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Joint Committee on Finance

Paper #125

Electronic Procurement System (DOA -- Procurement)

[LFB 2013-15 Budget Summary: Page 46, #1]

CURRENT LAW

The state uses a subscription service, VendorNet, to provide information to state agencies and vendors about the procurement process, rules, contracts, bid awards, and other matters relating to procurement. The Department of Administration (DOA) is authorized to assess vendors fees for the cost to provide the subscription service.

GOVERNOR

Provide \$1,600,000 PR in 2013-14 and \$975,000 PR in 2014-15 for an electronic procurement system to manage all aspects of procurement under Chapter 16 of the Statutes. Permit the Department to supplement or supplant the procurement subscription service with the electronic procurement system. Authorize the Department to require that an agency use the system. Allow the Department to assess agencies and vendors for the costs of the electronic procurement system for the costs of the system in accordance with a method the Department develops.

Modify the PR procurement services appropriation to specify that assessments to agencies and vendors for the costs of the electronic procurement system may be received in that appropriation. Specify that the SEG VendorNet fund may only receive funds from fees for procurement subscription services, assessments for the new electronic procurement system, gifts, grants, and bequests made for procurement subscription services or the new electronic procurement system, or for moneys transferred to the VendorNet fund from other funds. [Note that while PR expenditure authority is provided in the PR procurement services appropriation, the bill specifies that fees for the new system are a component part of the SEG VendorNet fund.]

DISCUSSION POINTS

1. VendorNet, the state's web-based subscription service, provides information relating to procurement to vendors, state agencies, and municipalities. This information includes: (a) procurement bid awards; (b) certified work centers; (c) contract compliance; (d) purchasing forms; (e) Minority Business Enterprise Program; (f) municipal cooperative purchasing service; (g) state-negotiated procurement contracts; and (h) the State Procurement Manual. The web-based subscription service does not provide electronic interactive features for ordering or viewing products.

2. The funding provided under the bill was based on initial cost estimates provided by "two of the leading e-procurement solution providers to the public sector." According to DOA, the administration's Information Technology Executive Steering Committee has since selected SciQuest as the state's electronic procurement vendor. In part, the vendor was chosen for the functionality offered and the ability of the software to interact with the state's planned Oracle PeopleSoft enterprise resource planning system. The administration indicates that the two systems allow integration of the advanced SciQuest procurement software within the more limited PeopleSoft procurement module. The administration notes that this approach to an electronic procurement system allows for long-term use alongside the state's enterprise resource planning system. The State Bureau of Procurement within DOA would be the primary point of contact for the system, with "liaisons at the larger agencies to assure that the needs of agencies are being met and that the system is properly supporting the field locations of state agencies."

3. The SciQuest software would initially offer an "e-catalog" system that provides state agencies an experience comparable to any major online retailer. Currently, there is no electronic ordering system accessible to all state agencies. Further, there is no central repository to track procurement expenditures by contract and agency, or throughout state government. In the initial phase of the SciQuest procurement system implementation, only high-volume contracts will be available through the electronic catalog. This includes items such as office supplies, maintenance repair supplies, computers, printers, safety equipment, janitorial supplies, and building materials. The administration indicates that the state "will also begin evaluating smaller volume contracts (BSI [Badger State Industries], workcenters, etc.) for using the SciQuest software for state hosted contracts."

4. According to DOA, the system would provide: (a) improved ability to search and find state and agency procurement contracts (a benefit for agencies as well as municipalities that wish to use the contracts); (b) the ability to compare pricing among multiple contract vendors to find the lowest price; (c) improved state staff efficiency in completing requests for items or services; (d) improved automated pricing validation and verification, with fewer billing errors; and (e) improved agency expenditure data and monitoring.

5. The administration indicates that savings could result from implementation of the system, but "will be difficult to determine until at least one year of base line data can be established." The system may provide savings through more efficient processing of purchase orders and invoices, improved procurement contract compliance (purchasing from lower-cost state contracts), and improved strategic sourcing. The administration acknowledges that it is difficult to

forecast an amount of savings that could be realized, but reports that other organizations that implement similar systems experience a return on investment of several times the cost of the system itself.

6. In addition, DOA has reestimated the cost of the electronic procurement system. The initial cost to implement the system would be \$782,000 PR in 2013-14 and \$590,000 PR in 2014-15. Funding would be for: (a) SciQuest Spend Director Enterprise and pCard [purchasing card] Marketplace software licensing and software subscription fees (\$575,700 in 2013-14 and \$590,000 in 2014-15); and (b) professional implementation services (\$206,300 in 2013-14). According to DOA, if the proposal is approved, the system would be operational by December, 2013.

7. According to DOA, in future years annual software licensing and subscription fees would increase to about \$975,000 annually "once all of the remaining modules are implemented." In part, the timing of supplemental software installation will depend on the progression of the state's PeopleSoft enterprise resource planning system functionality. Additional SciQuest modules to be implemented at a later stage include: Sourcing Director, Total Supplier Manager, Contract Director, Accounts Payable Director, Order Manager, and Requisition Manager. The administration notes that an amount of funding lower than the reestimated figures above would be insufficient for implementing an electronic procurement system.

