



Oklahoma Department of Central Services

Report on the

Oklahoma Purchasing Modernization Initiative

04/12/2010

Department of Central Services

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1. PURPOSE

To provide information regarding the initiative to modernize the State's purchasing function. This report provides a historical review of the key decisions and actions over the last five years, including policy and process improvements, consultant reviews (two), legislative initiatives and funding decisions. Following the historical summary are the specific recommendations from the State's two consulting projects (IBM Business Consulting Services in 2005-2006, and Treya Partners in 2008-2010) with Department comments regarding concurrence and subsequent actions. Finally, the last section of the report depicts broadly the Department of Central Services' current priorities and initiatives as well as a recommended future vision of the State's Purchasing Program, all under the heading of "The Way Ahead."

2. ADMINISTRATIVE NOTES

- A. This report is produced by the State of Oklahoma Department of Central Services ("the Department" or "DCS").
- B. This is an electronic document, with all references imbedded or linked for the convenience of the reader.

3. REFERENCES

- A. The Oklahoma Central Purchasing Act Analysis, Accompanied by Findings and Observations of IBM Consulting Services, dated January 10, 2006. (Appendix 1)
- B. Procurement Assessment – Summary of Findings and Recommendations (by Treya Partners), dated October 7, 2008. (Appendix 2)

4. HISTORICAL REVIEW 2004 THROUGH 2010

- A. By 2004, several states had undergone significant modernization of their purchasing programs. In almost all cases, these states moved to consolidate their spend to take advantage of their total purchasing power, adjust their legislation and purchasing policies and procedures to allow greater responsiveness and flexibility, and recreate their purchasing management organizations to include enhanced skill development, new organizational structures and improved technology.
- B. At the request of Treasurer Butkin, the 2004 Oklahoma Legislature authorized the Oklahoma State Treasurer to spend \$500,000.00 to procure purchasing management consulting services to review the State of Oklahoma's implementation of the Central Purchasing Act and its complementary policies, processes and procedures.
- C. Governor Henry appointed John S. Richard as Director of the Department of Central Services ("the Director") on December 1, 2004. The Governor's stated priorities included modernizing the Department's business processes and improving the Department's relationships with its various stakeholders. Subsequently, Treasurer Butkin briefed the Director regarding the anticipated purchasing program review, and the Director set in motion the necessary actions within the Department to prepare for the assessment.
- D. The Department and the Central Purchasing Division, active in the National Association of State Chief Administrators and the National Association of State Purchasing Officers respectively, began actively reviewing legislative adjustments that would enhance a

modernization program based on experiences of other states. In December 2004, Senator Shurden sponsored a Department request bill, SB559, that would streamline contract administration, facilitate electronic commerce, raise agency purchasing limits to \$100,000, and clarify certain aspects of the Central Purchasing Act regarding the authorities of the Director. Although the bill was held over, legislators continued to discuss purchasing issues with the Department.

- E. Between January 2005 and December 2005, the Department conducted a complete review and process mapping of its purchasing rules, policies and procedures to identify unnecessary or redundant tasks. Additionally, the Director moved the purchasing program auditing function, authorized by Title 74 Section 85.5.E, under the control of the Deputy Director of the Department. After resolving staffing shortages in the audit unit, its initial priorities were to review the State's P/Card program and performance, and review agency purchasing programs.
- F. The Director appointed Mrs. Betty Cairns to serve as the interim State Purchasing Director on December 30, 2004. After an extensive recruiting search, the Director selected Mrs. Cairns as the new State Purchasing Director on May 23, 2005. Mrs. Cairns' priorities were to maintain stable purchasing support to agency customers during the upcoming assessment and consultant efforts, plan necessary change actions associated with the consultant effort, and refine the Central Purchasing Division's financial management processes to maximize resources available to fund the modernization effort.
- G. The initial scope of the Treasurer's consulting initiative was to both assess the effectiveness of the state's purchasing program (including laws, policies and processes) and to conduct an analysis of the state's overall spend so that the state could leverage its total spend in various categories in its negotiated statewide contracts with vendors. These analyses were to be accompanied by consultant training of the state's purchasing professionals, and consultant managed placement of selected statewide strategic purchasing contracts that would result in real dollar savings to the state. The four initial responses to the state's consulting request for proposal significantly exceeded the Treasurer's budget. Responding vendors were then asked what could be accomplished with the available funding of \$500,000.00. After negotiations with the vendors, the Treasurer selected IBM Business Consulting Services, and the resulting contract had a more limited scope than originally planned. The new contract would include consulting services for Phase I of a two-phased consulting effort.
 - Phase I would include an analysis of the State's spend data, the preparation of an assessment report, and the execution of statewide strategic spending contracts in conjunction with the selected commodity buyers of the Central Purchasing Division staff. These contracts would leverage the State's total spend in their commodity categories.
 - Phase II would address the organizational development and training needs yet to be identified by the vendor's assessment, and include execution of additional strategic spending contracts by the vendor. The State would undertake a new selection process for the Phase II consulting contract, and was under no obligation to select the same vendor.
- H. The Consultant and the Department worked together over ten months, from September 2005 through July 2006, to accomplish the requirements of the contract. The Deputy Director of Central Purchasing Division was selected as the lead facilitator to represent the Department,

and the Director and the State Purchasing Director were available at all times to the Consultant's staff.

- I. Initially the Consultant concentrated on the analysis of the State's spending data, working closely with the Office of State Finance. Once the spend analysis began to yield sufficient data to recommend potential savings through strategically managed contracts, the Consultant increased coordination with the staff of Central Purchasing Division and the Department to put those contracts in place. The Consultant, in conjunction with the Department, identified four commodities for placement of strategic sourcing contracts (leased copiers; maintenance/repair operations (MRO); food; and office supplies). Three of the contracts were completed by the Consultant; one contract was not completed. The actual placement of the strategic contracts was delayed somewhat due to the complexity of the projects selected and the decisions required to complete them. The Consultant requested an extension of the contract, for additional compensation, and the Department agreed to pay the additional compensation required from its own funds generated by its existing contract management fees.
- J. One of the contract requirements was the completion of an analysis of the Central Purchasing Act and the State's implementation of the same. The Consultant produced the report for the Treasurer on January 10, 2006. Treasurer Meacham requested of Director Richard that the Department take the necessary actions to redress the issues identified in the report. In that the report had not been previously reviewed or shared with the Department (which was not required in any case because the Treasurer, rather than the Department, was the party to the contract), the Department viewed the report as a working document from which to discern necessary future actions. The report was highly critical of the State's procurement processes and personnel; if the report had been released to staff, the sensitive working relationships between the Consultant's staff and the Department's staff would have been put at risk. This was the opinion of the Consultant as well, as indicated by the note on page two of the report. The Department kept the report at the upper management level. Analyzing the report, the Department began to formulate the necessary plans to modernize the purchasing program.
- K. By the end of 2006, the Department had available extensive data to plan the necessary actions to modernize the purchasing function. These included the Consultant's report, the results of the Department's process review conducted in 2005, and the results of over 35 purchasing program and P/Card audits. The Department set the following priorities:
 - Increase the amount of staff effort dedicated to managing high dollar agency contracts and statewide strategic contracts.
 - Increase the implementation of strategic contracts that maximize the State's buying power.
 - Enhance the purchasing management skills of both Department and agency staff.
 - Increase agency (stakeholder, customer) involvement in the development of strategic contracts.
 - Streamline and discipline purchasing processes for agency customers as well as the Central Purchasing Division, including development of electronic commerce methods and more robust supplier performance data reporting.
 - Acquire or develop the financial resources necessary to implement the change process.

- L. The Department assessed the necessity for an external consultant to continue with the modernization program. In that there was no training accomplished in the first consultant contract, the Department had yet to develop the skill sets necessary to effect a transformation of the purchasing program. It was eventually decided that a second consulting effort was required, but must be executed in such manner and scheduled to accommodate the financial resources available. The assessment phase would provide the roadmap for future changes, and would be accompanied by detailed action planning by the consultant in conjunction with the Department staff.
- M. Within its resources, the Central Purchasing Division and the Department began the efforts to modify policies and procedures, initiate automation initiatives, pursue legislation and define the scope of a second consulting effort, focusing on modernization, training and organizational development issues. Concurrently, the Department adjusted its budget priorities to provide financial resources for the additional expenses to be incurred as it modernized the program.
- N. Policy Development: The Department began to address several of the issues raised in the IBM consultant report as well as those issues indicated from other data through policy and procedural initiatives. These included:
- Maximize information on the Department's official website, including forms and all contracts. The Department website was reorganized to improve its facility for our customers and vendors by November 2005. Department forms have been accessible on the web since May 2002, and development efforts continued to make forms interactive on the web, with the majority of them completed by June 2007. The Department continues to refine its forms to increase flexibility and transparency.
 - Automate the Vendor Registration process. In October 2005, new, streamlined forms and instructions, along with updated administrative rules were published on the agency's website. The application process was fully automated for vendors by September 2007 using OK.gov (www.vendors.ok.gov) as the entry point for the Department's vendor partners. The Department and the Office of State Finance are currently working to integrate vendor registration directly into PeopleSoft, the State's enterprise resource planning (ERP) system.
 - Increase the number of vendors registered. Modest increases have resulted from the automation initiative and outreach efforts of the Department. As the functionality of PeopleSoft continues to improve, the Department will mandate all vendors to register upon selection to perform a contract, if they are not already registered (implementation: Summer 2010).
 - Discipline processes within the Department to assure predictability for agency customers and vendors. Starting with process analyses beginning in 2005, the Central Purchasing Division continues to review and discipline its internal operating procedures. Agency processes to execute purchases within their authority or access Department purchasing services are published on the DCS [website](#).
 - Standardize all solicitation general provisions and discipline their use, assuring that basic interests of the State are protected in all contracts. First implemented in April 2008, general provisions are reviewed continuously for effectiveness and are now used in all

- Central Purchasing Division administered contracts. New standardized solicitation procedures and provisions have increased procurement process consistency for the Central Purchasing Division and vendor customers. Although not yet mandatory for agency acquisitions within their authority, standardized provisions are currently being recommended.
- Effect policy changes that would encourage agencies to execute all contracts within their dollar thresholds. Policies have been clarified regarding split purchasing, competitive contracts, exemptions from competitive bidding, multi-year contract management, and fixed rate contracts. All have the intended result of maximizing agency flexibility and reducing workload for lower dollar acquisitions in the Central Purchasing Division. The percentage of agency contracts executed by the Central Purchasing Division that are below statutory state agency thresholds has been reduced from 57% to 31%. This is a performance management criteria for the State Purchasing Director. The Department's ultimate goal is that agencies will accomplish all their own purchases within their threshold limitations; however there will always be a requirement for Central Purchasing to accomplish these transactions for agencies with reduced spending authority or staffing shortages.
 - Streamline administrative processes of the purchasing program to verify Secretary of State registration and tax status with the Oklahoma Tax Commission, thereby reducing processing time for contract placement. The Department is currently working in conjunction with the Office of State Finance to incorporate these verification procedures directly into the automated contract management processes as opposed to executing these checks as a separate (and labor intensive) task.
- O. The Department requested additional appropriated funding from the 2006 and 2007 legislative sessions for automation initiatives in conjunction with the Office of State Finance to enhance the capabilities of PeopleSoft, however funding was not available. By 2007, the Department concluded from discussions with legislators that resources for the modernization program would have to be internally generated through budget efficiencies and fee generation. Growing use of the P/Card program was generating funds that could be reserved for this purpose, and more vigorous implementation of contract management fees on future strategic statewide contracts would yield the additional funds required to fund a moderately paced implementation of the purchasing modernization initiative.
- P. The Department defined the scope of a second consulting project by Spring 2008. Initially the selected consultant would recommend changes to statutes, rules and procedures; review current preferences and exceptions to the Central Purchasing Act; conduct a high-level spend analysis and review of existing financial systems; recommend modifications to Central Purchasing Division's organizational structure; review and recommend changes to the procurement process; technology, P/Card program, and training program. Following these efforts, they would proceed to address spend analysis and sourcing roadmap development; implementation of strategic sourcing contracts in conjunction with Central Purchasing Division staff; operational improvement support and most important, training and knowledge transfer. The Department competitively bid and selected Treya Partners for the second consulting effort, which is due to conclude in 2010.

- Q. Legislative Support: The Department began to pursue legislation to enhance modernization efforts in 2005, and would continue to dialogue with the Legislature over the next four years to develop legislation that would facilitate its modernization initiative. Overall legislative accomplishments to date include:
- Allow acquisitions from statewide contracts and regulated utilities to be paid by P/Card with no limit on the transactions; allow the use of electronic payment mechanisms on contracts established pursuant to the Central Purchasing Act, thereby streamlining the accounts payable transaction process for state agencies. The Legislature approved this measure in 2008 (HB3325 – Authors: Representative Jason Murphey and Senator Cliff Aldridge).
 - Allow certification versus notarized statements in the execution of contracts, thereby facilitating electronic commerce in the establishment of contracts. Certifications may be employed on electronic documents. This initiative was approved in 2008 (HB 3325).
 - Increase agency purchasing thresholds to \$50,000, and allow larger agencies with more skilled procurement staff to execute contracts up to \$100,000, thereby reducing the Central Purchasing Division workload so that the Division could concentrate more resources on high dollar agency contracts and strategic statewide contracts. The Legislature approved this increase in 2009 (HB 1032 - Primary Authors: Representative Jason Murphey and Senator Randy Brogdon; Co-Authors: Representative Anastasia Pittman, Representative Mike Reynolds and Senator Tom Ivester).
 - Raise the non-competitive threshold from \$2,500 to \$5,000. Commensurate with this decision, raise the P/Card individual transaction limit by the same amounts, thereby increasing efficiencies in agency purchasing programs. The Legislature approved this provision in 2009 (HB1032).
 - Establish a two tiered system for certifying the skill level of state purchasing officers, thereby assuring the appropriate skill level for agencies that execute more extensive and complex contracts and for Central Purchasing Division staff. The Legislature approved this provision in 2009 (HB1032).
 - Lessen the requirement to verify tax status and Secretary of State registration, thereby facilitating streamlined administrative procedures at the agency level. This is being considered by the 2010 legislature for purchases less than \$5,000 (the new non-competitive threshold).
- R. Over the last five years, the Department and Central Purchasing Division, in conjunction with the Oklahoma State Legislature, the Office of State Finance, customer agencies, vendor partners and Treya Partners consulting services, have implemented numerous changes to the State's statutes, rules, policies and processes to modernize and streamline the purchasing function, and have more initiatives in the planning and implementation stages.

5. CONSULTANTS' RECOMMENDATIONS AND DISCUSSION

This section provides detailed discussion regarding the consultant recommendations from both the IBM study and the Treya Partners consulting project. Section 5.1 addresses recommendations from IBM and section 5.2 covers Treya recommendations.

5.1 IBM Business Consulting Services Report

The IBM Business Consulting Services report (Appendix 1) was a narrative assessment without succinct or clear articulation of all of its recommendations. Additionally, the assessment was not accompanied by any action planning documentation on the part of the Consultant. Insofar as the recommendations can be determined, they are summarized below. The report contains many assertions within its discussions that the Department believes are inaccurate, incorrect, or based upon insufficient information. This commentary will only include information regarding the specific recommendations that could be gleaned from the report. They are organized by the report's subtitles for ease of reference.

5.1.1 Establishment of Law and Exempt Entities (pages 4-5)

- A. That the State should adapt legislation that ensures all state entities (including those exempted from the Central Purchasing Act, e.g. universities) work together to combine purchasing power (page 5, 1st paragraph).

DCS Comment: *The Department non-concurred with this recommendation regarding legislation; it does concur with the concept of combining purchasing power. The guiding policy of the Department for all of its operating divisions is that current exemptions from statutory requirements relating to various Department programs (e.g. Central Purchasing, Fleet Management, Surplus Property, etc) do not prevent exempted agencies from accessing the Department's services if they are of a higher value to the agency. Specifically, the Central Purchasing Division has enjoyed exceptional cooperation from the Regents for Higher Education and the universities, along with other exempted agencies in the development of strategic sourcing contracts. If the Department is successful in accomplishing the objectives of the overall modernization program, then legislative mandates will not only be unnecessary, but counterproductive. At the same time, the Department believes that the Legislature should carefully consider future requests for exemptions from the Central Purchasing Act. The Legislature should first require the Department to demonstrate its ability to support the requesting entity's mission requirements. If this cannot be accomplished, then approve the exemption, specified only to the commodities that require special considerations, thus retaining the State's ability to consolidate its spend on common commodities.*

5.1.2 Establishment of Administration (page 5)

- A. That the Director has the flexibility within the law to hire the most qualified personnel from either the public or private sector for key purchasing positions (page 5, 3rd paragraph).

DCS Comment: *The Department has always exercised this prerogative in its hiring policies. Currently, of its fifteen division administrators and key staff leaders, eight have been recruited from the private sector (six) or the military (two). All have been selected or*

retained based on their qualifications. Upon selection or retention, the Director is responsible for their performance.

5.1.3 Supplier Management (pages 5-7)

- A. That Central Purchasing Division should have in place a system for managing supplier spending, pricing and contract utilization (page 7, 1st paragraph).

DCS Comment: *The Department concurred with this recommendation. Some Central Purchasing Division buyers have historically tracked utilization of their contracts. However this was not governed by a disciplined policy; data regarding contract performance was not readily available to key decision makers; and too many contracts were only monitored in response to arising issues. This was identified as a training, technology and process issue, and the Department continues to implement corrective measures to include working with Office of State Finance to upgrade technology necessary for this task.*

- B. That the Oklahoma Legislature adapt legislation that requires Central Purchasing Division to implement supplier management processes (page 7, 1st paragraph)

DCS Comment: *The Department non-concurred with this recommendation regarding legislation. Of course, supplier management programs are a necessary element of any strategic sourcing operation, and they have been incorporated into Central Purchasing Division procedures. This is a resource intensive effort, and has required a holistic approach to redress, including legislative changes to the Central Purchasing Act, technology upgrades, policy changes within the Department and extensive staff training. The Legislature has supported the Department in its efforts; legislative mandates are not required to spur the Department forward in this effort.*

- C. That supplier management criteria be incorporated into Central Purchasing Division's performance review goals (page 7, 1st paragraph).

DCS Comment: *The Department concurred with this recommendation. Currently, supplier management criteria are included in Central Purchasing Division buyers' performance standards. Similarly, the State Purchasing Director is held accountable for implementation of this among other program elements in his performance standards.*

5.1.4 Lease and Lease-Purchase Legislation (pages 7-8)

- A. That the Central Purchasing Act be adapted to include definitions and policies for the management of "operating leases" by which the State leases equipment for a specified term (page 7, 4th paragraph).

DCS Comment: *The Department non-concurred with the requirement to adapt legislation to include definitions and policies specifically for the management of operating leases. The sections of the Central Purchasing Act referenced in the report, Title 74, Section 85.4 (J)-(M), are specifically related to real property lease-purchase agreements, and lease-purchase agreements relating to tangible property, such as equipment. The law cited already provides the requirements for each type of transaction. Additionally, there does not seem to be confusion among the Central Purchasing Division staff, nor our agency customers as to terms of reference in existing Central Purchasing Act statutes or in our management of*

equipment lease contracts, equipment lease-purchase agreements, or real property lease-purchase agreements.

- B. That the State include all lease equipment in a centralized inventory database where information regarding location, serial number, lease payments, terms and expiration dates can be accessed and managed (page 7, 5th paragraph).

DCS Comment: *The Department concurs with the intent of this recommendation. Maintaining accurate data on current leases obtained through statewide contracts was not a consistent business practice. It is now a requirement within the context of our current contract management processes, and vendors are required to report this data. It is not practical to incorporate all leased equipment into a central database both for cost and process reasons.*

5.1.5 Powers and Duties of the State Purchasing Director (pages 8-12)

- A. That all invitations to bid (ITBs) or requests for proposals (RFP's) require suppliers to report transaction data by Merchant Code, Item, Price, and Description (Level 3 data) (page 9, 2nd paragraph).

DCS Comment: *The Department partially concurs with this recommendation. It goes without saying that such data is desirable, and all requests for proposals and invitations to bid for statewide contracts have since required detailed usage data reporting from vendors as recommended by the Consultant. In the discussion, the report identifies this as a P/Card issue and the Consultant seems to believe that the data can be retrieved from the P/Card transaction registers if the merchants include Level 3 transaction data in payment records. However, this is a decision taken between the merchant and the servicing financial transaction processing company, which the State cannot affect. A merchant's decision to provide Level 3 data in his transactions will increase the merchant's transaction costs, and may be passed on to the customer. The Department is requesting enhanced Level 3 data in our current P/Card services acquisition. It remains, however, a supplier decision.*

- B. That large accounts payable, such as lease or utility payments be made by individual purchase orders (not blanket purchase orders) or against itemized invoices using the P/Card payment system (page 9, 3rd paragraph).

DCS Comment: *The Department concurred with this recommendation. Legislation has been approved to enable these payments electronically (para 4.Q above). It has since been the Department's policy to request that accounts payable transactions for statewide contract products or services be accomplished with the appropriate P/Card or electronic payment methods. We have not yet been able to negotiate this type of payment with our major utilities providers. However, the State does receive detailed information on its utilities spend in monthly itemized statements. The Department is currently working to extend this capability to all agency contracts with vendors who can accommodate electronic payments.*

- C. That the State closely monitor P/Card off-contract spending in violation of the State's mandatory statewide office supply contract and associated State Use mandatory contracts to ensure compliance with mandatory statewide contracts (page 10, 1st paragraph).

DCS Comment: *The Department concurred with this finding. The Department had fully staffed its audit unit in 2005, and among its first priorities was the tracking of P/Card use in*

the State to include maverick spend in violation of mandatory statewide contracts. The incidence of P/Card purchases non-compliant with mandatory statewide contracts fell from 19% in 2006 to nearly 0% in 2009 among audited agencies. All Department audits are available for review in the Auditing tab on the Department's website (www.dcs.ok.gov). Additionally, one of the consultant managed statewide contracts was for office supplies. Integrated into this contract is a vendor operated electronic portal that automatically refers purchase requests for items under State Use mandatory contract to the appropriate State Use Vendor. The Department considers this capability a model for future management of spend from all statewide contracts.

- D. That the State 'justify' its use of multi-state, group purchasing organization (GPO), or General Services Administration (GSA) contracts to ensure that the pricing in those contracts represents the best interests of the State (page 10, 3rd paragraph).

