-texas.org/recommend/ch02/cq04.html>>
- [14] See note 1.
- [15] Interview with Ed Pier and Cindy Reed, Texas State Auditor's Office. Austin, Texas, July 18, 2001.
- [16] State of Texas, State Auditor's Office, *An Audit Report on Management Controls at the General Services Commission*. Austin, Texas, 1997.
- [17] State of Texas, State Auditor's Office, *A Follow-Up Audit Report on Management Controls at the General Services Commission*. Austin, Texas, 1999.
- [18] 1 TAC § 201.12.
- [19] See note 16.
- [20] State of Texas, General Services Commission, *Legislative Appropriations Request Fiscal Year 2000-2001*. Austin, Texas, 2000. Pgs. 151-152.
- [21] See note 17.
- [22] Interview with Jamie Spiegel, Electronic Procurement Project Manager, General Services Commission. Austin, Texas, August 3, 2001.
- [23] Interview with Bill Miller, Director of Purchasing, Department of Information Resources. Austin, Texas, July

26, 2001.

[24] Interview with Stephanie Miller, Contract Manager, Department of Information Resources. Austin, Texas, August 14, 2001.

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