8. The administration indicates that it wishes to avoid establishing a vendor fee in the 2013-15 biennium. According to DOA, existing revenue may be sufficient to fund the proposal without a vendor fee, but that if "a lapse is taken from the appropriation, there would not be sufficient cash" to implement the system without a fee. Lapses taken from the appropriation in recent years are shown in the table below. Closing balances represent the year-end unexpended revenue in the appropriation, less encumbrances (commitments). Depending on cash balances, it is possible that lapses may be made from this appropriation again over the 2013-15 biennium.

<u>Fiscal Year</u>	<u>Lapse Amount</u>	<u>Closing Balance</u>
2009-10	\$1,700,000	\$76,400
2010-11	200,000	1,580,900
2011-12	1,024,000	2,412,000
2012-13 (Est.)	350,000	444,800*

*Unexpended revenue as of April 30, 2013.

9. In its April 12, 2013, technical errata letter to this office, the administration indicated that the intent of the statutory language changes relating to VendorNet was "for fees collected for use of VendorNet to accrue to the VendorNet fund and fees assessed by the department to recover costs of the electronic procurement system to be collected in the appropriation under s. 20.505(1)(kf)."

10. For more than 10 years, vendor fees for the use of the state's procurement subscription service, VendorNet, have not been applied. From 1996 through 2002, DOA assessed to

vendors a registration fee of \$125 (a reduced fee of \$65 for certified minority businesses) and an annual subscription fee of \$100. Although DOA is still authorized to assess vendors such fees, the agency has not done so since 2002. Instead, executive branch agencies are assessed by DOA for the cost to provide procurement services. Assessments are determined in part based on an agency's percentage share of total state procurement expenditures.

11. According to DOA, statutory language authorizing DOA to assess vendors and state agencies for the cost of the electronic procurement system is intended to provide flexibility in generating revenue to recover costs in the event that the cash balance of the appropriation and current level of agency assessments are insufficient to fund the system.

12. If vendor fees were established, DOA indicates that the fees considered would be in the range of 0.5% to 2.5% of procurement transaction totals, which the state could present to vendors as an advantage or alternative to "credit card transaction fees that are often reduced and may be eliminated by the electronic payment methods that are available through these systems." Other benefits vendors could experience from an electronic cataloging system are reduced costs "in their own operations such as customer service, order fulfillment processing, and accounting (billing and accounts receivable)."

13. Further, DOA reports that "at least two agencies have announced their needs to either replace or substantially upgrade their existing systems around procurement and they would be willing to pay for additional services." However, the administration does not yet plan to assess agencies additional amounts for the costs of the SciQuest implementation over the 2013-15 biennium.

14. The administration argues that an electronic procurement system would: (a) make frequent agency purchases more efficient, saving staff time; (b) facilitate central monitoring of state spending; (c) provide improved transparency in state expenditures; and (d) could save the state money over time. For these reasons, the Committee could approve the Governor's recommendation, as modified by the technical errata letter, to provide \$1,600,000 PR in 2013-14 and \$975,000 PR in 2014-15 for an electronic procurement system and authorize DOA to assess vendors and state agencies for the costs of the system. [Alternative 1]

15. The Committee could choose to modify the provision to incorporate the administration's cost reestimate, and provide \$782,000 PR in 2013-14 and \$590,000 PR in 2014-15 to DOA's procurement services appropriation for an electronic procurement system. [Alternative 2]

16. In addition, given that DOA believes existing revenue may be sufficient for the procurement system if no lapses are taken, the Committee could choose to prohibit the administration from making a lapse to the general fund from the appropriation in the 2013-15 biennium. Under this alternative, revenue accruing to the appropriation would be retained and would be available to expend for the electronic procurement system. [Alternative 3]

17. Alternatively, the Committee could choose to delete the provision. Under this alternative, although existing sources of revenue may be sufficient to fund the initiative, expenditure authority would be insufficient to purchase and implement the system. [Alternative 4]

ALTERNATIVES

1. Approve the Governor's recommendation, as modified by the technical errata letter, to provide \$1,600,000 PR in 2013-14 and \$975,000 PR in 2014-15 for an electronic procurement system. Specify that the PR procurement services appropriation may receive assessments to agencies and vendors for the costs of the electronic procurement system.

2. Modify the provision in accordance with the administration's reestimate, to provide \$782,000 PR in 2013-14 and \$590,000 PR in 2014-15 to DOA's procurement services appropriation for an electronic procurement system.

ALT 2	Change to Bill Funding
PR	- \$1,203,000

3. Specify that the administration shall not make lapses to the general fund from DOA's procurement services appropriation in the 2013-15 biennium.

4. Delete provision.

ALT 4	Change to Bill Funding
PR	- \$2,575,000

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