DCS Comment: *The Department concurred that participation in multi-state, group purchasing organization, or General Services Administration contracts should be justified. However, the Consultant failed to recognize that the Department already had in place several policies governing this issue. Agencies are limited in their use of GSA contracts, subject to approval of the State Purchasing Director, which is to ensure that the State negotiates with GSA vendors to secure best pricing. Under State law, the Oklahoma Department of Veterans Affairs is exempt from GSA contract restrictions, and Oklahoma law enforcement entities are allowed unrestricted use of the General Services Administration 1122 program. All multi-state contracts are in fact competitively bid, but not always with comprehensive spend data. The State has historically not participated in GPO contracts in that they are not sponsored and bid competitively by a government entity, for the reasons cited in the Consultant's report. The State does participate in several multi-state contracts, many of which have terms that can be further negotiated.*

- E. That the State implement the following specific procedures with respect to capturing supplier spend data (page 10, 4th paragraph):

- Capture all contract spend by revenue, volume, itemization, for the purpose of benchmarking, creating pricing baselines and overall contract management.
- Data capture to be achieved by creating uniform supplier usage data required monthly or quarterly in the form of electronic spreadsheet or online.
- Establish uniform price evaluation procedures for the purpose of awarding contracts.
- Incorporate calculation of weighted volume averaging into all multi-item / multiple quantity contracts.
- Train all [Central] Purchasing [Division] officers on these procedures and amend purchasing rules that would mandate compliance.
- Reestablish or initiate criteria for the use of sealed bid contracting procedures, negotiated contracting procedures, selection of types of contracts, post award administration of purchase orders and contracts, contract modifications, termination of contracts, and contract pricing to incorporate the capture of supplier spend metrics.

DCS Comment: *The Department concurred with these recommendations and is implementing them as we continue with our modernization program (see later*

discussion). Initial implementation was focused on statewide contracts; now the Central Purchasing Division is applying these practices to large dollar agency purchases.

- F. That the State Purchasing Director require all invitations to bids (ITB) and requests for proposals (RFP) be distributed in digital or electronic format, and that suppliers be required to return their bids via electronic means (Page 11, 2nd paragraph).

DCS Comment: *The Department concurred with this recommendation. Full implementation still remains in the future; however it has been the policy of the Department since 2005 that bid notifications are made by email, with fax for vendors who are not email-capable; RFP's and ITB's are then accessed via the Department's website (www.dcs.ok.gov). By summer 2010 all vendors registered with the State will be required to have valid email addresses, and they will be responsible for maintaining their accuracy. Receipt of bids/proposals electronically remains problematic, but not unsolvable. Central Purchasing Division now requires analytical data in responses to be submitted in formatted electronic spreadsheet format; however, there will always be inconsistencies between vendor responses that require the time of Central Purchasing Division staff to resolve.*

- G. That the State Purchasing Director implement training in usage of electronic spreadsheets for use in evaluating and managing contract proposals (Page 11, 2nd paragraph).

DCS Comment: *The Department concurred with this recommendation, and implemented basic and intermediate Microsoft Excel training to Central Purchasing Division staff before the end of 2006. It continues to emphasize these skills.*

- H. That the State Purchasing Director directs a proactive continual process of monitoring supplier compliance and performance (page 12, 1st paragraph).

DCS comment: *To be accurate, at the time of the report, the Department did have in place procedures for monitoring supplier performance. However, the Department concurred that the procedures were not consistently applied; the methods in use were relatively unsophisticated, and results were not consistently used to improve Supplier-State partnerships. The Department immediately began to review and improve this important process and continues to emphasize its importance.*

- I. That the State Purchasing Director incorporate a survey process that allows state agencies and suppliers to identify strengths and areas of improvement regarding the service provided by Central Purchasing Division (page 12, 2nd paragraph).

DCS Comment: *The Department concurred with this recommendation and immediately began surveying its customers. This is an area in continuous need of refinement. The current State Purchasing Director, who was appointed in August of 2009, has personally visited 42 customer agencies/entities and continues this priority effort. Central Purchasing Division is developing procedures to use the Customer Relationship Management module (CRM) in PeopleSoft, to record contract administration performance data from requisition through the life of the contract. This will allow sophisticated behavior oriented data collection that will yield real time feedback regarding the effectiveness of the State's purchasing systems. Initial implementation of this technology will begin July 2010. Supplier feedback on statewide contracts is incorporated into the regularly scheduled vendor performance reviews that are now a standard practice in Central Purchasing Division.*

5.1.6 Competitive Bid or Proposal Procedures (pages 12-14)

- A. That Requests for Proposals include the evaluation criteria, including their individual importance or weighting in the evaluation process (page 12, 4th paragraph).

DCS Comment: *The Department partially non-concurred with this recommendation. It is the policy of the Central Purchasing Division that evaluation criteria will normally be included in a RFP or other best value type instrument. The Division withholds information as to the individual weights of the evaluation criteria; however, it requires that the total evaluation program, including criteria weighting, be decided and documented prior to release of the RFP. This policy continues to be a subject for discussion and possible modification within the Department.*

- B. That the State Purchasing Director implement weighted averaging in its evaluation of multiple item/multiple quantity contracts (page 13, 3rd paragraph).

DCS Comment: *The Department concurred with this recommendation. In truth, some of Central Purchasing Division's contracts at the time of the report had in fact incorporated weighted averaging evaluation. However, a review of these type contracts revealed that the process was inconsistently applied. This was identified as a training and process issue, and the Department took corrective action.*

5.1.7 Surplus Property Program (pages 14-15)

- A. That the Department should maintain an ongoing inventory of property being disposed through the State Surplus Program (page 15, 1st paragraph).

DCS Comment: *The Department partially non-concurred with this recommendation. It is true that the State may have had excessive materiel in storage, including both surplus property and records; The Director has charged the State Surplus Program Administrator to facilitate the removal of surplus property from the State's storage facilities. However, the majority volume of materiel which is processed by State Surplus is salvage grade and sold in bulk at auction. It is not cost effective to enter the detailed data for every item processed through the Surplus Program; the administrative cost of doing so would exceed the salvage value of most surplus items. All items of value are identified by the surplus program staff. The Department has made progress in automating the surplus process, including on-line auctions through www.auction.ok.gov, automated and secure payment (cash) management system, security systems, broad email notification of high value items, etc. Sales volume has increased 743% over the last 5 years since the State Surplus Program Administrator assumed his duties on August 1, 2004. The Department in conjunction with Office of State Finance is currently planning and implementing asset management processes in PeopleSoft that will capture accountability of required state property when it is received, thereby facilitating the management of that property when it is disposed.*

- B. That the Department reimburse state agencies for all items sold through the State Surplus Program as an inducement to participate in the program (page 15, 1st paragraph).

DCS Comment: *The Department non-concurred with this recommendation. As noted in the report, the State Surplus Program returns 90% of auto sales to owning agencies; auto sales constitute 77% of total surplus sales. The Surplus Program Administrator negotiates recovery payments to agencies when they are disposing of high value property. The State*

Surplus Program operates as a non-appropriated fund. Its operating revenue from auctions is sufficient to meet its operational expenses. It has recently had to redesign its physical operations because of the Cross-Town highway project. This fiscal year, it has assumed the cost of destroying electronic media processed through the program required by SB33 from the 2009 legislative session. The State Surplus Program Administrator has been a prudent business manager and has met these needs without requiring additional revenue or appropriations. The Department agrees that there is an inducement for individual agencies to use the surplus property program in that they will reduce storage costs and is working with agencies to achieve these ends.

5.1.8 Enterprise Contracts (pages 15-16)

- A. That Central Purchasing Division competitively bid enterprise contracts (page 15, 4th paragraph).

DCS Comment: *The Department concurred with this finding. Historically the State has had Enterprise/Master Client Agreements with Apple, AT&T, HP, IBM, Gateway, Kodak, Xerox, Micro Soft, and Pitney Bowes as well as a multi-function IT consulting contract (SW715). In 2005, the Department determined that there were indeed issues with the competitiveness of these type contracts, as well as with disciplining their use, in that agencies were able to purchase goods or services outside of the scope of these contracts. The Central Purchasing Division initiated rebidding SW715 in 2005. Other enterprise contracts have either been rebid or restructured since that time.*

- B. That Central Purchasing Division more vigorously use negotiation procedures in its acquisition processes (page 16, 2nd paragraph).

DCS Comment: *The Department concurred with this recommendation. This has been identified as both a training issue and a process issue. In Aug, 2007, the Department funded negotiation training with George Washington University for seven of its Central Purchasing Division staff. Central Purchasing Division has incorporated negotiations into its contract management processes. Recent legislation has further strengthened the State Purchasing Director's hand in negotiations.*

5.1.9 Public Records Open for Inspection (pages 16-17)

- A. That State Purchasing Officers be trained in the use of supplier financial data for the purposes of evaluation of bids (page 16, 4th paragraph).

DCS Comment: *The Department concurs with this recommendation and remains engaged in this task. The Central Purchasing Division may require financial statements, when they provide some value in the evaluation process and the submission does not require vendors to publically disclose confidential information that may be injurious. The State Purchasing Director has the authority to seal proprietary information to protect bidding supplier interests. Training in these skills has since been accomplished, and financial data is in fact requested and analyzed when appropriate. It is currently the policy of the Central Purchasing Division to request and review financial data when it is appropriate to consider the financial viability of a supplier in the bid evaluation process.*

5.1.10 Vendor Registration and Sourcing (pages 16-18)

- A. That the State Purchasing Director implement a vendor prequalification system to assure the State that qualified suppliers are engaging with the State (page 17, 3rd paragraph).

DCS comment: *The Department partially concurs with this recommendation. The Consultant indicated that the vendor registration program is the only official means used by the Central Purchasing Division to proactively source suppliers for State contracts. This statement is not factual. In addition to vendor registration, the Central Purchasing Division also sources suppliers for State contracts through direct contact, the Internet, and notifications to professional organizations and journals when appropriate. The Department places equal value on the quality and quantity of potential suppliers, and it considers open vendor registration the easiest and most reliable method by which suppliers may be kept informed of contracting opportunities. Unsuccessful bidders may learn something important each time they participate in a bidding process. Upon request, the Central Purchasing Division will debrief unsuccessful bidders on the reasons for their non-selection. The vendor registration process has been improved and is now automated through www.vendors.ok.gov. The Central Purchasing Division and Office of State Finance are currently implementing procedures to allow vendors to register directly in PeopleSoft, eliminating the manual transfer of information by Central Purchasing Division staff. The Consultant also seems to suggest that prequalification of vendors should be required in connection with the State's solicitations, citing to materials written by the National Association of State Procurement Officials (NASPO). This conclusion is also incorrect. The NASPO book cited by the Consultant actually states only that some public entities use a prequalification process, and when they do use such a process, it should be statutorily authorized and supported by vigorous testing, sound vendor product and performance data, and information about the responsibility of the vendor. In situations where the Central Purchasing Division determines it's necessary and appropriate to utilize a prequalification process, it utilizes data and information supporting the responsibility of the vendor, the vendor's product/service and prior performance, and the ability of the vendor to perform in connection with the acquisition. However, the prequalification process is not used in all State acquisitions. The prequalification of each and every supplier would result in limiting competition to only those vendors determined to be qualified solely at a particular moment, excluding other suppliers from competing for State contracts. To assure selection of qualified vendors, the Central Purchasing Division has implemented the following vendor compliance and monitoring metrics: (1) Audit of vendor compliance with contractual requirements and performance metrics; (2) Identification of "top" strategic vendors, and implementation of a vendor management program with elements such as business reviews, risk assessment, dispute resolutions, customer/agency satisfaction, etc.; (3) Measurement and reporting of spend compliance, and spend and usage reporting from vendors. In the report, the Consultant also suggested that prequalification of suppliers would require a change in statutory authority. This conclusion is incorrect. The Central Purchasing Division is authorized under current law to utilize processes such as prequalification of suppliers.*

5.1.11 Report of Acquisitions (pages 18-19)

- A. That the State Purchasing Director collects agency acquisition data and includes information requirements that facilitate the information requirements of decision makers (page 19, 2nd paragraph).

DCS Comment: *The Department concurs with this recommendation. In order to implement the recommendation, Central Purchasing Division requires vendors to provide line-item usage (quantity, part number, unit price, purchasing agency, extended price, etc.). Solicitation templates have been amended to require detailed line-item reporting from suppliers to enable contract price compliance and aid strategic sourcing initiatives. In addition Central Purchasing Division is requesting agencies to report usage data for contracts they have implemented to ascertain additional strategic spending opportunities.*

5.2 Treya Partners Consulting Recommendations

Treya Partners began working with Central Purchasing Division in June 2008. The discussion below is keyed to their Phase I assessment briefing for the Director in October, 2008 (Appendix 2). That assessment has since been accompanied by 148 pages of documentation containing detailed action planning and analytical data critical to making progress. Upon receipt of the assessment recommendations, the Department and Treya have worked in concert to achieve the goals of the project. The Department concurred with all of Treya's recommendations. However, solutions in some areas are resource dependant and appropriate accommodations to the resource environment have been considered in the Departments actions. Following are the Treya recommendations and discussion regarding implementation or status.

5.2.1 Recommendations for Changes to Statutes/Rules – Review of Statutes, Rules & Procedures

A. Competitive Bidding Thresholds

- Increase competitive bidding threshold to \$5,000 or \$10,000. Change will result in increased streamlining of agency purchasing and result in decrease in paperwork and activity required to process low value solicitations. Increasing the bidding thresholds to these modest amounts will place Oklahoma on par with other states with higher thresholds.

DCS Comment: *The 2009 Legislature approved raising the competitive bidding threshold from \$2,500 to \$5,000.*

B. Delegation Thresholds

- Increase agency delegation thresholds to \$50,000/\$100,000 utilizing a two-tier approach (higher delegation authority for agencies with more sophisticated and robust procurement organizations, resources, and procedures) Increasing delegation thresholds will dramatically reduce the number of transactions processed by the Central Purchasing Division and free up resources to focus on higher dollar procurements.

DCS Comment: *Approved by 2009 Legislature. Agency authority was increased from \$25,000 to \$50,000. The legislation gives the State Purchasing Director the authority to increase an agency's threshold up to \$100,000.00, based upon a review of the agency's*

staffing and procedures. This decision process is closely linked to the tiered certification program discussed in section 5.2.3 below.

C. Negotiations

- Clarify rules to explicitly allow the ability to conduct “written” and multiple round negotiations. Increase ability to conduct effective negotiations and obtain best-in-class pricing and terms.

DCS Comment: *The Department concurred with this recommendation. Although negotiation has been used, the policy for use and skills necessary were inconsistent. Internal Central Purchasing Division policy has been modified to announce intention to negotiate contracts within the actual solicitation. The Department accomplished formal training for seven of its purchasing staff (as noted in section 5.1.8 B this report). HB 1032, discussed under legislative initiatives above specifically clarifies the State Purchasing Director’s ability to negotiate during the performance of a contract when conditions warrant. Contract management processes used by purchasing officers require use of negotiations where appropriate.*

D. Statewide Agreements

- Make all Statewide agreements mandatory

DCS Comment: *The Department concurred with this recommendation. As new statewide contracts are developed under new contracting processes, they are being made mandatory. The challenge is to assure that a statewide contract can meet the mission requirements of the using agencies. This is also addressed in the Department’s new revised contract management processes.*

- Use spend analysis, strategic sourcing and an agency participative effort to create new statewide agreements offering improved pricing and better addressing agency needs.

DCS Comment: *Actions regarding spend analysis have been previously addressed. The State Purchasing Director now requires all strategic contracts to be developed using commodity councils with representative participation from agency customers and higher education. Where appropriate, political subdivisions participate in these as well (e.g. Tulsa public schools is participating in the new P/Card contract development, evaluation and recommendations for award).*

- Increased spend leverage, better pricing and reduction in procurement workload from elimination of duplicative efforts.

DCS Comment: *The creation of additional statewide contracts will reduce the number of solicitations required by agency personnel, reduce administrative costs and drive quantity discounts.*

E. Contract Renegotiation

- Allow contract renegotiation to permit “opportunistic” negotiation when favorable to State

DCS Comment: *HB 1032 authorized this practice. The Department uses this capacity to respond to changing market conditions that affect contract performance.*

F. Split Purchasing

- Create clearer definitions and guidelines of “purchases” for the purpose of evaluation of split purchasing. For example, purchases of products or services in different commodity codes, or not available from the same supplier set, should not be considered a single “purchase”
- Allow greater discretion for the Central Purchasing Division to review and waive requirement

DCS Comment: *The Department clarified definitions for split purchasing with examples in 2007, updated in 2009 ([PIM 2009-03](#)).*

G. Solicitation Types

- Establish clearer guidelines such as requiring services to be bid as an RFP and goods above a certain threshold to be bid as an RFP

DCS Comment: *The preferred tool for statewide contracts as well as large agency contracts is now the RFP. ITBs, as currently defined in the law, are less flexible in arriving at the lowest and best bid. ITB's are ideally only suitable for procurement of simpler and lower value acquisitions. Contracting Officers are required to obtain approval from the Deputy State Purchasing Director when they desire to use the ITB process.*

5.2.2 Review/Recommendations for Existing Financial Systems

A. Purchasing Transaction Data

- Assess potential for increasing spend through the PeopleSoft Purchasing system (64% spend without PO > benchmarks) – partly policy, partly utilization of a catalog/e-procurement approach

DCS Comment: *This recommendations stems from two separate situations.*

First, the facility of this function depends on the quality of the commodity coding in the PeopleSoft system. Previously, the State was using a self managed National Institute of Governmental Purchasing (NIGP) coding system; Central Purchasing Division had not participated in subscription services to keep the coding system updated. The Department, Office of State Finance and customer agencies are currently implementing the United Nations Standard Products and Services Code (UNSPSC) commodity coding system which will increase the accuracy of data within PeopleSoft and allow more robust spend analysis. The Department will fund subscription services to keep the coding up to date.

Second, several agencies do not process their detailed spend through PeopleSoft, but rather feed PeopleSoft with summarized financial data processed through their own systems (e.g. Department of Human Services and Oklahoma Department of Transportation). Treya is recommending obtaining detailed visibility of this spend in PeopleSoft. This is a complex issue to resolve. Currently coordination is underway between OSF and affected agencies to lay the groundwork for resolution.

With the implementation of UNSPSC, the next step is to funnel all spend from statewide contracts through a single portal catalogue system which will automate decisions now made manually (for example, when to use State Use contracts, or the steps for accessing Oklahoma Correctional Industries). All statewide contracts will be folded into the catalog system. Electronic catalog capability allows agencies to create a requisition in PeopleSoft, punch out to a portal system, pull the item detail back into the requisition to create the purchase order, and electronically send the purchase order to the vendor. Additionally, transaction costs are significantly reduced. This initiative is unfunded. Within its own resources and with the cooperation of OK.gov, the Department is developing electronic tools on its website to achieve some of this capability.

- Where spend is passing through the purchasing system (i.e. a purchase order is created), improve the process for capturing purchase order line item detail.

DCS Comment: *Purchase order line item detail functionality will significantly improve after implementation of UNSPSC, and further improve with implementation of electronic cataloguing systems.*

- Rationalize item and commodity structures to facilitate improved spend analysis at the line item level.

DCS Comment: *This requires a rigorous commodity coding system, accompanied by a disciplined use of the system by both Central Purchasing Division and agency purchasing staff. This will be a significant training issue for agency personnel once the UNSPSC coding system is fully implemented.*

B. Accounts Payable System

- Ensure vendor names are assigned to vouchers.

DCS Comment: *Related to the recommendations above, this capability requires that a relationship exists between the commodity, the vendor and the voucher. As the State converts from NIGP codes to UNSPSC, there is a significant ‘cleansing’ process that must occur in all open contracts. As indicated above, this ongoing implementation requires a disciplined effort on the part of the Central Purchasing Division and agency purchasing staff. Full implementation of the UNSPSC coding system is projected to be complete by the end of 2010.*

- Clean up accounting descriptions to be more useful in spend classification.

DCS Comment: *UNSPSC implementation resolves this recommendation.*

- Improve quality of voucher line coding.

DCS Comment: *UNSPSC implementation will facilitate resolving this recommendation.*

C. P/Card

- Pursue increased P/Card usage (5-10% indirect spend is best practice in private sector).

DCS Comment: *Currently the State P/Card accounts for approximately 2% of the State’s discretionary spend (FY07 data \$1.775B, excluding higher education). The Consultant is recommending increased use of the P/Card for all financial accounts payable transactions whether for discretionary spending or payments for contractual*

goods and services. The Department is actively including requirements for use of the P/Card for accounts payable transactions in its solicitations for statewide contracts. It is also developing procedures for agencies to do the same in their agency specific contracts with suppliers that can accommodate P/Card or other electronic payment transactions.

- Target increased availability of Level 3 data by incorporating Level 3 data requirements into strategic sourcing.

DCS Comment: *The Central Purchasing Division is currently negotiating a new P/Card contract, and is asking bidding financial institutions to reduce the cost to the merchant for supplying Level 3 data, improving availability of spend data to the State. This remains a merchant decision. Regularly scheduled supplier performance reviews on statewide contracts do include the reporting of Level 3 detailed data.*

- Include merchant name in monthly feed to PeopleSoft.

DCS Comment: *This information is not available from PeopleSoft and must be extracted from the P/Card service provider data. The Department will require the new P/Card vendor to provide both merchant name and the most detailed level of spend available based on merchant preferences.*

D. Spend Analysis System and Process

- Drive maximum spend through purchasing system (catalogs, e-procurement) and ensure rationalized, standardized item and commodity structures to support effective reporting.

DCS Comment: *The establishment of electronic catalogues currently is an unfunded initiative. In preparation for this implementation, the Department has purchased and is currently implementing a new commodity coding system, the United Nations Standard Products and Services Code (UNSPSC). The Central Purchasing Division is continuing in its efforts to increase the amount of spend through negotiated statewide contracts.*

- Utilize best practice spend analysis tool and process to analyze non-item level accounts payable data and to provide consolidated spend analysis capability across multiple different source systems (usual situation).

DCS Comment: *The Consultant is recommending the purchase of sophisticated spend analysis tools to monitor and analyze the State's spend. Internal funding for this recommendation is not projected to be sufficient until FY13. The Department is now using standard business tools, Microsoft EXCEL and ACCESS, to accomplish ongoing spend monitoring and analysis. The Strategic Sourcing group in conjunction with the Office of State Finance, is evaluating PeopleSoft capabilities to provide this data. BIQ, the least expensive commercial software available, costs \$45,000 per user/agency license (a minimum cost of \$90,000 for just the Department and Office of State Finance).*

5.2.3 Recommendations and Benefits - Technology Review

A. Spend Analysis

- Utilize a best-in-breed spend analysis tool to conduct a spend analysis of all state spend from accounts payable and P/Card data; conduct quarterly refreshes.

- Conduct a formal opportunity assessment from the spend analysis to identify statewide contract opportunities

DCS Comment: As discussed, a best in breed spend analysis tool is too costly at this time; internal resources have been developed to provide spend analysis capacity.

B. E-Sourcing

- Option 1: Implement PeopleSoft Strategic Sourcing:
Pro: all vendor and contract data in PeopleSoft, no integration, no additional cost
Con: not best-inbreed e-sourcing system and low public sector footprint
- Option 2: Implement third party system like RFP Depot:
Pro: best-inbreed, State Govt. client list
Con: integration required with PeopleSoft for vendor and contract data, and additional cost

DCS Comment: Budget restrictions have led the Department to first consider the capability of PeopleSoft to provide e-sourcing capability (Option 1). Testing has included five events to-date, and at least one more is scheduled with the Oklahoma Department of Transportation. Functionality of the PeopleSoft system may not be as robust as recommended by the Consultant, and may provide difficulties for vendor interface. If unable to successfully implement this within PeopleSoft, the Department will seek a third party solution (Option 2).

C. Contract Management

- Near-term: Continue with PeopleSoft Procurement Contracts Module capabilities.
- Longer-term: Consider a best-in-breed contract management tool to support a best practice contract authoring process and to enable tracking of contract utilization, price compliance and supplier performance

DCS Comment: Budget restrictions prevent the Department from purchasing a 3rd party solution at this time. The Department is working in conjunction with the Office of State Finance to obtain this capability from PeopleSoft. The Department now, as a matter of policy, requires vendors to report usage on their contracts.

D. Supplier Information Management

- Assign all current and future suppliers in PS to an industry standard commodity schema such as NIGP or UNSPSC.

DCS Comment: The Department selected the UNSPSC commodity coding system for implementation in the State. Implementation will be completed later this year.

- Formalize collection of internal supplier performance information

DCS Comment: Central Purchasing Division contracting officers who manage strategic contracts meet with suppliers quarterly to discuss performance. All issues identified by agency customers, as well as pricing and performance are monitored and discussed. This policy has materially improved vendor relationships with the State.

- Consider subscribing to external sources of supplier information

DCS Comment: *The State Purchasing Director is considering the advisability of using this capacity. Aside from budget constraints, this recommendation may have questionable value. It is an open decision item in the Department, to be decided after higher priority issues are resolved.*

E. E-Procurement

- Near-term: Clean up the category/item data structures in PeopleSoft Purchasing by standardizing to a NIGP or UNSPSC schema and then aligning items to the lowest level of the selected schema.

DCS Comment: *See discussion regarding implementation of UNSPSC at 5.2.2.*

- Longer-term: Implement a best-in-breed third party e-catalog solution linked with PeopleSoft E-Procurement (e.g. as State of Georgia). Outsource the maintenance of catalog data, including new supplier enablement, to the catalog provider.

DCS Comment: *Currently these tools on the open market range in cost from two hundred thousand dollars to over one million dollars. The Department will thoroughly investigate all options before selecting the most appropriate tools.*

5.2.4 Training Review

A. Tiered Certification

- Adopt a tiered system of certification with at least two levels of certification (Certified Procurement Analyst and Certified Procurement Officer)
- Develop detailed eligibility guidelines and job descriptions for each level
- Certified Procurement Analyst focus should be on handling <\$25K agency purchases; Certified Procurement Officer focus should be on handling more strategic higher dollar agency purchases.

DCS Comment: *The 2009 Legislature authorized the adoption of a two-tiered certification program for the State's purchasing officers (HB 1032). The effort continues to develop the skill qualifications for tiered certification and the associated training vehicles as discussed below. Note: Because of the confusion of the term Certified Procurement Analyst with the accounting profession (CPA: Certified Public Accountant), the Department shall use the term Certified Procurement Officer I (CPO I) and Certified Procurement Officer II (CPO II). Much work remains to develop the detailed job skills delineated for each certification tier. Broadly, CPO I level skills will focus more on procurement procedures and processes involved in the routine purchasing processes of the State. CPO II level skills will have additional and primary focus on procurement strategy and analytical skills. The Department is preparing training and certification guidance that will delineate the requirement for a CPO II position in agencies that have purchasing authority over \$50,000. Training resources will be targeted first toward agencies that have a high volume of transactions above \$50,000.*

B. Initial Certification

- Develop two courses each tailored to a specific certification level.
- The CPO I course should focus more on procurement procedures and processes while the CPO II course should have additional focus on procurement strategy.
- Certification Validity three years (based on practices in other States (such as Virginia and Florida)).

***DCS Comment:** This is an ongoing effort. The new CPO I course will be delivered in Fall 2010. The Department has decided to implement a 2 year certification program. The training development effort for the CPO II level course is ongoing, and the Department anticipates implementation of a formal CPO II training program in the fall of 2011.*

C. Skills Assessment Tools

- Develop skills assessment tool for different certification levels and promote usage of these tools to agency personnel.

***DCS Comment:** This is an ongoing training development effort. Department intent is to begin implementation of assessment tools by end of calendar year 2011. Cost of this effort is yet to be determined.*

D. Ongoing Training

- Develop a set of tailored modules, based on survey feedback, addressing different skill levels
- Offer these courses more frequently during the year
- Base recertification credits largely on attendance at these courses

***DCS Comment:** Course development is ongoing as discussed above. The State Purchasing Director hosts a monthly 'Brown Bag Lunch' discussion and briefing program involving agencies' purchasing staff. The issues associated with processes and training resulting from our overall modernization efforts are being actively discussed in these semi-formal training sessions. This program is providing the Certified Procurement Officers in attendance active input to the curriculums of CPO I and CPO II courses. The revised CPO I course will be offered twice annually. Tailored modules, for continuing education units, are offered throughout the year now.*

5.2.5 Organizational Review

- Focus on ongoing savings creation as well as enforcing compliance with statutes

***DCS Comment:** It is a fair criticism that prior to the modernization initiative, there was an imbalance in favor of compliance over savings creation as both Consultants have noted. The appropriate balance has been achieved through policy changes, improved skill development, increased statutory flexibility and rigorous legal review of the change process. Savings generation is now a major focus of the Central Purchasing Division. It has achieved an average of 12% to 15% savings on recently awarded statewide mandatory contracts yielding the State annual savings of \$7.9 million (Figure 1). The goods and services included in the new contracts address \$64 million in state spend and*

\$32 million in political subdivision and higher education spend. The savings were captured through many best practices and provide evidence that the process of continuous improvement is in place. Strong leadership will be required to ensure continued progress.

Figure 1

Completed Projects	FY08 Baseline Spend (\$k)		Savings (%)		State Agency		HE/Pol. Subdiv.	
	State Agency	Non-Agency	Low	High	Low	High	Low	High
207 PC Std.	\$ 6,301	\$ 1,867	24.0%	24.0%	\$ 1,512	\$ 1,512	\$ 448	\$ 448
715 IT Cons.	\$ 6,515	\$ 271	17.0%	20.0%	\$ 1,108	\$ 1,303	\$ 46	\$ 54
Asphalt	\$ 8,454	\$ 8,454	20.0%	20.0%	\$ 1,691	\$ 1,691	\$ 1,691	\$ 1,691
Culverts	\$ 107	\$ 1,122	20.0%	20.0%	\$ 21	\$ 21	\$ 224	\$ 224
Fleet	\$ 20,700	\$ 2,500	5.0%	5.0%	\$ 1,035	\$ 1,035	\$ 125	\$ 125
Food	\$ 11,990	\$ 13,000	9.5%	9.5%	\$ 1,139	\$ 1,139	\$ 1,235	\$ 1,235
MRO	\$ 10,000	\$ 5,000	14.0%	14.0%	\$ 1,400	\$ 1,400	\$ 700	\$ 700
Subtotal Completed	\$ 64,067	\$ 32,214	-	-	\$ 7,906	\$ 8,101	\$ 4,469	\$ 4,477

- Planned, proactive, and strategic efforts to maximize spend under management through strategic sourcing

DCS Comment: *The Department continues to work with a large accounts payable data set to mine for new statewide opportunities in order to bring more spend under management. The highest value opportunities identified by the consultant are either implemented or in process. The strategic sourcing manager of the Central Purchasing Division is tasked with continued refinement of the strategic sourcing roadmap to consolidate statewide spend. Additionally, strategic contracting processes are being applied to large agency contracts.*

- Utilization of best-in-class processes and practices to maximize value for state while adhering to statutes

DCS Comment: *The savings mentioned above were captured through implementation of best practices including spend analysis, benchmarking, multi stage negotiation, target pricing, etc. Savings and value enhancement achieved to date indicate that the process of continuous improvement has taken root; organizational focus and discipline will be required to ensure continued success. Central Purchasing Division Contracting Officers and Agency CPO's will be challenged to report savings utilizing best in class processes and practices each FY starting in FY2010. Actual realized savings through Central Purchasing Division and agency CPO's will be reported annually to the legislature as required by HB1032.*

- Skilled human resources adept at strategic sourcing techniques and methodology

DCS Comment: *All Central Purchasing Division Contracting Officers received 28 hours of consultant provided strategic purchasing training in 2009. Training included the six step strategic sourcing process, benchmarking, strategy development, solicitation development, data analysis, conducting negotiations, and contract management. Contracting officers responsible for large statewide contract initiatives received an additional 9.5 hours of more detailed training to further develop skill sets. The key skills gained are utilized in daily practice and will require maintenance through weekly staff meetings and proactive feedback. The Department is challenged to continue the*

development of these skills for the current staff as well as develop training and accession programs that assure continued high level skill development. The tiered training authorized by HB1032 is an integral part of this ongoing effort.

- Effective usage of overall spend data and category specific usage data to maximize procurement effectiveness

DCS Comment: *This is a two pronged initiative. The Central Purchasing Division now requires vendors to report performance data, including specific spend data, on a regularly scheduled basis. This allows detailed analysis of spend within negotiated contracts. Concurrently, the implementation of the new UNSPSC item codes will enhance the division's ability to analyze the State's discretionary spend in conjunction with contract specific data. This is a high priority of the Central Purchasing Division's Strategic Sourcing group. In the long term, the Department as well as both of our consultants, recommends the purchase of a sophisticated spend analysis tool or program that would yield useful analyses of the state's spend at the item purchase level of detail. Accomplishing this task currently is labor intensive and subject to error. This is an unfunded requirement.*

5.2.6 Description of New Groups – Organizational Review

A. Strategic Sourcing

- Focus on strategic sourcing including development of a strategic sourcing roadmap to increase spend under management through establishment of new statewide agreements pursuant to a rigorous sourcing process
- Strategic support to large dollar agency purchases

DCS Comment: *The strategic sourcing group was formed in the spring of 2009 and currently consists of 2 FTE's. Initially, the consultant recommended the addition of 12 FTE to the Central Purchasing Division; the Department concurred but believed the requirement could be satisfied with 7 additional FTE. Requested in 2009, funding was not available. Nevertheless, the Central Purchasing Division focuses on strategic sourcing as a way of work rather than a function separate from operations. Within normal turnover, the Central Purchasing Division is growing the necessary skills through retraining and new hires from the private sector. Of the three private sector hires in 2009, one has already been hired back by the private sector for salary outside the range of what the State is able to pay. The Department will continue to flex and adjust organizationally to accommodate value maximization to the state. The main focus of the strategic sourcing group is to further develop a strategic sourcing roadmap, develop the supplier base through an enhanced supplier registration program, and to research best methods of spend analysis from internal and external data.*

B. Help Desk

- Provide first-level support including responses to agency procurement related Queries

DCS Comment: *The Central Purchasing Division has been working with the Office of State Finance to implement the PeopleSoft module for Customer Relationship Management (CRM). The project will soon be tested and is planned to roll out to Central Purchasing Division by July 1, 2010. Part of the CRM functionality will provide the*

ability to log customer questions and issues, track answers or resolutions to current issues, and recall these responses at a later date as the same issues arise in the future. The historical log will allow detailed review of contract process issues requiring resolution. CRM will also provide system generated e-mail notifications that will keep our customers apprised of the progress of their procurement projects.

C. Shared Services & Procurement Support

- Conduct procurements for < \$25K (now \$50K) for those agencies that do not have any delegated authority

DCS Comment: *This is currently being accomplished as part of our responsibilities to our State Agencies. The Central Purchasing Division is also working with agencies to encourage their taking responsibility for those acquisitions that fall within their delegated purchase authority. The Central Purchasing Division expects many agencies to take advantage of their full level of authority while others will remain dependent upon the Division for assistance. The impact of recent changes in agency approval authority levels on the Central Purchasing Division work load has yet to be fully realized. As the Central Purchasing Division work load normalizes, appropriate staff will be assigned to handle the remaining lower dollars acquisitions. The Department continues to consider implementing a fee for service policy; however, implementation will have to wait until the State's budget issues are resolved.*

D. Vendor Management

- Development and implementation of a program to manage suppliers including: proactive management of supplier price and performance compliance, dispute resolution, customer satisfaction, ongoing quarterly business reviews, etc. – program to include existing supplier registration function

DCS Comment: *Annual evaluations by Contracting Officers now reflect vendor management requirements. While the Central Purchasing Division currently has a process for handling vendor complaints, positive vendor performance has historically not been captured. The expectation is that our Contracting Officers become more proactive in the documentation of vendor compliance as well as efforts by the vendor population for improved performance and pricing.*

E. Business Analysis and Strategic Support

- Responsible for collecting and analyzing vendor usage reports
- Responsible for ongoing spend analysis (with the help of spend analysis technology)
- Responsible for measurement and reporting of key performance metrics

DCS Comment: *Due to lack of funding discussed above, the function of collecting vendor spend data is assigned to the contracting officer through structured quarterly business reviews. Information regarding vendor metrics is captured, tracked and analyzed with the assistance of the Strategic Sourcing Group that has been added to the Central Purchasing Division operations section. Staffing for this critical function will continue to grow as other workload is reduced in the division.*

6. THE WAY AHEAD

6.1 Introduction

The Department has invested significant financial and human resources in this effort to modernize the purchasing function for the State. Although much has been accomplished, there is still much left to do, and further investments to be made before one can be sure that the efforts to date are instituted into the normal operating processes of the State. This section begins with a discussion of the Department's current priorities and related initiatives, and it ends with a broad brush statement of the Department's envisioned end-state.

6.2 Department Priorities

As we move forward, the current Department Priorities are as follows:

- Completion of the United Nations Standard Products and Services Code (UNSPSC) implementation by the end of 2010.
- Training / staff development.
- Implementation of state of the art spend analysis tools (best in class if financially supportable).
- Standardization of the strategic contract management process or applicable portions of it across all of the State's procurement actions, while demonstrating flexibility to achieve maximum value.
- Continue to adjust the Central Purchasing Division organization to more effectively implement the strategic sourcing program objectives.
- Continued implementation of electronic commerce capabilities to streamline routine procurement processes and facilitate achieving maximum value for the State.
- Continued involvement of Department customers in the development of strategic purchasing initiatives through their involvement in purchasing commodity councils and other procurement oversight activities.

6.3 Current Department Actions

- A. UNSPSC implementation, discussed under the Treya recommendations, section 5.2 above, is ongoing, due to be completed in 2010.
- B. Training is the Department's highest priority initiative. The Department is unable to fund professional task analysis and training development consultant services to develop its training program. Consequently, internal resources are being utilized within the Department and from agency customers to accomplish this task. New training, after initial implementation, will undergo continuous change over the next several years. Skill development across the State's procurement force is critical to all other purchasing modernization initiatives. The new CPO I basic course will be presented by Fall of 2010 and will be offered twice per year. In conjunction with this effort, CPO certification is now renewable biannually, and continuing education (CE) requirements have been focused directly on purchasing management skills. The Department intends to implement the CPO II

course by the Fall of 2011, and will implement more sophisticated strategic purchasing management CE requirements to maintain certification. Skill assessment tool development will begin in FY12, for implementation in FY13 or later.

- C. The State's existing PeopleSoft spend analysis capabilities are not as robust as third party tools that are currently available on the market. In conjunction with the Office Of State Finance, the Central Purchasing Division is currently evaluating the use of Oracle's PeopleSoft Business Intelligence Purchasing Analytics module to implement an effective spend analysis tool for the State. The Department will implement the most cost effective solution within limited resources.
- D. Standardization of the State's contract management processes is an ongoing management initiative. Fundamental procurement process flow charts are available for all agencies' reference on the Department [website](#). Standard solicitation general provisions are currently used on contracts administered by the Central Purchasing Division. Currently these standards are being emphasized by the Department for agencies purchases within their authorized threshold. Development of agency strategic contract management skills is ongoing, and gains will be solidified upon implementation of a successful training program, discussed above.
- E. The organizational structure of the Central Purchasing Division will remain in flux for the next few years. The strategic sourcing group, discussed above, is not yet as robust as recommended by Treya Partners. Funding is not available to acquire the necessary FTE, additive to the division's current strength. The division will accomplish the transition through normal attrition, recruitment and retraining. As the division continues to shift to a greater strategic focus, it will be necessary to increase the number of unclassified positions available to it to allow greater flexibility in duties assigned and allow for professional growth of the entire workforce.
- F. Implementation of electronic commerce capabilities either through PeopleSoft directly or through third party service providers is resource intensive. Some PeopleSoft solutions are already in implementation phase, e.g. the UNSPSC project or the Customer Relationship Management and Asset Management modules. The Office of State Finance continues to support the Department's need for e-commerce, and is working with purchasing staff to test PeopleSoft's various capabilities regarding spend analysis, electronic bidding, electronic cataloging and other e-sourcing tools. Firm decisions regarding implementation are at least a year out, due to both evaluation requirements as well as budget challenges. The Department will report on its progress in these matters in its annual performance report to the Governor and Legislature.
- G. The use of Commodity Councils, with broad agency as well as political subdivision participation, to manage the implementation of state-wide strategic contracts has been in place for four years. Our challenge is to continue to improve on these processes, and encourage as broad participation as possible. This effort requires a procurement staff with enhanced strategic purchasing skills and strong organizational leadership skills. The Department and Treya both believe that the State would benefit by establishing some type of executive oversight and support of the procurement function by a group representative of the Department's customers. The Department has been formulating its recommendations

regarding this matter and will discuss them within the Executive Branch and with the Legislature over the next year.

6.4 Desired End State

Following is a broad brush, bullet point presentation of the five year desired end state for the State's purchasing program. This vision is articulated within the framework of the Balanced Scorecard (Customer, Financial, Process, and People perspectives). The Department presents this vision as a starting point in its deliberations with the leadership of the executive and legislative branches. This is an achievable vision; however success requires statewide effort and commitment. Funding is limited and new processes require careful development and evaluation prior to implementation. The Department looks forward to continued discussion of the modernization initiative with State leaders over the next several years.

A. CUSTOMERS

- Customer agencies are integrated into the statewide strategic contract management process through their participation in Commodity Councils, thus assuring that strategic contracts sufficiently meet their mission requirements.
- Customers have access to a single, authoritative source of information regarding the State's policies, processes and procedures for the procurement function.
- Agency customers have real time access to all information pertinent to their procurement needs (electronic 'dashboards').
- Political subdivisions of the State participate in the State's strategic statewide contracts because of their competitive value.

B. FINANCIAL

- The State maximizes the amount of spend under management.
- All statewide contracts and large dollar agency specific contracts are managed under strategic sourcing guidelines and processes, yielding maximum value for the State.
- At least 75% of the central procurement function is self funded through the use of fees that are directly related to the contracts under management or services provided. These fees include contract management, supplier/vendor registration, training fees and transactional fees.

C. PROCESS

- The State's procurement program is governed by best practices and consistent disciplined policies.
- The purchasing function is transparent to all users, with real time data available regarding contracts in process, scheduled contractual actions (e.g. renewals), and performance over the life of the contract.
- Strategic statewide contracts are developed and implemented under the guidance of commodity councils with broad agency participation.
- The State Purchasing Director has complete visibility over all of the State's spend, allowing detailed analysis and appropriate action to manage that spend.

- All of the State's financial and purchasing processes are integrated into the State's Enterprise Resource Program (ERP).
- The State executes a procurement oversight process that ensures accountability of the procurement system to provide maximum value the State while accommodating the mission requirements of participating agencies.

D. PEOPLE

- The procurement workforce is trained and skilled in basic and advanced procurement methods appropriate to their level of purchasing authority and responsibility.
- Professional growth of the purchasing workforce is possible and encouraged across agency boundaries.
- The State's overall procurement program dynamics attract and retain the best and brightest employees.
- The State's purchasing professionals are proactively integrated into the business operations of the various agencies.
- Innovation and creativity among the procurement workforce enable the process of continuous improvement.

6.5 Conclusion

The Department would like to express its gratitude to Governor Henry for his continued support of the modernization effort; to the Legislature for continuing to support this important initiative; to Treasurer Meacham for his continued encouragement and recommendations regarding agency support; to our agency and other customers for their patience and cooperation with the Department during this transition; to Treya Partners for their cooperative and innovative spirit; and finally to the superb staffs of the Central Purchasing Division led by Mr. Scott Schlotthauer, the DCS Office of the General Counsel led by Ms. Kimberly Heaton and the administrative staff of the Department led by Mr. Randy Ross, for their dedication to purpose.

As discussed in the way ahead, the State has much work remaining to achieve a modernized, effective procurement program. This report serves to document the progress made to date and to lay out a roadmap for our future emphasis. The Department looks forward to continuing dialogue in this important effort, and will document its progress in the Annual DCS Performance Review, released each December.

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Appendix 1

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Oklahoma Central Purchasing Act Analysis

Accompanied by Findings and Observations of IBM Consulting Services

Submitted by: IBM Business Consulting Services
Purchasing ("Spend") Review, Analysis and Saving Plan Development Project
January 10, 2006

Analysis of the Oklahoma Central Purchasing Act

Accompanied by Findings and Observations of IBM Consulting Services

NOTE:

Due to the confidential and potentially sensitive nature of the subject matter and findings contained within this analysis, IBM defers to the Treasurer's discretion as to the distribution of this document beyond project stakeholders, John Richard, DCS, Travis Monroe, Office of State Treasurer, Steve Hagar, Central Purchasing, and the IBM team.

Introduction

The intent of the following analysis is to show how the State of Oklahoma Central Purchasing Act is being upheld throughout the state, how it positively and negatively affects employees, workflow processes, suppliers, taxpayers, and how it can be improved by extended compliance or amended legislation. The analysis primarily focuses on portions of the Central Purchasing Act that effect or pertain to the scope of the Purchasing ("Spend") Review, Analysis and Saving Plan Development Project contracted by the State Treasurer with IBM Business Consulting Services.

The information contained within consists of validated facts accumulated by the IBM team. Sources, data, clarifications, and references are identified as footnotes or as a numbered exhibit located at the end of the report. Recommendations to the State and Central Purchasing provided by IBM are presented for immediate consideration, or for the proposed next phase/continuation of the project.

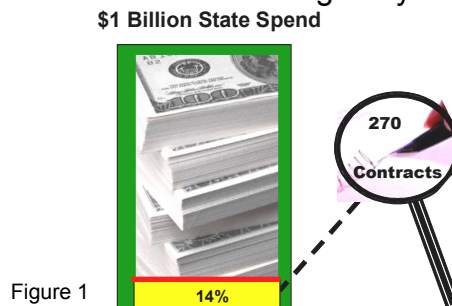
The format of this document is designed to recognize sections and subtitles contained within the Central Purchasing Act Legislation by subheading (verbatim and paraphrased) followed by text in black type and an IBM response to the legislation in [blue type](#).

Overview and History of the Oklahoma Central Purchasing Act

In 1959 Oklahoma Governor J. Howard Edmondson introduced reforms to his first year in office including the Oklahoma Central Purchasing Act. Prior to the act most purchasing authority was carried out by state agencies. The purpose of the act was to remedy charges against the present agencies which suggested political preferences were used in determining the awarding of state contracts. The Central Purchasing Act (CPA) created the position of the State Purchasing Director position which was to be appointed and report to the Director of the Department of Central Services. The Act also included procedures for the Central Purchasing Division to make acquisitions for the state of Oklahoma. The CPA also brought reporting requirements and penalties for failure to follow the act. In 1967 a bill passed to raise sealed bid limits from \$200 to \$500. In the next several years subsequent legislatures amended the CPA to include specific procedures to solicit and award construction contracts, hiring of architects, engineers and land surveyors. In 1974 the legislature passed the Anti-Kickback Act which set heavy penalties for seeking receiving or offering kickbacks. In 1980 the sealed bid limit was raised for purchasing to \$750 and would not be changed again until 1991, when it was raised to \$2,500.

In the 1990's legislation was proposed that according to critics would dismantle the Centralized Procurement Division. This bill passed in the Senate but was voted down in the House of Representatives. In 1998 legislation was introduced and passed that would allow state agencies under specific conditions to make more acquisitions without going through Central Purchasing. The basis for this legislation was based on a State Auditor's report showing that 85% of all state agency purchases were for less than \$25,000 and that those purchases accounted for only 15% of all purchasing dollars spent.¹

A similar trend continues. Presently the IBM State of Oklahoma Spend Initiative Team has identified that of the 1 Billion dollars² represented in 2005 State Agency addressable spend, approximately 14% of that revenue falls within the control of the Central Purchasing Division. This 14% or 140 million is linked to 270 State Wide Contracts initiated and managed by Central Purchasing. See Figure 1



¹ Source: Department of Central Services "Agency History" web page.
http://www.dcs.state.ok.us/OKDCS.NSF/htmlmedia/body_agency_history.html

² Spend revenue validated by Oklahoma State Finance and IBM financial analysts for the Oklahoma Spend Initiative Project is 2.1 Billion whereas 1 Billion is attributed to State Agency Spend and 1.1 Billion to Higher Education.

Establishment of Law and Exempt Entities

The Central Purchasing Act (CPA) defines the law, warns of illegal actions to all employees of the state, all elected officials, all who conduct business with the state, and presents penalties for failure to comply with its laws³.

IBM: Overall indictments pertaining to CPA violations have been few which could support that the law does serve as a deterrent. The training for Certified Purchasing Officers (CPO) focuses heavily on the CPA and a large portion of the CPO certification test concentrates on their knowledge of the law therein. CPO's within Central Purchasing are presented as a resource to State Agency CPO's regarding rules and law associated with the Act. Definitions⁴ listed at the beginning of the Act assist anyone unfamiliar to conducting business with the State and legal terms used thereof.

One of the most notable statutes within the CPA is the fact that certain state entities are exempt from this legislation. "In reality, all states identify a "centralized" procurement office but in each instance statutes exclude whole branches and agencies from that offices's oversight. The judicial and legislative branches, higher education and transportation agencies most frequently remain autonomous."^{4a} The Oklahoma CPA exempts the following specific entities: County Government, The Oklahoma State Regents for Higher Education, the institutions, centers, or other constituent agencies of The Oklahoma State System of Higher Education; or the telecommunications network known as OneNet.^{4b}

These exemptions on the most part were created to allow needs of unique state entities to be expedited and to forego approval processes of a centralized purchasing system. Although exemption of certain entities is the norm across all states there are severe disadvantages of being unable to share spending and savings power by combining contracts of like goods and services purchased by all state entities. As mentioned in the overview section of this analysis, IBM and the Oklahoma Office of State Finance have identified 2.1 billion dollars of spend that will be targeted for savings. Of the 2.1 billion, over one half is attributed to Higher Education. Ideally IBM and the State Treasurers office would like Higher Education to work with State Agencies to combine their spend in several categories such as office supplies, maintenance repair, lab supplies, copiers, and laser printers. By combining existing office supplies contracts the state and higher education, and other exempt entities can then approach potential suppliers with a greater potential purchase volume and bring aggressive savings to the state. However with the exemption of Higher Education and other state

³ §74-85.15. Strict conformity - Penalties., §74-85.4.F, §74-87.2, § 85.13

⁴ §74-85.2. Definitions.

^{4a} The book of NASPO Principles and Practices, Centralized Procurement, page 5 (National Association of State Officials) **Editor note:** IBM does not hold to all principles and practices of NASPO but recognizes that Oklahoma Central Purchasing Division Purchasing utilizes them as a resource and contributor to certification and continuing educations programs for all Certified Procurement Officers.

^{4b} §74-85.3a

entities cooperation to achieve this method of savings cannot be mandated by Oklahoma law. IBM is therefore recommending that exempt and non-exempt entities combine resources to create individual commodity councils that would voluntarily exchange current spend data achieving the same savings goals as if they were mandated by law. Higher Education thus far has indicated a willingness to work with state agencies to achieve savings however there is no law to ensure continued willingness. IBM does not recommend legislative amendments that would hinder or lessen the ability for exempt state entities to function expeditiously. Yet the state does have an opportunity to be the first to break this precedent. By adapting legislation that ensures all state entities work together to combine purchasing power, the entire state can reap tremendous ongoing savings for years to come. [back to DCS Report]

Establishment of Administration

The organizational structure, management, management qualifications, and category specialization of buyer's provides a foundation for the administration of the Purchasing Division⁵. The DCS director is allowed to appoint candidates for The State Purchasing Director position without state government experience as long as stated certification, experience, and expertise exist.⁶

IBM: This enables the DCS Director to seek the best candidate available within the private or public sector. Identification of specialized buyers by commodity category with industry specific experience of three years also provides a basis to secure CPO's with advanced qualifications⁷. [back to DCS Report]

Supplier Management

The CPA states that the State Purchasing Director must determine whether supplies and services meet contract quality specifications and to take remedial action with the supplier if the supply or service does not meet specifications.⁸ The State Purchasing Director must also satisfy state agency requirements by using bidders who have a record of successful past performance, promoting competition and minimizing administrative operating costs and identify vendors with poor delivery and performance records.^{8a} State Agencies are to implement, a written plan which will monitor and audit the performance of suppliers that have been awarded contracts and also if requested by the State Purchasing Director, utilization of the final product of the nonprofessional or professional services provided.⁹

IBM: Throughout the CPA there are various statements as listed above that address supplier or contract management. One of the most important functions

⁵ §74-85.3. Purchasing Division - Director - Employees - Encouragement of certain purchases - Conflict of interest

⁶ §74-85.3.B

⁷ §74-85.3. C-G

⁸ 74-85.6

^{8a} 74-85.5.I-J

⁹ §74-85.4.E.1.c

of any Purchasing Division or Purchasing Agency whether private or public, is to have a processes integrated into the everyday management of the entity which capture, manage, and analyze supplier spend data for every awarded contract. Whether required or stated within the CPA pertaining to services or products, the State of Oklahoma Central Purchasing Department has no written plan or functioning department wide system which monitors and audits the performance of suppliers, by capturing, managing, and analyzing supplier spend data.

This is an alarming observation of the IBM team not only for the overall negative impact of Central Purchasing efficiencies and ability to produce supplier spend savings, but that the State Purchasing Director has not identified this as a problem. The lack of supplier spend data (metrics) has been identified as the single most important issue identified by the IBM Spend Initiative Project for showing methods of saving for the State of Oklahoma and will be repeatedly addressed throughout project documentation. Purchasing agents do not view supplier invoices to analyze how much the state is currently spending or will spend before soliciting a purchase contract.

Without supplier spend data, negative and “expensive” repercussions are woven throughout Central Purchasing by every agency allowing the awarding of contracts without consideration of past or present purchase volumes, itemized revenue, items most purchased, established price point baseline by item, price comparisons to market conditions, pre and post bid price awarding criteria, and ability to determine overall effectiveness of a supplier.

An example showing how problematic it is to not utilize metrics is a recent invitation to bid for a statewide contract which in the most recent year consisted of \$23,000,000 (23 million dollars) of purchased widely used products. Central Purchasing prepared the bid to consist of a market basket of 33 items. Market baskets within an invitation to bid are to always include items that the purchasing entity will need and procure for the duration of the proposed contract. Suppliers are to respond with a price for each item listed in the market basket. IBM requested justification for how and why each item was selected to be included in the market basket and found that the market basket was a reduced list of items taken from a bid five years prior. When asked, Central Purchasing could not provide any spend data showing what items the state actually purchased over the last five years therefore no spend data supplied by Central Purchasing resources were used in the creation of the bid. After learning this information, IBM requested from the previously awarded supplier a list of the top 200 items purchased on the contract within the last year. Upon receiving the top 200 list, IBM identified that only two of the items in the market basket of the bid invitation were in the top 50 items most purchased in the prior year. Only eight items listed in the market basket were included among the top 200 most purchased from the prior year. ^{Exhibit 1.} The state was about to award one of their largest contracts (23 million dollars) based on items they seldom use or never buy. IBM sought the approval of the DCS director to withdraw the bid and allow IBM to assist the state

in preparing a new invitation to bid. Legislation must be adapted that requires the State Purchasing Director to establish processes that manage supplier spending, pricing, and contract utilization. IBM finds the lack of this process as being negligent to the stewardship of state resources and fundamental duties required within a purchasing department. The State Purchasing Director and Purchasing officers to date are not measured or managed to incorporate processes to capture, manage, and analyze supplier spend data for every awarded contract. Annual performance review goals and targets do not address these areas of contract management. [back to DCS Report] ^{Exhibit 2}

Lease and Lease-Purchase Legislation

Guidelines for lease and lease-purchase agreements protect the state from pitfalls that often plague the private sector. The state is able to cancel lease contracts with a required non-appropriation clause which allows the cancellation of lease contracts in the event state funding is not appropriated. Lease purchases for real or personal property costing less than \$50,000 are prohibited while real property acquisitions utilizing lease-purchase agreements are required to be authorized by the Legislature¹⁰.

IBM: Should a Lease-purchase agreement be authorized, the CPA does not allow extensions or refinancing unless they are re-advertised for bid. These requirements are appropriate since personal and real property at the end of a lease have wide variance in value and need to be re-evaluated to determine if refinance or extensions are the best value or to prevent “evergreen”¹¹

The CPA uses the term “lease-purchase” referring to real estate, and other times to equipment. This could possibly infer that CPA restrictions concerning real property lease-purchase contracts do not apply to equipment lease-purchase contracts and vice versa.^{11a} Additionally the State of Oklahoma Central Purchasing Division and state agencies do enter into numerous “Lease” or “Term Lease” contracts which by financing, legal, and accounting professions are often deemed as Operating Leases. Operating leases are utilized for the leasing of telecommunications, computers, and office equipment and contain Fair Market Value clauses or no option for purchase clauses at the end of lease term. These types of leases do not appear to be identified within this section or any other within the CPA and due to the omission could bring exposure to the State. [back to DCS Report]

IBM further recommends that the state include all lease equipment in a centralized inventory database where information regarding location, serial number, lease payments, term, and expiration dates can be accessed and managed. Currently state equipment under lease contract is not centrally or

¹⁰ §74-85.4.J-M

¹¹ Term used in the leasing industry for contracts that automatically renew or extend at the end of term unless lessor is notified lessee 30-90 days before end of lease. These renewal clauses can sometimes extend a lease or lease purchase for a renewal of the original term without lessee consent.

^{11a} §74-85.4 H-M

locally inventoried by DCS or Central Purchasing. Interviews with DCS employees revealed that no inventory database was required of leased equipment since it was not an asset owned by the State. Although leased equipment is not a capital asset owned by the state it is important that the state maintain a centralized inventory of leased equipment for the purpose of contract management, equipment utilization management, vendor utilization management, potential supplier billing and equipment contest, and theft prevention. The IBM team is working with Central Purchasing to create new Copier bids and no information was available regarding the number of copiers currently under lease. It is extremely difficult to properly create an invitation to bid for copiers or any item when there is no data showing how many copiers or items the state presently utilizes or requires. IBM therefore recommended that Central Purchasing solicit all eight copier suppliers for their company inventories lists showing any and all state leased copier equipment. As of this writing not all lists have been returned from copier suppliers but estimates now show approximately 1,200 (one thousand two hundred) copiers are under lease contracts with an estimated payment of \$1,300,000 (One million three hundred thousand) per month excluding state colleges and universities. Data pertaining to the quantity, lease contracts expirations, monthly cost, and whereabouts of leased telecommunications equipment and computers is unknown. Legislation to include leased equipment within the statewide inventory or a centralized database for the above purposes is recommended by IBM. [back to DCS Report]

Powers and duties of State Purchasing Director

Separate of or in conjunction with the Department of Central Services Director, The State Purchasing Director has the ability to exercise a wide breadth of delegation. The description of duties of the State Purchasing Director consumes over four pages and 180 lines within the Central Purchasing Act. No section within the CPA dedicates as much legislation to a single subject matter as this section. This point is made to emphasize the attention dedicated to the duties of this position and how the Purchasing Director can and should utilize his or her authority.

Under supervision of the Director of the Department of Central Services, the State Purchasing Director has sole and exclusive authority and responsibility for all acquisitions used or consumed by state agencies¹².

IBM: The Central Purchasing Act goes to great length in detailing the state acquisition process providing warnings and penalties for non-compliance. The fact that the State Purchasing Director has exclusive authority and responsibility for all acquisitions provides overarching authority for he or she to procure by any means deemed necessary. The State Purchasing Director has full authority to determine the particular brand, model, of each acquisition and to draft or invoke specifications establishing the requirements for all

¹² §74-85.5 A. Powers and duties of State Purchasing Director.

necessary contracts or purchase orders¹³. Control over determining the form and manner of submission for bids or proposals and the manner of accepting and opening bids or proposals.¹⁴ Determine conditions under which any of the rules herein authorized may be waived¹⁵ and determining amounts of and deposits on any bond required to be submitted with a bid.¹⁶

The Director has the authority to allow state agency use of a state purchase card to make acquisitions; and any other matter or practice which relates to the responsibilities of the Director of the Department of Central Services¹⁷. IBM has researched Pcard spend data and made several observations/findings. The Pcard is efficient, convenient, and can reduce accounts payable related labor and costs. However Pcard purchases on the most part encourage maverick spend^{17a}. Pcard data shows thousands of transactions conducted with suppliers that are not on state contract and offer list prices only. These types of transactions are costing the state thousands to millions of dollars. In addition to paying more with Pcards, tracking Pcard spend by transaction is very difficult since Pcard reporting systems do not capture the price and nor description of each item except for a few national office supply chains. The lack of detail from Pcard purchases makes it nearly impossible for the state to control spending for any items under \$2,500. IBM recommends requiring suppliers to report transaction data by Merchant Code, item, price, and description within all invitations to bid (ITB) whenever feasible. This will ensure that contract usage will be tracked when using state employees pay with Pcards and that usage can be utilized for contract management purposes. [back to DCS Report]

Additionally IBM recommends paying large bills such as lease and utility payments by individual PO (not blanket PO's) or against itemized invoices using the State Agency Pcard which allows transactions over \$2,500. Invoices of this type are contained in the Peoplesoft A/P database and can provide detailed historical spend data not typically captured by the Pcard reporting system. Additionally the larger transactions will increase the Pcard rebate amount issued to agencies for every dollar spent on the Pcard.¹⁸ [back to DCS Report]

The Pcard does present a daunting challenge in regard to contract compliance with State Use and statewide contracts. The State Purchasing Director is to ensure compliance and to be aware of any acquisition by any state agency found not to be in compliance with those sections or rules.¹⁹ Pcard spend data shows a plethora of transactions to be with office supply vendors which are not part of

¹³ §74-85.5 B

¹⁴ §74-85.5 C

¹⁵ §74-85.5 C.6

¹⁶ §74-85.5 C.7

¹⁷ §74-85.5 C.15-16

^{17a} The ability to purchase items that are not on state contract bringing non-compliance to established pricing and related contracts.

¹⁸ State Pcard contract includes a 1% rebate from Chase Bank for all transactions utilizing the Pcard.

¹⁹ §74-85.5 E.3-4

State Use. The CPA and State Use rules mandate compliance. IBM recommends that Central Purchasing closely track Pcard spending with off-contract office supply retailers and take appropriate action with the cardholders. [back...]

The State Purchasing Director has authority to enter into any statewide, multi-state or multi-governmental contract, utilize contracts awarded by other governmental agencies, including agencies of the United States of America, and designate contracts described in this subsection for use by state agencies.²⁰ The Director has exercised authority to enter into multi-state contracts with the Western States Contracting Alliance and the Minnesota Multi-state Contracting Alliance. Another term used for Multi-state Contracts is Group Purchasing Organizations (GPO). IBM recognizes the convenience of utilizing multi-state /GPO contracts however cautions the state that the current multi-state contracts were awarded without specific justification. IBM requested data from Central Purchasing showing contract award evaluation criteria, pre-bid pricing baselines, market baskets with usage, state spend, and proof of savings by utilizing the multi-state contracts. The response of this request showed that no justification for joining the multi-state contracts was performed by Central Purchasing.

Typically contract pricing is re-negotiated when significant increases in spending are brought to suppliers. IBM research showed that when a state joins an existing GPO bringing several million dollars of additional spend, the GPO contract pricing was not reduced. The Government Accounting Office (GAO) provided a pilot study and found that GPO's did not always obtain better prices for member hospitals. "Compared to hospitals purchasing on their own, median GPO-negotiated prices ranged from 1 to 5 percent higher for safety needles, and 26 percent lower to 39 percent higher for pacemakers. Hospitals using contracts negotiated by large GPO's often paid more than those buying on their own."^{20a} IBM recommends that the State Purchasing Director evaluate all existing and renewing GPO contracts by testing against other GPO, GSA, or single entity contracts. Additionally IBM recommends for contracts typically awarded to GPO's, that the State Purchasing Director create an ITB inviting all suppliers and GPO's to compete for the best pricing and to compare whether existing GSA contracts provide better pricing than responses received. Since there has been no competitive ITB process for awarding GPO contracts, Central Purchasing has not performed proper due diligence to ensure awards are given for the best pricing and supplier. [back to DCS Report]

The State Purchasing Director may develop and test new contracting policies and procedures that hold potential for making the Purchasing Division more effective and efficient²¹ IBM therefore recommends that the State Purchasing Director implement the following procedures throughout the department and

²⁰ §74-85.5 G

^{20a} GAO Study presented by JoAnne Bailey, MSPH, Senior Health Policy Analyst, U.S. General Accounting Office. www.gao.gov/cgi-bin/getrpt?GAO-02-690T. See Exhibit 3

²¹ §74-85.5 H

agency wide as a first phase of capturing supplier data with other phases of training to follow:

- Capture all contract spend by revenue, volume, itemization, for the purpose of benchmarking, creating pricing baselines, and overall contract management.
- Data capture to be achieved by creating uniform supplier usage data required monthly or quarterly by all suppliers in the form of electronic spreadsheet or online.
- Establish uniform price evaluation procedures for the purpose of awarding contracts
- Incorporate calculation of weighted volume averaging into all multi-item multiple quantity contracts
- Train all Purchasing Officers on these procedures and amend purchasing rules that would mandate compliance.^{21a}
- Reestablish or initiate of criteria for the use of sealed bid contracting procedures, negotiated contracting procedures, selection of types of contracts, post award administration of purchase orders and contracts, contract modifications, termination of contracts, and contract pricing to incorporate the capture of supplier and spend metrics.^{21b} [back to DCS Report]

The State Purchasing Director is to undertake the use of electronic commerce pursuant to the Oklahoma Online Bidding Act for solicitation, notification, and other purchasing processes.²² IBM recommends that the State Purchasing Director require that all ITB be sent out in digital format^{22a} for the purpose to save paper and most of all eliminate time currently spent on manual compilation of bid responses. Nearly every ITB provided to suppliers is distributed in paper form. Not only is this costly to the state but counter productive with the enormous time spent manually tabulating and compiling bid responses or typing responses into a computer spreadsheet. Hours of time could be saved if every bid response came into purchasing with all pricing entered on a spreadsheet by the potential supplier. Purchasing officers would simply combine all responder's spreadsheets into one spreadsheet that can then be utilized for side by side comparison or be sorted for analysis. Some bids receive 10-20 responses and the time taken for manual compilation could be used for other important tasks related to the purchasing process. IBM recommends that the State Purchasing Director initiate training on a spreadsheet software program of choice for all purchasing officers and staff. Presently 2 or 3 of the present purchasing staff are utilizing or implementing spreadsheet software. [back to DCS Report]

^{21a} §74-85.5.F.1 "When recommended by the State Purchasing Director, based on written findings by the State Purchasing Director, the Director of the Department of Central Services may require retraining of purchasing staff found not to be in compliance with provisions of the CPA". IBM concurs that the CPA requires collection of supplier spend data and contract management processes which to date are not in place statewide.

^{21b} §74-85.5.J.4

²² §74-85.5.J.1

^{22a} Digital Format: Computer file format such as MS Word or Excel

The State Purchasing Director is to direct a program to identify vendors with poor delivery and performance records.^{22b} This program consists of a Vendor Performance Quality Report form^{22c} that is available for download on the Central Purchasing website. The form serves as a complaint form filled out by a Purchasing Officer to identify suppliers that fail to meet specifications, delivery expectations, or quality specifications. IBM recommends that the State Purchasing Director include a proactive continual process of monitoring supplier compliance, performance, and collection of supplier usage reports as opposed to a program that only identifies poor performing suppliers after the fact. [back...]

In addition to monitoring supplier performance, IBM recommends the Director to incorporate a survey process that allows state agencies and suppliers to identify strengths and areas of improvement regarding the service provided by Central Purchasing. A program of this type would promulgate fairness to all who interface with Central Purchasing and establish a fair and balanced method for evaluating suppliers and Purchasing employees. With proper management of the program and effective resolution of areas of improvement, supplier survey results of Central Purchasing could be published as a mode of attracting the best suppliers to doing business with the State of Oklahoma and establish the State as conducting leading edge best practices. This would comply with the CPA requirement that the State Purchasing Director establish continual improvement in the quality and performance of the Purchasing Division through training programs, development of benchmarks and key management indicators²³. [back...]

The State Purchasing Director has broad authority presently established by the CPA to initiate many of the IBM recommendation within this analysis to achieve cost savings for the State of Oklahoma²⁴.

Competitive Bid or Proposal Procedures

The Central Purchasing Act requires that acquisitions be awarded to the lowest and best, or best value, bidder²⁵. The criteria listed for establishing best value includes operational cost, quality, technical competency, delivery and implementation, facilitation of data transfer, systems integration, warranties, guarantees, return policy, bidder's financial stability, bidder's experience, record of successful past performance, anticipated acceptance, proven and innovative use of current technologies that lead to quality results, adherence to the state agency's planning documents and announced strategic programs.

IBM: Central Purchasing lacks consistent specific procedures and processes to quantitatively evaluate, measure, and award best value contracts as the CPA

^{22b} §74-85.5.J.3

^{22c} See Exhibit 4- Vendor Performance Quality Report,

²³ §74-85.5.J.5

²⁴ §74-85.5.P

²⁵ Best Value, §85.2.2 Lowest and Best §85.2.19, Award of bids, § 85.17.B

states. Central Purchasing does not reveal to potential bidders the rank and/or weight of importance of the above listed criteria for best value bids. According to Central Purchasing the purpose of withholding this information is to prevent a supplier from emphasizing the higher ranked criteria and placing less emphasis on the lower ranking criteria²⁶. IBM agrees with the National Association of State Procurement Officials (NASPO) that the "Request for Proposal should state the evaluation criteria in order of their importance or individually weighted".²⁷ If Central Purchasing had measurement systems in place to award according to best value they would be much more effective in selecting the very best value for the state, however methods of awarding contracts are currently ineffective and should never have been implemented. The majority of State Wide contracts have been awarded without the ability to quantifiably measure total costs of ownership, financial stability of a supplier, record of past performance, operational costs, and bidder's experience. [\[back to DCS Report\]](#)

Another concern identified by IBM is sourcing of suppliers and the methods utilized by Central Purchasing for bid award. The specifics of these areas of concern are fully addressed within the [Supplier Management](#) and [Vendor Registration and Sourcing](#) sections of this analysis however one example of how Central Purchasing has erroneously awarded statewide bids by price criteria is the Bottom Line Sum Method. Figure 2 shows a methodology utilized by Central Purchasing to evaluate and determine lowest price within a bid response. Central Purchasing adds the suppliers total cost of items bid, compares the totals with the other responding suppliers, and awards to the supplier with the lowest total. This method would have some merit if it were used only on bids for multiple items of single quantity. However this method has been widely used by Central Purchasing to award contracts ranging from tens of thousands to millions of dollars when seeking bid responses for items requiring multiple quantities. Figure 2 illustrates that vendor "A" would be acknowledged as having the lowest price according to Central Purchasing methodology without accounting for annual consumption volumes. Figure 3 uses the same pricing provided in figure 2 but applies it to the state's annual consumption.^{27a} When consumption is calculated into the suppliers' responses vendor "B" is acknowledged as having the lowest price and provides a savings of \$700,000 (seven hundred thousand dollars) over vendor "A".

Although the CPA defines best value and lowest price there is no requirement to include historical purchasing volumes before making award. IBM recommends that the State Purchasing Director immediately incorporate weighted averaging or the state should amended legislation that it becomes part of the equation in determining best price. [Considering the impact of this one example the state has most likely wasted millions of dollars by utilizing this method of calculation.](#)

²⁶ CPO Interview 10-13-05

²⁷ The book of NASPO Principles and Practices page 59, copyright 1997

^{27a} Simulated for purpose of example

[Suppliers could easily protest present contracts if they were aware of this method of tabulation.](#) [back to DCS Report]

Figure 2

Item	Vendor A	Vendor B
Printer Cartridge	\$199	\$209
Printer Toner	\$39	\$31
Printer Head	\$6	\$4
Cleaner 4 oz.	\$1.50	\$4
TOTAL	\$245.50*	\$248

Winner= VENDOR "A" by \$2.50

Figure 3

Item	Annual Consumption	Vendor A	Vendor B
Printer Drum	20,000	\$3.98M	\$4.18M
Printer Toner	142,000	\$5.538M	\$4.402M
Printer Head	13,000	\$78K	\$52K
Cleaner 4 oz.	18,500	\$27.775K	\$74K
Total		\$10.5M	\$9.8M

Winner= VENDOR "B" by \$700 Thousand

Surplus Property Program

State Agencies no longer needing assets can request approval of their transfer to the state Surplus Property Program. Once the transfer is approved the State Surplus Department will receive and store the goods for resale to state agencies or public auctions.

IBM: Utilization of the state surplus program and associated legislation is not currently being enforced. The language describing how agencies should utilize the program is soft: "Each chief administrative officer of any state agency is *encouraged* to make needed purchases of office furniture or equipment, of other equipment or machinery, and of tools and hardware from the surplus property program".²⁸ The word *encourage* does not enforce that surplus inventory be utilized before purchasing like items new.

²⁸ § 85.9B

One alarming factor regarding the State Surplus Program is there is no inventory and/or control of surplus property. The state does not have the means to determine the value of surplus inventory, condition, quantity, or its whereabouts whether manually or through a computer based tracking system. Some surplus items are auctioned from a website which is still not tied to any centralized inventory database. The only records kept pertaining to surplus inventory are a record of quantity, description and price sold, at the public auction or to a state agency. Should an agency need to verify what inventory was available for purchase they would need to drive to the surplus facility and search the entire contents of the warehouse to find out if the item they need is in storage. Inventory is transferred to surplus by filling out a surplus transfer form. This form is in paper format and could not be digitally imported to an inventory data base if one were available.^{Exhibit 5} Even though the entire transfer process of surplus inventory is manual legislation states that the Director of Central Purchasing is responsible for making state agencies aware of inventory within the state surplus program through electronic means.²⁹ Although specific mention of using electronic means for the purpose of inventory is not present, it does not make sense to use electronic means just for program awareness. Another case for under utilization of the program is that proceeds from inventory sold do not go back to the owning agency unless the inventory is an automobile; in that case 90% of the proceeds are returned to the agency. [back to DCS Report]

Because there is no payment for transferred goods back to the owning agency, many of the agencies lease large warehouses for replenishment, storage, and excess inventory so they may keep and access their inventory as needed. Currently there are 20 agency warehouses in the Oklahoma City area totaling over 380,000 square feet. The cost per square foot varies from \$2.00 to \$7.00 per square foot annually. As the state agencies grow so grows their surplus, leasing of additional warehouse space, and continued renewal of lease contracts. Some of the leases identified have been renewed every year for over 30 years. The State could have owned many of these building as opposed to renewing leases. Mandating use of surplus and/or reduction in warehouse space recommended by item and also identified as a category for savings.

Enterprise Contracts

Agencies within the executive branch are to coordinate computer software maintenance and hardware maintenance contracts through the Purchasing Division of the Department of Central Services as required by the law.³⁰

IBM: The Purchasing Director is able to negotiate consolidation contracts in lieu of or in conjunction with bidding procedures to reduce acquisition cost. This can be done in the form of consolidation contracts, enterprise contracts or high technology system contracts. Enterprise contracts have been in place or pursued for IT consulting, copiers, and digital imaging services. Typically the Purchasing Director has chosen that enterprise agreements not be competitively

²⁹ § 85.5.J.6

bid. IBM recommends that this practice cease due to the fact that such large potential contracts should include well leveraged competitive bidding. Some suppliers have been awarded two contracts; a competitive bid contract, and non-competitive enterprise contract. These suppliers include identical products on both contracts but with different pricing.²⁹ This practice should be allowed only in unique or rare circumstances. When there are two contracts containing many or few of the same products it only causes confusion for agencies and most likely wastes state dollars by agencies unknowingly purchasing products on the higher priced contract. [back to DCS Report]

The CPA also allows for the Purchasing Director to negotiate these contracts to reduce acquisition costs but this duty has not been regularly exercised. The IBM Consulting Team challenged Central Purchasing citing that the Central Purchasing Act did allow the state to negotiate contrary to the stance of the division. The Attorney General has since made it known that Central Purchasing is allowed to negotiate with suppliers. As mentioned previously the CPA is often misinterpreted by Central Purchasing for fear of indictment or from experiencing change. Striving to keep the law should be an assumed virtue for all employees but not a shield from being productive, proactively serving agencies, or saving money for the taxpayer. [back to DCS Report]

Public Records Open for Inspection

State law requires records of the State purchasing Director pertaining to any acquisition to be open during regular business hours. If the State Purchasing Director requires bidders to submit financial or proprietary information he or she may designate the information confidential.³¹

IBM: Central Purchasing is providing public access according to law but lacking in a related area. The Director of Purchasing being able to require bidders to submit financial information as a stipulation for award needs to occur more frequently. Many statewide contracts should require a supplier to prove they are financially sound and able to incur the responsibility of a large volume contract. However the consensus among the Certified Purchasing Officers is that if they do collect financial information they do not know how to analyze it or understand it thus it is seldom collected or read³². The CPA does not benefit the state if there are not measurements and processes in place to ensure that Central Purchasing employees have the necessary skills to fulfill requirements of the law. Most assuredly numerous suppliers have been selected over time without any consideration of their financial stability. [back to DCS Report]

Vendor Registration and Sourcing

²³⁰ Xerox Contract SW170 and SW171

³¹ § 85.10

³² Statement made by Certified Purchasing Officers in 10-13-05 meeting with IBM Consulting Team.

The Department of Central Services utilizes the Vendor Registration program register suppliers that desiring to do business with the state through the Purchasing Division. Central Purchasing requires suppliers to register separately for each commodity and collects a fee of Twenty-five Dollars (\$25.00) per commodity. Upon registration the supplier remains on the registered vendor list for one year and is allowed to receive all bid notices in that classification for that period, and to receive one copy of the State's Commodity Classification Manual when published.³³

IBM: The Registration program is being administered as the Central Purchasing Act requires. This process is quite common throughout state government but does have severe weaknesses in proactively sourcing the best performing and most financially qualified suppliers. The resulting outcome of the registration program process is a means for potential suppliers to identify themselves to the state, which commodities and services that they potentially could provide, and an agreement by the state to notify them via email, fax or letter of invitations to bids relating to the commodities and services in which they are registered.

Other than the vendor registration program there is no other official means of proactively sourcing suppliers within the Central Purchasing Division. The National Association of State Procurement Officials, NASPO serves as an industry and certification resource for State Governments and states the following: "Some public entities pre-qualify vendors for supplying commodities and services, and prequalification may be a prerequisite for registering as a vendor, or that entity may maintain a separate pre-qualified vendors list. Generally speaking prequalification should be statutorily authorized and the process supported by vigorous testing procedures, sound vendor and product performance data, and information about the responsibility of the vendor. Where those elements are absent, a registered vendors list likely will simply consist of those vendors expressing interest in doing business with the public entity, and will not represent any affirmation about ability."³⁴ Vigorous testing procedures to qualify registered suppliers are not in place within the Central Purchasing Division. This creates an exposure by awarding contracts to suppliers not being thoroughly tested, eventually bringing exposure to state by their inability to fulfill the contract. An example of this exposure was a printing supplier awarded a contract to print material for the state. The material contained specific technical, confidentiality, and time sensitive requirements. After learning that a scheduled deadline was on the line concerned Central Purchasing personnel made a visit to the supplier site and discovered that two individuals were printing the material from a copier in the garage of a residence. The suppliers' contract was properly canceled and the printing materials were printed through another source.³⁵

³³ § 85.33. Registration of State Vendors Revolving Fund

³⁴ The book of NASPO Principles and Practices page 52-53, copyright 1997. The State of Oklahoma Central Purchasing Certified Procurement Officer training program includes the book of NASPO Principles and Practices as part of its certification curriculum.

³⁵ Interview with Department of Central Services employee. October 13,2005

The registered vendor list has become the single resource for Central Procurement to source potential suppliers with no other program for identifying, qualifying, or testing for the best potential suppliers for the state is in place. The IBM team presented sourcing recommendations from the National Association of Purchasing Officers Principles and Practices book and an IBM whitepaper on preparing a Request for Information (RFI) to the Central Purchasing Officers during an employee meeting.^{36,37} The purpose of the presentation was to show purchasing officers how to source suppliers other than the vendor registration program. IBM taught how to search industry databases such as Hoovers, Dun and Bradstreet, Industry Trade Associations, and news services. Additionally information was presented to initiate processes to include supplier testing, qualify sound vendor and product performance data, and methods to determine related successes and responsibilities of the potential suppliers. Suggestions on how to establish pre-bid proposals/conferences were taught using the NASPO Principles and Practices as a guideline. Following the Central Services personnel contested the white paper and NASPO principles as being a potential conflict to the Central Purchasing Act. IBM does not agree, there is nothing in the CPA substantiating these concerns.

To source the best supplier for the state Central Purchasing must not rely on the Vendor Registration program as the only sourcing program now in place. Although it would require cultural change, the State Purchasing Director should promote strategic sourcing and implement best practices regarding strategic supplier sourcing programs department and agency wide. Current strategic sourcing practices are contrary to published goals stating Central Purchasing will “provide efficient services that meet the customers’ needs by innovative strategic sourcing programs, taking advantage of emerging technologies, practices, resources, and economies of scale”.^{37a} [back to DCS Report]

Report of Acquisitions

Each chief administrative officer of a state agency shall submit to the State Purchasing Director by November 1 of each year a report listing all acquisitions exceeding Ten Thousand Dollars (\$10,000.00) but not exceeding Twenty-five Thousand Dollars (\$25,000.00) of the state agency for the preceding fiscal year. The report is to include professional services contracts, nonprofessional services contracts, and contracts for the leasing of property including real property contracts and any lease agreements for products or equipment. The report shall contain the name of the supplier, a description of each acquisition, the purchase price of the acquisition, and the total amount expended to date for the preceding fiscal year for the acquisition. The report shall specifically identify sole source and sole brand acquisitions. The state agency shall submit the report to the State Auditor and Inspector and to the Department of Central Services. The state

³⁶ See Exhibit 6. IBM White Paper- Sourcing Suppliers

³⁷ The book of NASPO Principles and Practices, Pre-Solicitation and Pre-Bid/Proposal Conferences, page 53, copyright 1997

^{37a} Central Purchasing website home page. http://www.dcs.ok.gov/Central_Purchasing/index.html

agency shall submit the report to any member of the Appropriations and Budget Committee of the House of Representatives or Appropriations Committee of the Senate if a member so requests.³⁸

IBM: Acquisition reports could be very beneficial to the state for collecting spend data, asset management, and providing the ability to manage lease contracts in a centralized database. As pointed out in this analysis there are no processes or databases in place to capture the information required by these reports and IBM was anxious to view them for analysis. IBM sought these reports from Central Purchasing and was provided 5 reports out of all agencies in the state. The reports were not beneficial. They contained only a partial amount of the required information. Most reports consisted of the name of the vendor, amount paid, and a broad description of goods as opposed to an itemized detail.³⁹ There was no uniformity or template required for the reports nor a follow up process on behalf of Central Services to contact agencies not reporting. IBM urges the state to mandate collection of this data whether it is in the form of an electronic template/report form or an enterprise wide effort to implement data collection into a centralized database. [back to DCS Report]

³⁸ § 85.43 Annual Report of Acquisitions

³⁹ Exhibit 7- Agency Acquisition reports

Exhibits

Group Purchasing Organizations

Pilot Study Suggests Large Buying Groups Do
Not Always Offer Hospitals Lower Prices

Presented by JoAnne Bailey, MSPH,
Senior Health Policy Analyst, U.S. General Accounting Office

Background: Overview of GPOs

- Negotiate contracts with vendors (e.g., manufacturers) on behalf of members (e.g., hospitals)
 - Expected to use volume purchasing to negotiate lower prices
 - Vendors pay GPOs administrative fees based on sales
 - Fees finance operations
 - Surplus fees distributed to owners or used to finance new ventures
 - GPOs vary by size, scope of services and ownership type
-

Background: Antitrust Issues

DOJ & FTC guidelines include **2 tests** to help gauge whether an arrangement is likely to raise antitrust concerns:

1. Purchases through a GPO must account for less than 35 percent of the total sales of the product or service (such as pacemakers) in the relevant market.
 2. The cost of purchases through a GPO by each member hospital that competes with other members must amount to less than 20 percent of each hospital's total revenues.
-

Background: Anti-kickback Issues

To each participating member, a GPO must disclose:

1. That fees are to be 3 percent or less of the purchase price, or the amount or maximum amount that each vendor will pay.
2. At least annually, the amount received from each vendor with respect to purchases made by or on behalf of the member.

Background: Why We Did The Study

- Requested by Senate Subcommittee on Antitrust, Competition, and Business and Consumer Rights, Committee on the Judiciary
 - Small manufacturers of medical devices had alleged that:
 - Contracting practices of some large GPOs block their access to hospital purchasing decisionmakers
 - These practices deny patients access to innovative or superior medical devices
-

Objectives, Scope, and Methodology

- **Research questions**

- To what extent did hospitals in one market buying pacemakers and safety needles save money when using a GPO contract?
- To what extent did these hospitals purchase pacemakers and safety needles from small manufacturers?

- **Methodology**

- Interviews
 - Analyses of 18 hospitals' price and purchase data for select devices in one greater metropolitan area
-

Finding 1: GPOs Did Not Always Obtain Better Prices for Member Hospitals

Compared to hospitals purchasing on their own:

- Median GPO-negotiated price ranged from:
 - 1 to 5 percent higher for safety needles
 - 26 percent lower to 39 percent higher for pacemakers
- Hospitals using contracts negotiated by large GPOs often paid more than those buying on their own

Finding 1: Savings Depended on the Size of the Hospital

Compared with their peers purchasing pacemakers on their own:

- Four small hospitals always did better with a GPO contract
- Eleven medium-sized hospitals did better with a GPO contract for 40 percent of the models
- Three large hospitals rarely did better with a GPO contract

Finding 1: Savings Offered by Large GPOs Varied by Device

Compared to median price paid by hospitals using smaller-sized GPOs:

- Median price was nearly always lower for hospitals using a large GPO's contract to buy safety needles
- Large GPO contract infrequently yielded better prices than smaller GPO contracts for pacemaker purchases

Finding 2: Hospitals Rarely Purchased From Small Manufacturers

- Hospitals bought pacemakers and safety needles predominantly from large manufacturers—whether using a GPO negotiated contract or not
- Almost all hospitals in our sample belonged to GPOs—we could not tell whether GPOs’ contracting practices influenced these decisions or not

Concluding Observations

- Data from pilot study raises questions about one of the intended benefits—lower prices—from having large GPOs
- More evidence on GPOs and their effects is needed
- At the Subcommittee's request, we plan to obtain data from a broader array of geographic areas and for other medical/surgical supplies and devices, hospitals, and GPOs.

For additional information

- Statement for the Record available at www.gao.gov/cgi-bin/getrpt?GAO-02-690T (Group Purchasing Organizations: Pilot Study Suggests Large Buying Groups Do Not Always Offer Hospitals Lower Prices)



State of Oklahoma
Department of Central Services
Central Purchasing

VENDOR PERFORMANCE QUALITY REPORT

Complete this form to report complaints against vendors for goods or services purchased by state agencies. Be sure to furnish all necessary details so that a satisfactory resolution of the complaint can be made. Please verify all information to insure accuracy. Complaint reports become a permanent record of the vendor and must be accurate to guarantee an intelligent and equitable resolution and to serve as a guide for future action regarding a vendor's performance.

AGENCY INFORMATION

Name: _____ Date this report was completed: _____
Address: _____
Phone: _____ FAX: _____
CPO: _____
Individual who initiated complaint - Name: _____ Phone: () _____

VENDOR INFORMATION

Name: _____ FEI or SSN: _____
Contact: _____ Address: _____
Phone: _____ FAX: _____ City/State/Zip: _____

ORDER INFORMATION

DCS Req. #: _____ Agency Req. #: _____
Delivery Date of Last Shipment: _____ PO#: _____ BPO#: _____
Item #: _____ "00" Contract #: _____

COMPLAINT (check ALL that apply)

☐ Failure to meet specs/performance ☐ Partial Delivery/Non-Delivery
☐ Unauthorized substitution ☐ Quality
☐ Other (please explain) _____

Good or Service that is _____

Comments: _____

DESIRED RESOLUTION: _____

Additional supporting data attached (i.e. pictures, sample, text) ☐ Yes ☐ No

Mail To: Customer Relations
Central Purchasing Division
Department of Central Services
2401 N. Lincoln Blvd, Suite 116
Oklahoma City OK 73105

For questions or comments, call Customer Relations at (405) 521-2231 or fax to (405) 522-1077.



**State of Oklahoma
Department of Central Services
State Surplus**

**SURPLUS PROPERTY
TRANSFER FORM**

From: _____
Agency Name, Division & Location

Date: _____

Contact Person

() _____
Phone Number

() _____
Fax Number

**To: Department of Central Services
Central Purchasing Division
ATTN: Administrator
2401 N. Lincoln, Suite 106
Oklahoma City, OK 73105**

Fax forms to: (405) 522-6266

Agencies may not dispose of surplus property without prior approval of DCS. It is the responsibility of the surplusing agency to (1) delete these items from its inventory and notify DCS Risk Management, if applicable, for deletion from insurance coverage and (2) maintain surplus records in accordance with 74 O.S. § 62.1 et. seq.

The property listed on the following page(s) is surplus to the needs of this agency for the following reason(s):
(MUST check all that apply)

- ☐ No longer needed to perform the duties of the agency
- ☐ Broken and cost to repair is not economical
- ☐ Obsolete and not compatible with newer equipment.
- ☐ Other (Explain): _____

Approval is requested for the following disposition of this surplus property:
(MUST indicate recommended disposition):

- ☐ Sell by sealed bid. All vendors registered with Central Purchasing and expressing interest in this type of surplus will receive solicitation to bid
- ☐ Sell at public auction.
- ☐ Sell for scrap metal.
- ☐ Transfer to _____
- ☐ Disposal by DCS Surplus Property with no remuneration to this agency.
- ☐ Disposal by other means, which are deemed to be in the best interest of the state.

(Explain): _____

**Call 525-2354 to make arrangements for delivery to DCS State Surplus. Items will be verified at time of delivery to warehouse.
Any proceeds received by DCS for disposal of property will be handled in accordance with 74 O.S. § 62.5**

Surplus Property List

Page _____ of _____

All surplus property must be listed, including property that is not inventoried. Dismantled computer equipment must be so noted. Lined out items or strikeouts will not be accepted and will be returned unapproved. Must include serial number, if applicable, and/or ID #.

(* Required)

[illegible]

Authorized Signature (Required on each page)

(For DCS use only)

(For DCS use only)	
<input type="checkbox"/> Approved <input type="checkbox"/> Denied	
Department of Central Services	Date

Surplus Property List

Page ____ of ____

All surplus property must be listed, including property that is not inventoried. Dismantled computer equipment must be so noted. Lined out items or strikeouts will not be accepted and will be returned unapproved. Must include serial number, if applicable, and/or ID #.

(* Required)

[illegible]

Authorized Signature (Required on each page)

(For DCS use only)

(For DOE use only)	
<input type="checkbox"/> Approved <input type="checkbox"/> Denied	
Department of Central Services	Date



12/06/05

Topic of the Week Series: Request for Information (RFI)

Overview: A Request for Information is an effective means to survey suppliers to collect market intelligence about supplier capabilities and market trends. It may be an effective method for the State of Oklahoma to engage the supply base for certain categories. Supplier registration alone may not necessarily be the best indicator of a supplier's actual capability to fulfill state requirements. An RFI may help pre-qualify suppliers to separate those who are truly capable of meeting State requirements from those who are simply interested in the State's business regardless of their respective qualifications or capabilities.

Purpose: The purpose of a Request for Information (RFI) is to gather market knowledge from suppliers or experts of the market. An RFI is used to gather information needed to understand the Supply Market, complete the Category Strategy and support the analysis of supplier proposals. It can be used in conjunction with the RFP and market research to learn more about the marketplace. An RFI is used to obtain market information when other more efficient means are not available. The list of RFI questions should be modified to meet the requirements for the sourcing activity.

RFIs may include but may not be limited to the following areas:

- Quality Assurance Programs
- Financial Stability
- Service Capabilities
- Plant Locations
- Experience
- References From Clients
- Organizational Structure
- Total Cost of Ownership Ideas
- Case Studies Detailing Experience

RFIs typically consist of a questionnaire with pertinent questions designed to either provide answers or pre-qualify suppliers based upon established criteria. The criteria can be applied to filter or narrow a larger population of supplier candidates down to shorter list of truly qualified candidates. The list of questions on the following page provides an example of typical questions that may be included in an RFI. This list is by no means exhaustive. There are countless other questions that would be suitable to include based upon the particular product or service you are focused on purchasing.

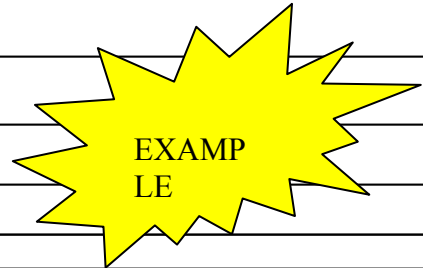


12/06/05

REQUEST FOR INFORMATION

Note: Questions should be added or deleted as appropriate for the category.

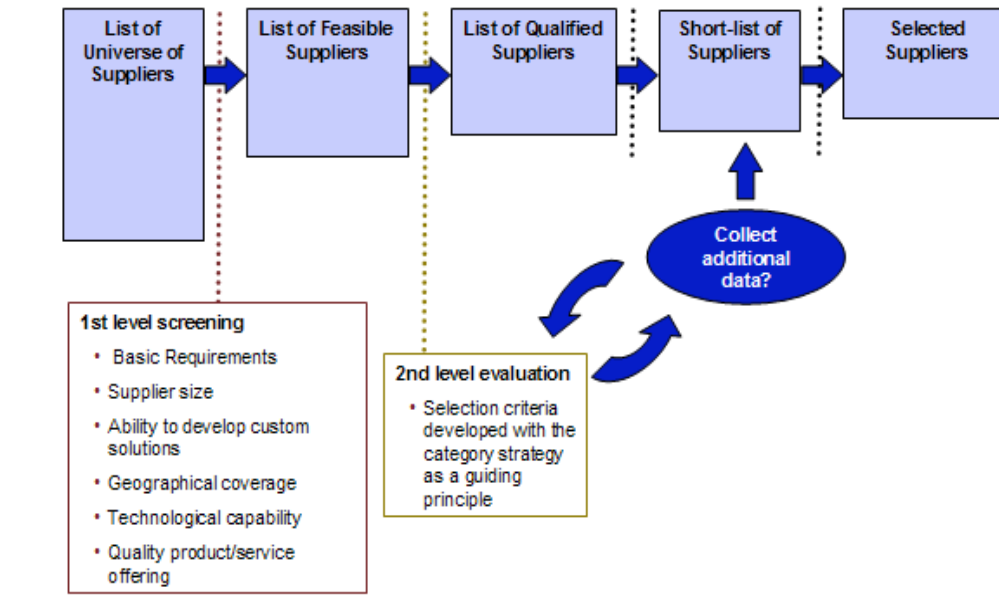
Questions	Responses
COMPANY INFORMATION	COMPANY INFORMATION
Is your company publicly held or privately owned?	
How long has your company been in the marketplace for <category>?	
Describe your ability to support state use programs? Do you currently support these programs for other states?	
Are you anticipating any strategic shifts that may change your position in the marketplace?	
How many people do you employ to service/provide <category>?	
What was your revenue associated with <category> last year?	
Please provide your most recent financial statement.	
Who were your top ten customers in <category> based on last year's revenue?	
MARKET INFORMATION	MARKET INFORMATION
Describe the changes in the market place that you have observed over the last several years.	
What has been the trend in price for <category> over the last several years.	
What have the trends been for supply/demand over the last five years for <category>?	
Who are your main competitors in <category>? Where does your organization rank within the supply base for <category>? (i.e. revenue, quality, ROI, on-time delivery)	
What differentiates your organization from other companies in the marketplace?	
Do you anticipate governmental or environmental regulatory changes that would effect <category>?	
What are the current supply market risks?	
COST CONSIDERATIONS	COST CONSIDERATIONS
Based upon your knowledge of the State of Oklahoma's use of <spend category>, what are your recommendations for reducing our Total Cost of Ownership (overall cost)?	
Do you offer warranties for <category>?	
Does your company accept P-Cards?	
How many service personnel within X, Y, Z region to you have available to call on our facilities?	
Are there typically setup/one-time fees associated with <category>?	
How is your organization streamlining its order and billing processes?	
REFERENCE	REFERENCE
Please provide at least two current customer references that we may contact?	



Filtering Process

The diagram below illustrates the filtering process that takes place throughout a typical RFX cycle. An RFI can act as a filter to narrow a list of the universe of suppliers down to a list of qualified suppliers capable of delivering the product or service to the State.

Supplier Filtering Process



The other use for an RFI is to collect information about a product or service that the State of Oklahoma may have never purchased before. In order to formulate an effective RFP bid document, it may be necessary to send out an RFI to fully understand what the relevant cost drivers are for the product or service you are interested in quoting. This can help bolster the State's understanding of the particular product or service and help develop the subsequent RFP framework.

Sample Evaluation Criteria – Depending upon the importance

Similar to RFPs, RFIs should be accompanied with some sort of evaluation criteria to methodically make decisions as to which suppliers proceed to the next phase of the bid process. Questions should first be evaluated to assess whether or not a response will most likely be subjective or objective. The goal should be to apply the evaluation criteria to predominately objective questions as they tend to be more quantifiable and distinguishable than subjective questions.

Criteria for Evaluation

Actual weighting of criteria should be aligned with category strategy

CAPABILITIES	TIME	SAFETY
<ul style="list-style-type: none"> R&D Capacity Financials Logistics Integration Innovations Geographic locations Plant and Equipment 	<ul style="list-style-type: none"> On-Time Delivery Lead Time Cycle Time Service Response 	<ul style="list-style-type: none"> Safety Statistics Safety program Safety initiatives Safety audits
OTHER	QUALITY & SERVICE	COST
<ul style="list-style-type: none"> Client's % of Supplier Revenue Environmental Programs Labor Stability Human Rights Practices EDI E-Commerce Warranty/Penalties 	<ul style="list-style-type: none"> Quality Response Rejections Preventative Maintenance Sales Service Technical & Admin Service Partnership Account Focus/ Management 	<ul style="list-style-type: none"> Price Stability Inventory JIT Low-Cost Sourcing

The criteria and their ranking may vary widely from sourcing category to sourcing category and customer to customer

Some Additional Criteria :

Question

P-Card Acceptance -

Do you accept P-Card?

Does the supplier require any special terms or provisions associated with accepting P-Card/

Appendix 2

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Procurement Assessment – Summary of Findings and Recommendations



**CENTRAL PURCHASING / DEPT. OF
CENTRAL SERVICES**

Staff Meeting – October 7, 2008

Outline – Key Highlights

- I. Review of Statutes, Rules and Procedures
- II. Spend Analysis and Review of Existing Financial Systems
- III. Procurement Process Review
- IV. Technology Review
- V. Training Program Review
- VI. Organizational Structure Review

Comparison of Agency Delegation Thresholds

REVIEW OF STATUTES,
RULES & PROCEDURES

More than 50 % of the surveyed states in 2007 have delegation thresholds over \$25K in one or more of the purchasing areas (commodities, services and technology)

Sample States with Higher Delegation Thresholds

SAMPLE STATES

State	Commodities	Services	Technology
Alaska	Unlimited	Unlimited	Unlimited
Arizona	Unlimited	Unlimited	Unlimited
Colorado	Unlimited (Group II)	Unlimited (Group II)	Unlimited (Group II)
Connecticut	\$50,000	\$50,000	\$50,000
Hawaii	Unlimited	Unlimited	Unlimited
Idaho	\$50,000	\$50,000	\$50,000
Massachusetts	\$100,000	\$500,000	\$100,000 (hardware) \$500,000 (services)
Missouri	Unlimited	Unlimited	Unlimited
Montana	up to \$100,000	up to \$100,000	up to \$100,000
New York	\$50,000	\$50,000.00	\$50,000
North Dakota	Unlimited	Unlimited	Unlimited/ ITD approval
Oregon	Unlimited	Unlimited	Unlimited
South Carolina	\$50,000	\$50,000	\$50,000
Utah	Unlimited	Unlimited	unlimited

Source: NASPO 2007 Survey of State Government Purchasing Practices; Treya Partners analysis

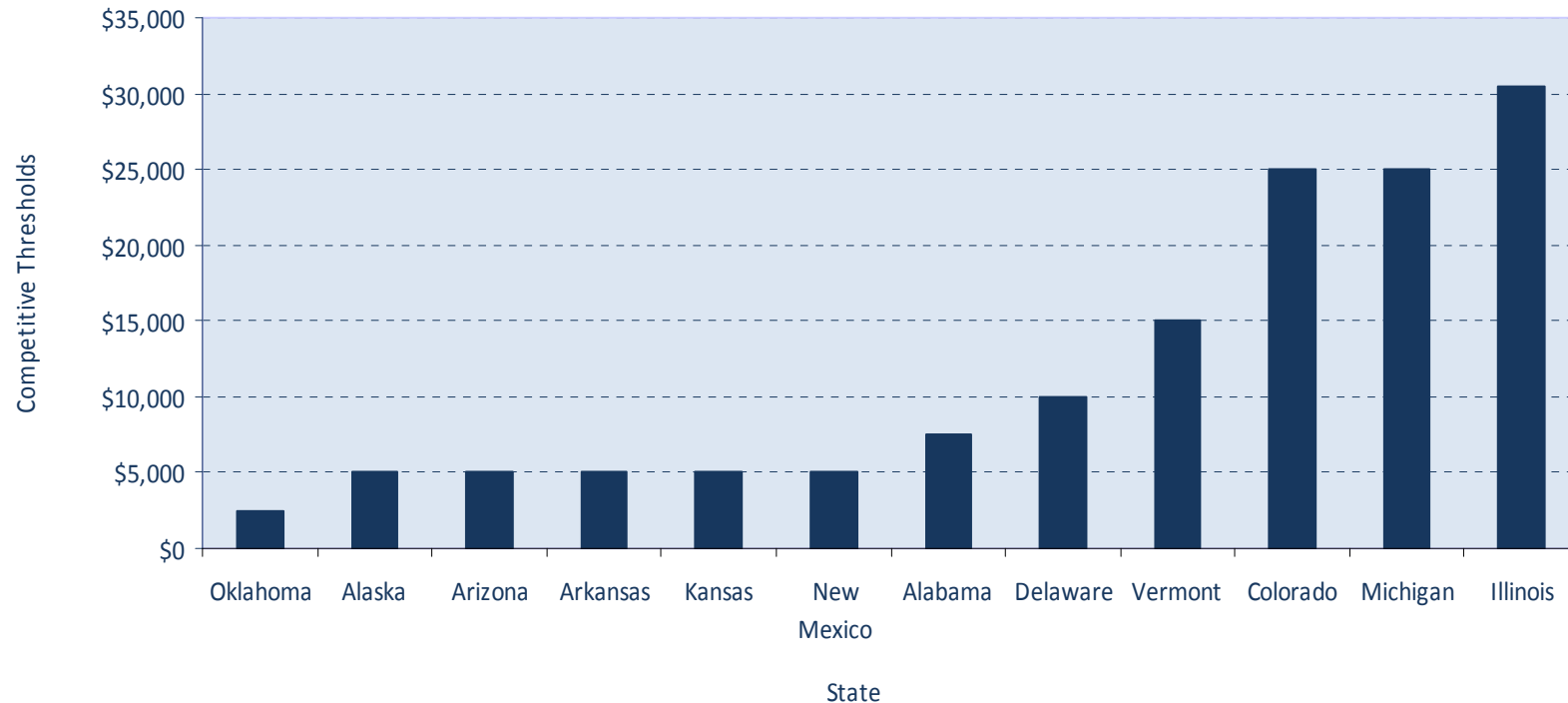
Comparison of Minimum Competitive Thresholds

REVIEW OF STATUTES,
RULES & PROCEDURES

Many states have much higher competitive thresholds than the State of Oklahoma's \$2,500 threshold, as high as \$30,500 for the State of Illinois

Minimum Competitive Thresholds for State Purchases

SAMPLE STATES



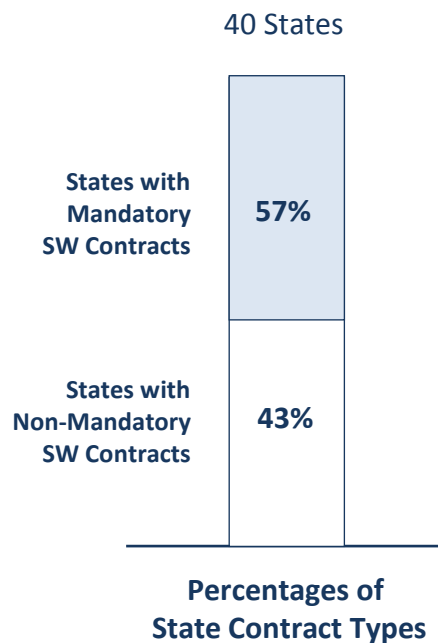
Source: NASPO 2007 Survey of State Government Purchasing Practices; Treya Partners analysis

States Requiring Mandatory Usage of Statewide Contracts

REVIEW OF STATUTES,
RULES & PROCEDURES

About 57% of the surveyed states in 2007 impose mandatory use of statewide contracts on all executive agencies

States with Mandatory Statewide Contracts



Oklahoma Sample of Mandatory and Non- Mandatory Contracts

Mandatory Contracts

- Printers, Accessories & Supplies
- Mail Room Equipment
- Cars & Trucks
- Fuel Management Systems
- Cellular/PCS Service

Non-Mandatory Contracts

- Copper Tubing & Fittings
- Print Shop Supplies
- Tires & Tubes
- Light Bulbs
- Disposable Can Liners
- Rock Salt
- Microsoft Software Products

Key Issues

- Non-mandatory contracts result in loss of leverage and sub-optimal pricing, while increasing the workload on purchasing personnel
- Currently, Central Purchasing does not have a formal process to identify where statewide agreements need to be implemented (current practice is reactive and based on anecdotal experience)

Source: NASPO 2007 Survey of State Government Purchasing Practices; Treya Partners analysis

Recommendations for Changes to Statutes/Rules

REVIEW OF STATUTES, RULES & PROCEDURES

	<u>Current Situation/Impact</u>	<u>Recommended Change/Rationale</u>
Competitive Bidding Thresholds	<ul style="list-style-type: none"> Low threshold (\$2,500) contributes to increased transactional activity and increases procurement cycle times 	<ul style="list-style-type: none"> Increase competitive bidding threshold to \$5,000 or \$10,000 Change will result in increased streamlining of agency purchasing and result in decrease in paperwork and activity required to process low value solicitations Increasing the bidding thresholds to these modest amounts will place Oklahoma on par with other states with higher thresholds
Delegation Thresholds	<ul style="list-style-type: none"> Current agency thresholds (\$25,000) result in a significantly high number of low value solicitations that need to be processed by CP Creates increased workload Promotes transactional mentality with a focus on completing solicitations as quickly as possible (often times at the expense of getting the best price) Shift of focus away from higher value strategic procurements 	<ul style="list-style-type: none"> Increase agency delegation thresholds to \$50,000/\$100,000 utilizing a two-tier approach (higher delegation authority for agencies with more sophisticated and robust procurement organizations, resources, and procedures) Increasing delegation thresholds will dramatically reduce the number of transactions processed by CP and free up resources to focus on higher dollar procurements
Negotiations	<ul style="list-style-type: none"> Rules do not address the ability to conduct “written” negotiations or to conduct multiple rounds of negotiations Results in sub-optimal pricing and value capture in solicitations 	<ul style="list-style-type: none"> Clarify rules to explicitly allow the ability to conduct “written” and multiple round negotiations Increased ability to conduct effective negotiations and obtain best-in-class pricing and terms
Statewide Agreements	<ul style="list-style-type: none"> Not all statewide agreements are mandatory Results in loss of leverage and hampers state’s ability to get best-in-class pricing Creates fragmentation of spend Creates additional transactional workload 	<ul style="list-style-type: none"> Make all Statewide agreements mandatory Use spend analysis, strategic sourcing and an agency participative effort to create new statewide agreements offering improved pricing and better addressing agency needs Increased spend leverage, better pricing and reduction in procurement workload from elimination of duplicative efforts

Preliminary Recommendations for Changes to Statutes/Rules (contd.)

REVIEW OF STATUTES, RULES & PROCEDURES

Current Situation/Impact

Recommended Change/Rationale

Contract Renegotiation	<ul style="list-style-type: none">▪ Current statutes/rules do not address contract renegotiation▪ Limits states ability to advantage of favorable market conditions	<ul style="list-style-type: none">▪ Allow contract renegotiation to permit “opportunistic” negotiation when favorable to State
Split Purchasing	<ul style="list-style-type: none">▪ What constitutes a “purchase” is not clearly defined when it comes to the application of split purchasing▪ Agencies often err on the side of caution and send even legitimate purchases to CP to process resulting in additional transactional burden	<ul style="list-style-type: none">▪ Create clearer definitions and guidelines of “purchases” for the purpose of evaluation of split purchasing. For example, purchases of products or services in different commodity codes, or not available from the same supplier set, should not be considered a single “purchase”▪ Allow greater discretion for CP to review and waive requirement
Solicitation Types	<ul style="list-style-type: none">▪ No clear guidelines exist regarding applicability of ITB vs. RFP	<ul style="list-style-type: none">▪ Establish clearer guidelines such as requiring services to be bid as an RFP and goods above a certain threshold to be bid as an RFP

Observations

- A set of over 25 procedures have been developed by CP
- The set of procedures is comprehensive, address a large number of relevant areas, are well organized (by areas such as pre-solicitation, solicitation, post-solicitation, etc) and provide detailed steps for carrying out various tasks
- Some of the procedures have a very tactical focus (list of “what” to do without necessarily discussing or providing enough detail on “how” to do it)
- Our discussions/interviews with CP personnel indicate that awareness and usage/adoption of these procedures varies with the staff



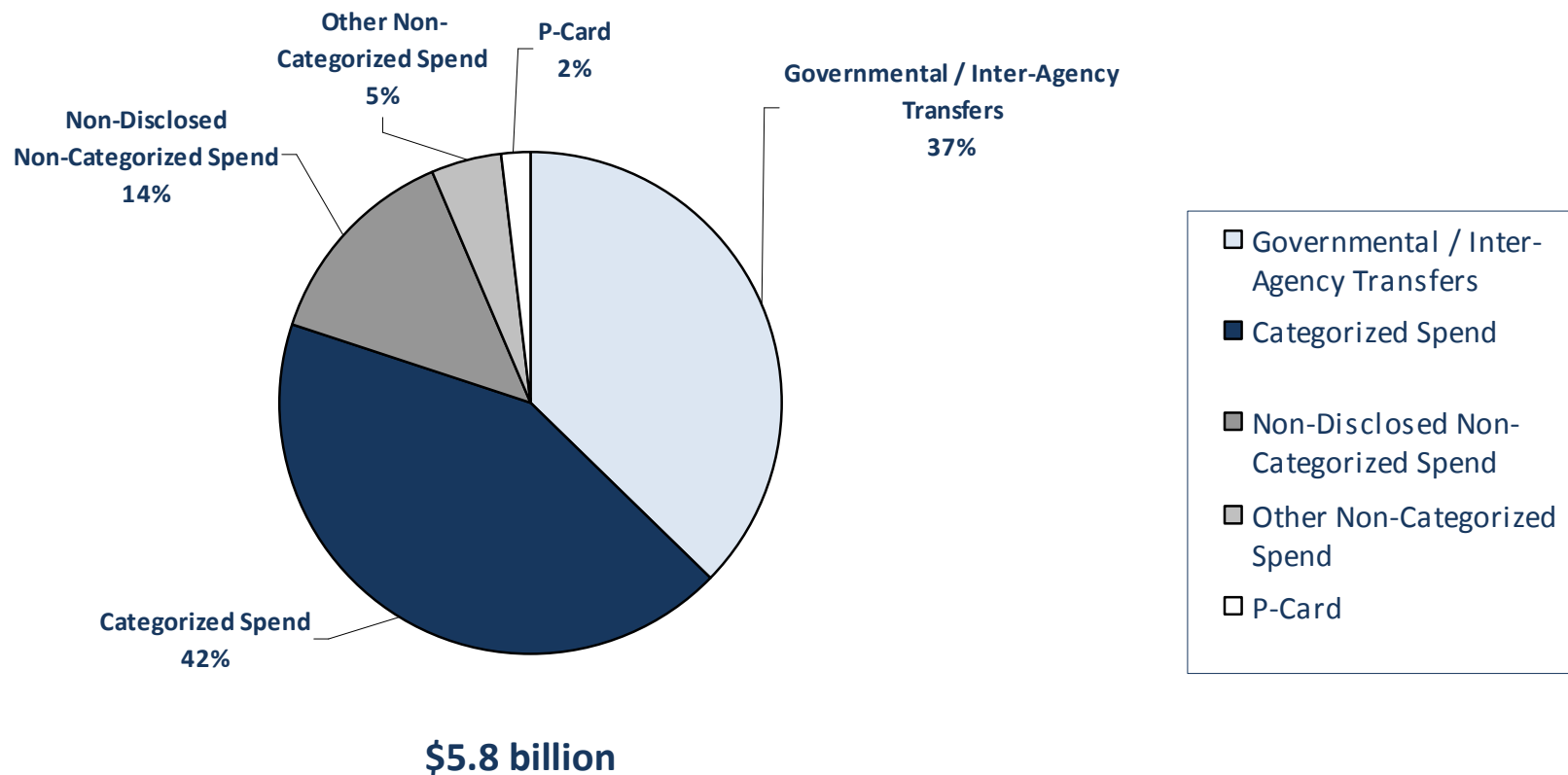
Recommendations

- Create additional procedures in areas such as Negotiations, Selection of a procurement technique (ITB/RFP), Criterion setting/weighting
- Review and revise procedures to add additional guidance focusing on “how” to conduct certain tasks
- Consider creating “checklists” for certain procedures that could then become part of the contract file and could also be used by contract officers to ensure compliance with procedures in conducting solicitations
- Procedures will also need to be revised to mirror any recommended and accepted statute/rule changes

Spend Analysis Overview

SPEND ANALYSIS & REVIEW OF SYSTEMS

Our spend analysis was able to cleanse and classify over 80% of the overall spend, totaling approximately \$5.8 billion, into initial spend categories



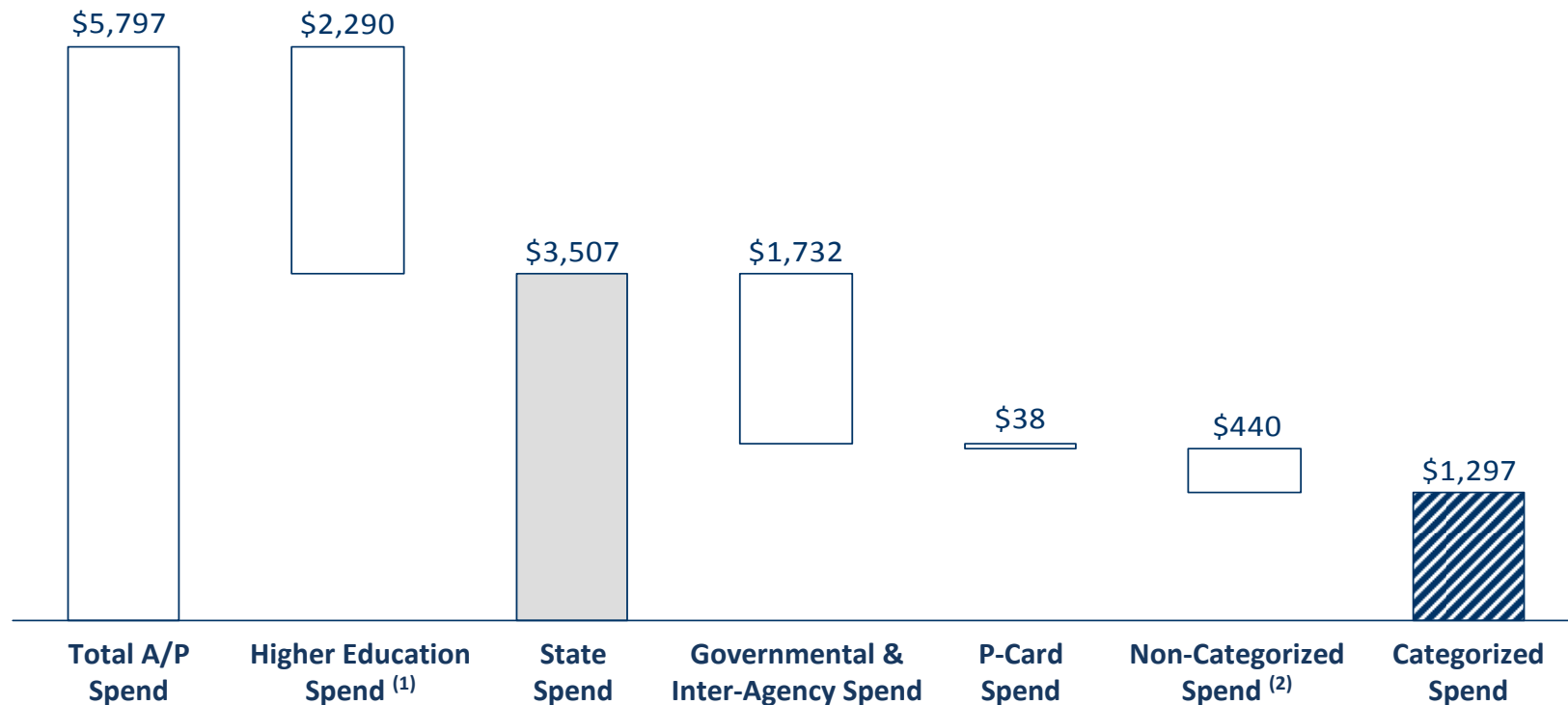
Source: Treya Partners analysis

State of Oklahoma Spend Breakdown

SPEND ANALYSIS &
REVIEW OF SYSTEMS

The A/P spend of approximately \$5.8 billion is comprised of 60% state spend with over 86% classified into initial spend categories as shown below

Spend Breakdown \$ Millions



(1) Further investigation uncovered additional higher education spend with 14 universities using different p-card vendor IDs than the State (e.g. total A/P spend shown above includes \$54 MM in spend for OSU). A follow-on detailed spend analysis should reclassify the spend to account for these p-card vendors

(2) Non-Categorized Spend represents spend with either no supplier name in original A/P data or part of the tail end of the A/P data (making up 5% of the spend) that was not or could not be classified at this time

Source: Treya Partners analysis

Review/Recommendations for Existing Financial Systems

SPEND ANALYSIS & REVIEW OF SYSTEMS

Observations

Recommendation

Purchasing Transaction Data

- PeopleSoft Purchasing potentially enables centralized visibility of item level spend data
- Some 64% of AP spend has no PO number on the voucher (449K out of 552K total annual vouchers)
- Item ID structures and category/commodity structures require clean-up & standardization
- PS Purchasing not driving maximum spend through system (need catalogs/e-procurement)

- Assess potential for increasing spend through the PeopleSoft Purchasing system (64% spend without PO > benchmarks) – partly policy, partly utilization of a catalog/e-procurement approach
- Where spend is passing through purchasing system (i.e. a PO is created), improve the process for capturing PO line item data on voucher lines
- Rationalize item and commodity structures to facilitate improved spend analysis at the line item level

Accounts Payable System

- Over \$1B out of \$5.8B (17%) spend had no vendor name on the voucher (“Not Disclosed”)
- Too many account descriptions are not meaningful in a purchasing sense (e.g. “Mtce-Rep.-Bldgs-Grds-In Hse”), hindering classification
- High occurrence of miscoding, e.g. some IBM spend coded as “Veterinary Services”

- Ensure vendor names are assigned to vouchers
- Clean up accounting descriptions to be more useful in spend classification
- Improve quality of voucher line coding

P-Card

- Over \$100M of spend annually through p-card (Statewide \$84M, Standard \$19M, Travel \$2M)
- Less than 25% of spend is with level 3 data (best practice is 75%)
- Merchant name is not included in PeopleSoft feed, making classification from AP data difficult

- Pursue increased p-card usage (5-10% indirect spend is best practice in private sector)
- Target increased availability of level 3 data through incorporating level 3 data requirement into strategic sourcing
- Include merchant name in monthly feed to PeopleSoft

Spend Analysis System and Process

- General over-reliance on vendor reports
- Item level spend analysis capability hampered by current item and data structures in PeopleSoft and potentially some spend bypassing PS system
- Lack of best practice tools and processes to analyze spend from AP and P-card systems

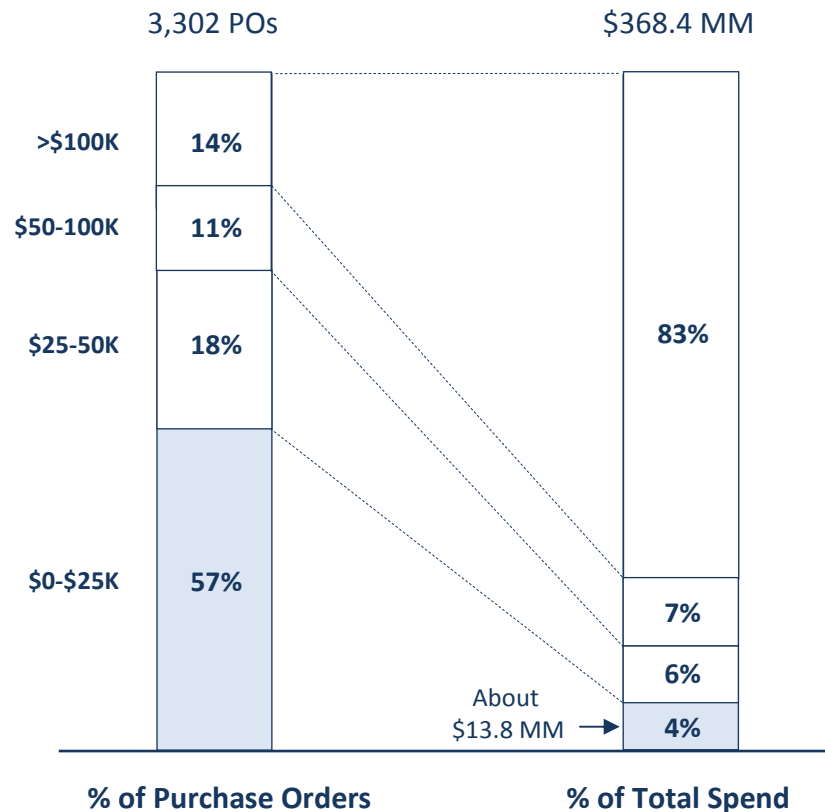
- Drive maximum spend through purchasing system (catalogs, e-procurement) and ensure rationalized, standardized item and commodity structures to support effective reporting
- Utilize best practice spend analysis tool and process to analyze non-item level AP data and to provide consolidated spend analysis capability across multiple different source systems (usual situation)

Current Workload – Value of Current Requisition Workload

PROCESS REVIEW

Approximately 57% of purchase order activity processed by CP contributes to only 4% of overall spend

Percentage of Purchase Orders vs. Total Spend in Fiscal '07



Agencies Submitting Requisitions <\$25K to CP

Agency	Estimated No. of Requisitions <\$25K	Threshold In (\$)	Total Spend in (\$)
Agriculture	878	\$25,000	\$4,477,800
DHS	172	\$25,000	\$2,022,398
DOC	215	\$25,000	\$1,547,975
Health	57	\$25,000	\$940,409
Public Safety	66	\$25,000	\$636,819
Juvenile Affairs	48	\$10,000	\$522,922
DOT	39	\$25,000	\$489,943
Tourism and Recreation	64	\$25,000	\$431,177
Mental Health	35	\$25,000	\$414,537
DCS	73	\$25,000	\$389,014
43 Other Agencies	230	-	\$1,900,024
Total	1,877	-	\$13,773,018

More than 80 % of the spend originates from reqs under \$25K submitted by the ten agencies listed above

Source: State of Oklahoma Central Purchasing data; Treya Partners analysis

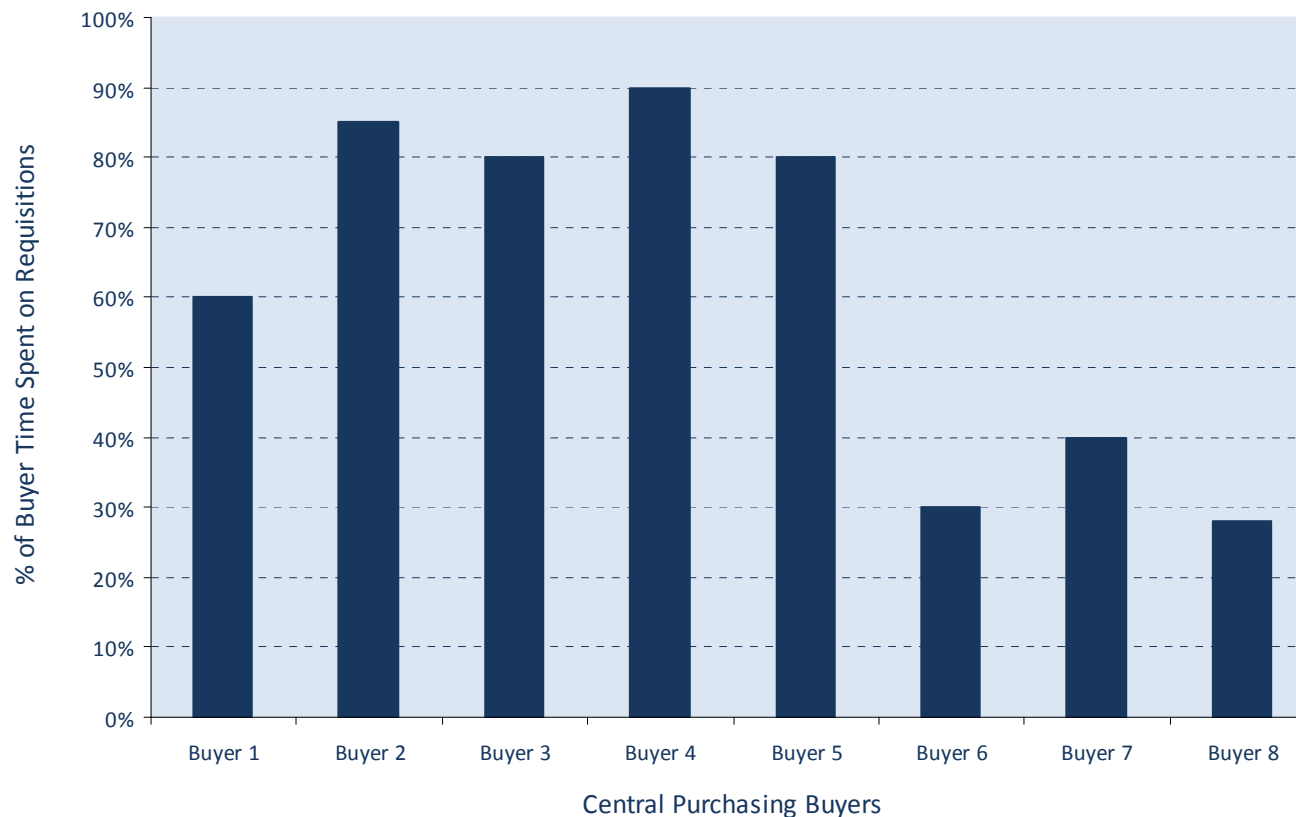
CP Personnel Time Spent on Requisition Processing

PROCESS REVIEW

Based on our interviews, Central Purchasing personnel spend on average 62% of their time on processing agency requisitions, taking time away from strategic and high-value activities

Percentage of Central Purchasing Buyer Time Spent on Requisitions

REPRESENTATIVE
SAMPLE OF BUYERS



Source: Interviews with Central Purchasing personnel; Treya Partners analysis

Central Purchasing lacks key activities and process tools typical of a “best-in-class” six-step strategic sourcing process in order to achieve optimal procurement performance and maximize savings



Key Observations:

- | | | | | | |
|--|--|--|--|--|---|
| <ul style="list-style-type: none"> • No centralized access to, and visibility of, procurement data • No spend consolidation possible with limited spend and usage info, no P*Q data and difficulty in determining baseline • No formal opportunity assessment process in place – opportunities being missed to identify and prioritize new price agreement opportunities and/or re-negotiate existing, sub-optimal agreements | <ul style="list-style-type: none"> • Limited industry analysis resulting in little knowledge of market trends, market share, growth, supplier economics, etc. • Limited supplier analysis with bids usually sent out to registered suppliers only ▪ No clear understanding of savings levers and high-value opportunities ▪ No consolidated supplier database with supplier performance metrics • Sub-optimal terms and conditions from lack of research/analysis | <ul style="list-style-type: none"> • Lack of category understanding including industry pricing structures, recent developments, key cost drivers and savings levers • No clear guidelines in selecting a solicitation approach • Inconsistencies among CP buyers and poor specification development • Ineffective agency involvement process and poorly coordinated commodity councils | <ul style="list-style-type: none"> • Lack of best practices in bid creation process including limited or no use of detailed pricing grids • No formal or standard evaluation process to assist CP buyers in selecting criteria/tools – inconsistencies with some evaluation tools being agency-driven and others buyer-driven • Award strategies reducing leverage with non-mandatory contracts and limited multi-year/multi-supplier contracts | <ul style="list-style-type: none"> ▪ Sub-optimal bid evaluations; ITB defined as lowest & best but price main consideration ▪ Demand management opportunities not fully leveraged with poor P*Q data • No clear rules and guidelines on negotiations • Limited negotiations conducted, particularly not on price and no multi-round negotiations • Little or no benchmarking conducted for target pricing • Difficulty in quantifying savings with no P*Q data | <ul style="list-style-type: none"> • No systems or tools in place to enable contract compliance and savings monitoring • Contract management focused on administrative aspects (expiration & renewal, vendor spend reports, etc.) with little or no attention to agency or supplier compliance • No tracking of supplier performance with no incentive or disincentive program |
|--|--|--|--|--|---|

Source: Treya Partners analysis

Spend Fragmentation Observation

PROCESS REVIEW

CP buyers are processing multiple requisitions for the same commodity/service from multiple agencies resulting in spend fragmentation and duplication of effort

Sample CP Requisitions

CP SAMPLE

Commodity/Service	Location	Bid Number	Closing Date	
Lawn/Ground Maintenance	• DHS	8300000786	2/12/2008	5 months period
	• DHS	8300000787	2/12/2008	
	• DHS, Cherokee County Office, Tahlequah, OK	8300000792	2/26/2008	
	• DHS, Sayre, OK	8300000785	3/18/2008	
	• History Center Grounds, Oklahoma City, OK	3500000020	3/20/2008	
	• Miami, OK	8300000866	6/25/2008	
	• Altus, OK	8300000867	6/25/2008	
Janitorial Services	• DHS	8300000788	2/12/2008	6 months period
	• DHS, area I Field Operations Office, Weatherford, OK	8300000789	3/25/2008	
	• Oklahoma Employment Security Commission, Lawton, OK	2900000068	3/25/2008	
	• Washington County JSU, Bartlesville, OK	4000000136	4/24/2008	
	• Watonga, OK	8300000864	6/25/2008	
	• OSBI headquarters, Oklahoma City, OK	3080000182	7/3/2008	
	• Pauline E. Mayer Shelter, Oklahoma City, OK	8300000873	7/15/2008	
	• Wagoner County, Juvenile Services Unit, OK	4000000139	7/16/2008	

Detailed Usage Information – Best Practice

PROCESS REVIEW

It is not consistent practice at CP to provide suppliers with detailed estimated volumes and line item detail in solicitations to help leverage spend volume and properly estimate savings opportunities

Best-In-Class Usage Information

ACTUAL SAMPLE

Product Description	Manufacturer Name	Unit of Measure	Estimated Annual Quantity	Current Price	Supplier A Bid Price	Supplier B Bid Price	Supplier C Bid Price	Best Estimated Savings %
Toilet Tissue 1Ply 1000	Georgia Pacific	96 CT	20,032	\$35.48	\$31.80	\$28.89	<u>\$26.42</u>	\$181,490
Towel Roll White 8" 800'	Kimberly Clark	12 Roll	8,290	\$37.87	\$30.98	\$29.35	<u>\$28.49</u>	\$77,760
Liquid Laundry Detergent	Private Label	5 Gallons	3,733	\$23.88	\$19.83	\$19.08	<u>\$14.70</u>	\$34,269
Mop Head, Cotton 20 Oz Wet	Private Label	12 CT	2,299	\$29.88	\$44.64	<u>\$26.08</u>	\$26.16	\$8,736
Cleaner, Pine Advance	Diversey	2 GL	5,379	\$15.14	<u>\$13.06</u>	\$26.42	No Bid	\$11,188

The use of specific demand metrics and detailed pricing grids during RFP creation will enable CP to achieve maximum savings in high-value areas

CP should develop a comprehensive and best-in-class evaluation tool in an effort to standardize the process, ensure accuracy and reduce vendor complaints

Sample Best-In-Class RFP Evaluation Summary

JANITORIAL SUPPLIES EXAMPLE

RFP Evaluation Summary		Supplier Evaluation ⁽¹⁾					
		Eastern Bag & Paper		US Food Service		C&C Janitorial	
Category	Weight	Rating	Score	Rating	Score	Rating	Score
1. Cost	35%	2.86	1.00	2.29	0.80	3.28	1.15
2. Service	25%	4.33	1.08	3.90	0.98	3.13	0.78
3a. Breadth of SKU	12%	3.00	0.36	1.00	0.12	1.00	0.12
3b. Depth of SKU	8%	5.00	0.40	5.00	0.40	5.00	0.40
3c. Geographical Coverage	10%	4.50	0.45	3.75	0.38	3.00	0.30
4. Business Information	5%	4.70	0.24	4.10	0.21	3.00	0.15
5. RFP Response	5%	2.00	0.10	1.00	0.05	3.00	0.15
TOTAL SCORE:	100%	3.63		2.93		3.05	
SUPPLIER RANK:		1ST		2ND		1ST – SBE ⁽²⁾	
NOTES:		Excellent Pricing Excellent Capabilities		Good Pricing Adequate RFP Response		Excellent Pricing Good Capabilities	

(1) Evaluation summary includes a sample of top-ranking suppliers from 20+ RFP responses

(2) State listed has mandatory SMWBE requirements; contract was awarded with 1st ranking supplier as primary and 1st ranking SBE supplier as secondary

CP is generally not conducting price negotiations to obtain best-in-class contract pricing – some negotiations takes place on terms and conditions but with many inconsistencies among buyers

Sample CP State-wide Contracts

CP SAMPLE

Contract	Contract No.	Solicitation Method	Price Negotiations	Estimated Spend (\$ MM)
• Copiers	SW70171	RFP	None	\$10.0
• Asphalt	SW81081	ITB	None	\$10.0
• Paper	SW80017	ITB	None	\$2.0
• Envelopes	SW80059	ITB	None	\$0.5
• Cellular	SW70105	RFP	None	\$2.0
• Fuel	SW71101	RFP	None	\$26.5
• Mail Room Equipment	SW80049	ITB	None	\$2.5
• Books	SW70012	ITB	None	\$30.0
TOTAL CONTRACT VALUE OF SELECTED SAMPLE				\$83.5

Note: Negotiations may have been conducted on non-price factors on some of the state-wide contracts; above estimates provided by Spend based on CP buyer estimates and/or 2006, 2007 and 2008 usage reports

Negotiations & Award Recommendations – Best Practice

PROCESS REVIEW

An effective negotiation strategy could result in significant savings with multiple tier discounts (SKU level, manufacturer and catalog discounts) and additional incentives

1st Tier Discount Negotiation – SKU Level

MRO
EXAMPLE

MRO Category	Supplier Name	Product Description	UOM	Average Unit Price	Post-RFP Price	Savings %
Janitorial	Eastern Bag & Paper Co.	Toilet Tissue 1Ply 1000 – 15590	96 CT	\$35.48	\$27.00	23.9%

Additional Incentive Volume Rebate

Annual State Net Purchases	Supplier Rebate
\$10 MM (Janitorial Supplies)	0.5%

2nd Tier Discount Negotiation – Manufacturer Discount

Supplier	Manufacturer Name	Product Description	Current Discount off MSRP	Proposed Discount	Proposed Savings Discount ⁽¹⁾
Eastern Bag & Paper	Katy	Cleaning Maintenance Supplies	13%	35%	25.3%

Additional Incentive Electronic Order Rebate

Electronic Order Volume	Supplier Rebate
Industrial Supplies (any order size)	0.5%

3rd Tier Discount Negotiation – Catalog Discount

Supplier	Sub-Category	Current Discount	Proposed Discount ⁽²⁾	Proposed Savings Discount ⁽¹⁾
Brack Supply	HVAC Supplies	13%	15%	2.3%

(1) Incremental savings above and beyond the current discounts are calculated as $(\text{Proposed Discount} - \text{Current Discount}) / (1 - \text{Current Discount}) = \text{Savings \%}$

(2) Discount offered for items not covered by 1st and 2nd tier discounts i.e. not on contract list nor on discount by manufacturers list

A target pricing approach in multi-round negotiations can help CP buyers achieve additional savings based on the lowest bid submitted

Target Pricing Negotiations

JANITORIAL SUPPLIES EXAMPLE

Product Description	Manufacturer Name	UOM	Supplier A Bid Price	Supplier B Bid Price	Supplier C Bid Price	Target Price
Toilet Tissue 1Ply 1000	Georgia Pacific	96 CT	\$31.80	\$28.89	<u>\$26.42</u>	\$26.42
Towel Roll White 8" 800'	Kimberly Clark	12 Roll	\$30.98	\$29.35	<u>\$28.49</u>	\$28.49
Liquid Laundry Detergent	Private Label	5 Gallons	\$19.83	\$19.08	<u>\$14.70</u>	\$14.70
Mop Head, Cotton 20 Oz Wet	Private Label	12 CT	\$44.64	<u>\$26.08</u>	\$26.16	\$26.08
Cleaner, Pine Advance	Diversey	2 GL	<u>\$13.06</u>	\$26.42	No Bid	\$13.06

Target Pricing Improvement

COMPUTER HARDWARE EXAMPLE

Category	Supplier	Historical Discount	1st Round Discount	2nd Round Discount
Desktops	Bell Industries	N/A	37%	-
	CDW	6.1%	19%	19%
	Dell	18.4%	26%	<u>31%</u>
	Gateway	15.9%	36%	-
	HP	13.2%	27%	27%
	IBM	27.0%	36%	-

Central Purchasing is currently not challenging agencies and seeking opportunities for demand management and specification standardization that could result in significant savings

CP Copiers Award for Speed Band 23-28 PPM SW70171 – 5 Suppliers Awarded

These 2 copiers have similar functionality and a high price variance

CP AWARD

Option	SHARP	OOSI	OCE'	STANDLEYS	STANDLEYS
Model	Sharp MX-2300N	KM Bizhub C252	Oce' cm2520	Savin C2525	Savin C2525spf
PPM	23	25	25	25	25
Base	\$108.50	\$111.93	\$156.00	\$85.18	\$100.86
Copies Included B&W-Color	None	None	None	None	None
Excess CPC B&W	\$0.013	\$0.013	\$0.008	\$0.012	\$0.012
Excess CPC Color	\$0.062	\$0.075	\$0.080	\$0.075	\$0.075
4000 Copies (B&W)	\$52.00	\$52.00	\$32.00	\$48.00	\$48.00
1000 Copies (Color)	\$62.00	\$75.00	\$80.00	\$75.00	\$75.00
TOTAL	\$222.50	\$238.93	\$268.00	\$208.18	\$148.86

Copiers award should ideally only include 1 model per speed band (11-20, 23-28, 30-33 PPM, etc.) that meets specifications and requirements to maximize savings and eliminate high price variances for similar products

CP is unable to leverage supplier volume opportunities primarily due to an agency-driven process & inability to effectively challenge agencies – with a lack of data, spend visibility and best practices

Sample CP State-wide Contracts

CP SAMPLE

Contract	Contract No.	Solicitation Method	Award Type (No. of Suppliers)	Estimated Spend (\$ MM)
• Copiers	SW70171	RFP	Multi Award (7)	\$10.0
• Asphalt	SW81081	ITB	Multi Award (34)	\$10.0
• Paper	SW80017	ITB	Multi Award (2)	\$2.0
• Envelopes	SW80059	ITB	Multi Award (3)	\$0.5
• Cellular	SW70105	RFP	Multi Award (6)	\$2.0
• Fuel	SW71101	RFP	Dual Award (2)	\$26.5
• Mail Room Equipment	SW80049	ITB	Multi Award (8)	\$2.5
• Books	SW70012	ITB	Multi Award (19)	\$30.0
TOTAL CONTRACT VALUE OF SELECTED SAMPLE				\$83.5

An effective award strategy can reduce supplier fragmentation, maximize savings and prevent high price variances for same products/services while ensuring maximum coverage

Note: Spend based on CP buyer estimates and/or 2006, 2007 and 2008 usage reports

CP lacks the ability to monitor contract pricing compliance reducing realizable savings and preventing correction of pricing discrepancies

Savings Summary Report – Sample By Category

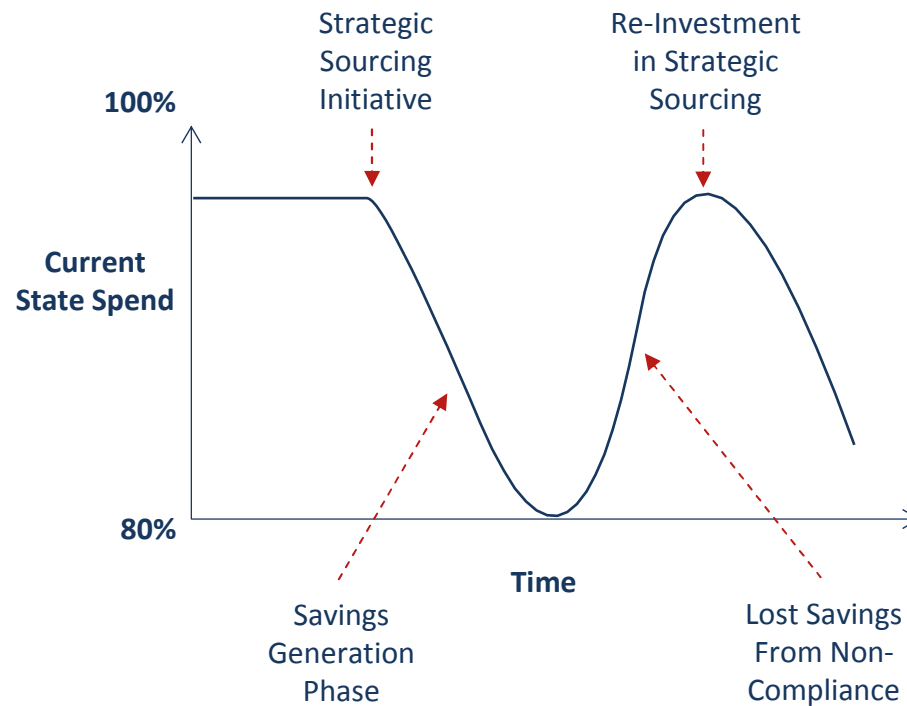
SAMPLE CATEGORIES

Category	Supplier	Contracted Discount	Total Spend	Total Savings	% of Spend Improperly Discounted	Savings Lost from Improper Discount
Janitorial Supplies	Supplier A	20%	\$1,959,243	\$333,071	15%	\$58,777
	Supplier B	18%	\$835,778	\$115,839	23%	\$34,601
Food Services	Supplier A	15%	\$2,254,777	\$297,631	12%	\$28,834
Office Equipment	Supplier A	22%	\$1,533,999	\$280,108	17%	\$57,372
	Supplier B	20%	\$750,001	\$139,500	7%	\$10,500
TOTAL SAVINGS LOST FOR SAMPLE CATEGORIES						\$190,084

Compliance monitoring and a continuous improvement focus are essential to sustain savings over time – otherwise benefits are likely to dissipate in a period of 3-4 years

Typical Strategic Sourcing Cycle

ILLUSTRATIVE



Functional Analysis of Existing Technologies In Use at State of Oklahoma

TECHNOLOGY REVIEW

Area of Review	Tools Used	Functionality (1=Low, 5=High)	Findings
Spend Analysis	Vendor usage reports, spreadsheets	1	<ul style="list-style-type: none"> No capability currently exists to conduct a best-in-class spend analysis Over-reliance on vendor usage reports as the source of category spend data Lack of usage data prevents identification of new contracting opportunities and also restricts ability to negotiate aggressive pricing with suppliers
E-Sourcing / RFQ / RFX	Basic RFQ in PeopleSoft Purchasing	2	<ul style="list-style-type: none"> Basic RFQ in PS Purchasing does not effectively enable the strategic sourcing process due to lack of key functionality such as reverse auction, complex RFP authoring & management, collaboration, and post-event analysis PS Strategic Sourcing module being implemented; to maximize value of SS system, registered suppliers must be mapped to an industry standard commodity schema to better match them with their correct products during invitation phase of sourcing events (see Supplier Information Management below)
Contract Management	Procurement Contracts in PeopleSoft Purchasing	3	<ul style="list-style-type: none"> PS Procurement Contracts module provides adequate functionality for basic contract administration activities such as storage, access to pricing/terms/conditions, expiration dates and monitoring of contract volumes No access to tools that cover the full contract life-cycle from authoring (using standard, best-in-class templates) through to contract compliance (price and supplier performance)
Supplier Information Management	Vendor registration system (homegrown)	1	<ul style="list-style-type: none"> Vendor registration system is standalone, not integrated with PS – vendor information (names, addresses, commodities) must be manually entered into PS vendor master Suppliers are not mapped to an industry standard commodity schema (e.g. NIGP, UNSPSC), causing some suppliers to be incorrectly invited to many sourcing events (see E-Sourcing/RFQ/RFX above) No access to external sources of key supplier information such as financial health, quality, delivery performance, capacity, and diversity status (all valuable for sourcing)
E-Procurement	PeopleSoft Purchasing	2	<ul style="list-style-type: none"> PS Purchasing does not drive spend to statewide contracts due to lack of an effective category/item data structure to support item search in PS. Unless they know item # (unusual), agencies wanting to buy off a statewide contract must navigate the CP web site to find the contract and item # of the product, then they must manually enter this information into the requisition in the PS system. Lack of a best practice category/item data structure also prevents effective item-level spend analysis of spend going through PS, inhibiting standardization & demand management.

Enabling Technology	Recommendations	Key Benefits
Spend Analysis	<ul style="list-style-type: none"> Utilize a best-in-breed spend analysis tool to conduct a spend analysis of all state spend from AP and p-card data; conduct quarterly refreshes Conduct a formal opportunity assessment from the spend analysis to identify statewide contract opportunities 	<ul style="list-style-type: none"> Improved visibility of total state spend by commodity, supplier and agency will help to maximize the amount of state spend under statewide contracts by directing CP buyers to commodities with high usage across multiple agencies
E-Sourcing	<ul style="list-style-type: none"> <u>Option 1:</u> Implement PS Strategic Sourcing (<u>Pro:</u> all vendor and contract data in PS, no integration, no additional cost. <u>Con:</u> not best-in-breed e-sourcing system and low public sector footprint) <u>Option 2:</u> Implement third party system like RFP Depot (<u>Pro:</u> best-in-breed, State Govt. client list, <u>Con:</u> integration required with PS for vendor and contract data, and additional cost) 	<ul style="list-style-type: none"> Utilization of a fully functional e-sourcing tool will help lead to an environment where all CP buyers conduct standard best practice processes for all types of solicitation whether ITB or RFP (note: up-skilling of CP buyers still needed)
Contract Management	<ul style="list-style-type: none"> <u>Near-term:</u> Continue with PS Procurement Contracts <u>Longer-term:</u> Consider a best-in-breed CM tool to support a best practice contract authoring process and to enable tracking of contract utilization, price compliance and supplier performance 	<ul style="list-style-type: none"> Contracts are created that meet agency requirements, drive lowest total cost, and incent suppliers to high levels of performance. Cost savings and supplier performance are maintained over time through tracking and reporting capability
Supplier Information Management	<ul style="list-style-type: none"> Assign all current and future suppliers in PS to an industry standard commodity schema such as NIGP or UNSPSC. Formalize collection of internal supplier performance information Consider subscribing to external sources of supplier information 	<ul style="list-style-type: none"> The most qualified suppliers are invited to each ITB or RFP based upon accurate product and performance data Enhanced supplier information is available to support sourcing decision-making
E-Procurement	<ul style="list-style-type: none"> <u>Near-term:</u> Clean up the category/item data structures in PS Purchasing by standardizing to a NIGP or UNSPSC schema and then aligning items to the lowest level of the selected schema <u>Longer-term:</u> Implement a best-in-breed third party e-catalog solution linked with PS E-Procurement (e.g. as State of Georgia). Outsource the maintenance of catalog data, including new supplier enablement, to the catalog provider. 	<ul style="list-style-type: none"> Standardized category/item data structure in PS will support effective item search during requisitioning, leading to higher compliance with the existing statewide contracts Long term, a e-catalog approach with outsourced catalog management will be the optimum approach for driving high compliance for the higher number of statewide contracts that will be in place in the future

	<u>Current Practice</u>	<u>Recommended Change</u>
Tiered Certification	<ul style="list-style-type: none"> Single level (CPO) 	<ul style="list-style-type: none"> Adopt a tiered system of certification with at least two levels of certification (CPA – Certified Procurement Analyst; and CPO – Certified Procurement Officer) Develop detailed eligibility guidelines and job descriptions for each level CPA focus should be on handling <\$25K agency purchases; CPO focus should be on handling more strategic higher dollar agency purchases
Initial Certification	<ul style="list-style-type: none"> Annual course conducted by Central Purchasing 	<ul style="list-style-type: none"> Develop two courses each tailored to a specific certification level The CPA course should focus more on procurement procedures and processes while the CPO course should have additional focus on procurement strategy
Certification Validity	<ul style="list-style-type: none"> 1 year (creates excessive administrative burden on both CPOs and CP to report and to track compliance) 	<ul style="list-style-type: none"> 3 years (based on practices in other States such as Virginia and Florida)
Skills Assessment Tools	<ul style="list-style-type: none"> None in use today 	<ul style="list-style-type: none"> Develop skills assessment tool for different certification levels and promote usage of these tools to agency personnel
Ongoing Training	<ul style="list-style-type: none"> Combination of CP/agency led-courses and external party (NIGP, others) courses, seminars, etc 	<ul style="list-style-type: none"> Develop a set of tailored modules, based on survey feedback, addressing different skill levels Offer these courses more frequently during the year Base recertification credits largely on attendance at these courses

Typical State Procurement Organization

- “Buying”/Compliance
Enforcing entity with no
charter to create savings –
primary focus is on achieving
compliance with procurement
statutes
- Entity reactively provides
response to agency purchase
requests rather than
establishing agreements fully
leveraging statewide spending
- Processes/practices shaped
more by statute compliance
requirements rather than
achieving maximum value
from procurements
- Data not used effectively in
prioritizing sourcing
opportunities, in developing
baselines, and in bid analysis
and negotiations

Ideal Procurement Organization

- Focus on ongoing savings
creation as well as enforcing
compliance with statutes
- Planned, proactive, and
strategic efforts to maximize
spend under management
through strategic sourcing
- Utilization of best-in-class
processes and practices to
maximize value for state
while adhering to statutes
- Skilled resources adept at
strategic sourcing techniques
and methodology
- Effective usage of overall
spend data and category
specific usage data to
maximize procurement
effectiveness

Summary Assessment of Oklahoma Central Purchasing

ORGANIZATIONAL REVIEW

Superior



Poor



Area	Description	Rating	Comments
Procurement Process Integrity	Fair and transparent procurement processes providing an equal playing field to all vendors and transparency into the procurement process		<ul style="list-style-type: none"> Procurement processes and policies are transparent and provide equal opportunity to all vendors
Balancing Code Requirements and User Needs	Pragmatic interpretation of statutes and policies to establish procurement practices that provide adequate flexibility to users to address their business requirements while upholding the integrity and intent of the code		<ul style="list-style-type: none"> Statutes are fairly flexible and “non-prescriptive”. However “conservative” interpretation of statutes limit flexibility of users to maximize value in procurements and meet business requirements in a pragmatic fashion
Process Consistency	Consistency in internal and custom focused processes		<ul style="list-style-type: none"> Despite availability of procedures actual application varies with buyers resulting in inconsistent service and responses to agencies
Value Maximization	Utilization of best-in-class techniques and process to maximize spend leverage and achieve best-in-class pricing and service levels for the state		<ul style="list-style-type: none"> Strategic sourcing concepts are not widely used (lack of data; multi-round negotiations, benchmarking, etc) Statewide spend is not being fully leveraged (no strategic establishment of statewide agreements, non-mandatory agreements, etc)
Customer Service	Providing efficient and rapid customer service to meet the procurement and contracting needs of user agencies		<ul style="list-style-type: none"> Inconsistent customer service to agencies Poor responsiveness and lack of transparency to status of agency requests No Service Level Agreements (SLAs) in place

Source: Treya Partners analysis

Summary Assessment of Oklahoma Central Purchasing (contd.)

ORGANIZATIONAL REVIEW

Superior



Poor

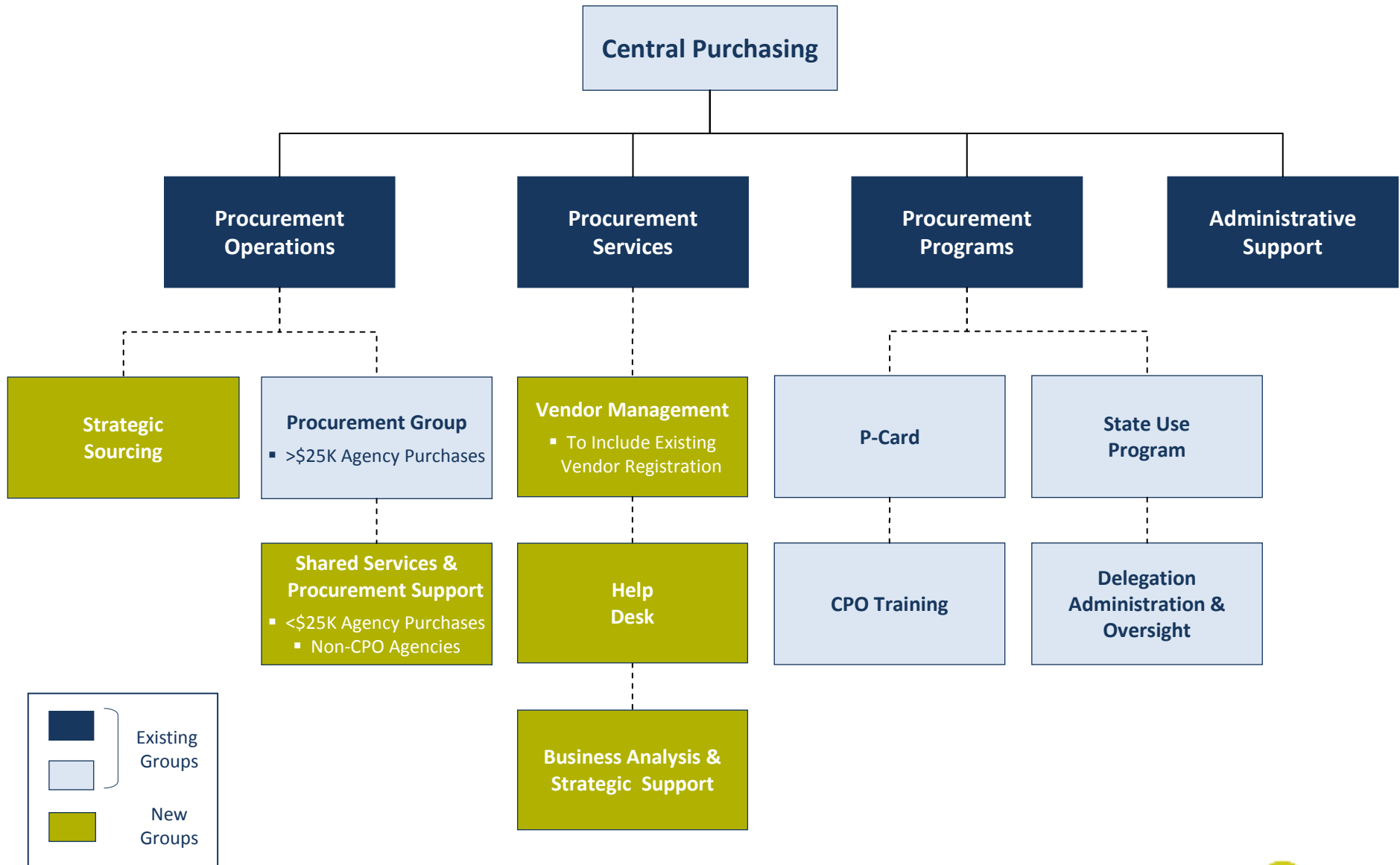


Area	Description	Rating	Comments
Utilization of Operating Metrics	Use of metrics to establish performance goals and to monitor, manage and report on progress and effectiveness of organization		<ul style="list-style-type: none"> Currently minimal metrics in place to assess and report on CP performance
Vendor Management	Managing vendors to optimize contractual relationships, resolve disputes, anticipate and mitigate vendor business risks, and track contract compliance		<ul style="list-style-type: none"> Limited vendor performance tracking and dispute resolution based on agency complaints – no formal process for vendor relationship management
Utilization of Technology	Effective utilization of technology (to improve customer service, process efficiencies, and value maximization) in areas such as spend analysis, e-procurement, e-sourcing, contract management, etc		<ul style="list-style-type: none"> Although today technology not used for spend analysis, e-sourcing, e-procurement or contract management progress is being made in implementing procurement modules from PeopleSoft
Resource Skill-Set	Skilled and well-trained resources adept in strategic sourcing, data analysis and customer service and facilitation		<ul style="list-style-type: none"> Current resource skill-set is quite poor with key skill gaps in multiple areas including strategic sourcing, data analysis, problem solving, customer interaction and facilitation, etc

Source: Treya Partners analysis

Proposed Functional Structure

ORGANIZATIONAL
REVIEW



Description of New Groups

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Area	Description/Recommendation
Strategic Sourcing	<ul style="list-style-type: none">▪ Focus on strategic sourcing including development of a strategic sourcing roadmap to increase spend under management through establishment of new statewide agreements pursuant to a rigorous sourcing process▪ Strategic support to large dollar agency purchases
Help Desk	<ul style="list-style-type: none">▪ Provide first-level support including responses to agency procurement related queries
Shared Services & Procurement Support	<ul style="list-style-type: none">▪ Conduct procurements for < \$25K for those agencies that do not have any delegated authority
Vendor Management	<ul style="list-style-type: none">▪ Development and implementation of a program to manage suppliers including proactive management of supplier price and performance compliance, dispute resolution, customer satisfaction, ongoing quarterly business reviews, etc. – program to include existing supplier registration function
Business Analysis and Strategic Support	<ul style="list-style-type: none">▪ Responsible for collecting and analyzing vendor usage reports▪ Responsible for ongoing spend analysis (with the help of spend analysis technology)▪ Responsible for measurement and reporting of key performance metrics

Central Purchasing is seeking approval for an increase in staffing and the budget to support it