



**pennsylvania**

DEPARTMENT OF GENERAL SERVICES

Testimony of

**James P. Creedon, Secretary of General Services**

before the

**Senate Communications & Technology Committee**

for a public hearing regarding

**October 2009 Auditor General Report on State Procurement Contracts**

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Thank you for inviting me to participate in today's hearing.

DGS has conceived and implemented *unprecedented* reform in government purchasing that has resulted in \$320 million in savings, 94% of all contracts competitively bid, and nearly every important contract document posted online for public viewing—including sole sources. We have done this by applying private-sector best practices to fundamentally transform the way Pennsylvania expends its taxpayer-provided dollars.

In January 2006, *Governing Magazine* recognized Pennsylvania's strategic sourcing program as "one of the bigger success stories" in state government.

My goal in today's hearing is to convey to you the depth of reforms we have made to procurement and IT contracts and the rigorous competition and review that goes into awarding our contracts. Improvement is an ongoing process; we recognize that we still need to improve in some areas, as highlighted by the Auditor General.

The commonwealth is the equivalent of a fortune 50 company—but, prior to 2003, we didn't buy like one. The previous philosophy was akin to "share the wealth." Many small contracts were awarded to thousands of companies. For example, the PC contract was split among 200 suppliers, with some agencies paying twice what the market dictated.

Purchasing was decentralized, buying was inconsistent, prices were higher than they should have been. In fact, the commonwealth didn't even know—and had no reliable

way of finding out—how much it spent on any given commodity or service in any given year.

One of our first initiatives was to buy smarter through strategic sourcing. If you have a big family, you're not going to buy a single serving size of Cheerios. You're going to go to the nearest Costco and buy supersize. You do that because you know that pricing for Cheerios is based largely on volume. The more you buy, the less you pay per unit. Strategic sourcing is nothing more than taking advantage of the commonwealth's immense buying power by purchasing in larger volumes. We started by aggregating the purchasing across state agencies on 20 of the commonwealth's most widely purchased commodities including, for example, office supplies, food and IT hardware.

The implementation of strategic sourcing also required a new way of doing business for the state. Prior to 2004, Pennsylvania's Bureau of Purchases in the Department of General Services was comprised of 35 full-time positions. Most of the purchasing done by agencies was handled by procurement personnel in the individual agencies. Beginning in 2005, more than 150 procurement personnel were moved into DGS and trained as experts in specific areas of strategic procurement. The Bureau of Procurement shared services center, as it's known, further standardized business processes, ensured that the commonwealth's procurement professionals held important certifications, negotiated and met service level agreements with agencies, and introduced—for the first time—specific performance goals and measurement metrics for commonwealth purchasing.

To foster expertise, we built our organization around specific commodity and service categories. To encourage professional development, we developed a professional procurement job classification of "commodity specialist" to conduct market research, engage in strategic planning, analyze suppliers and manage contracts. DGS sponsors a Certified Procurement Manager certification to focus on managerial and leadership skills, as well as sourcing analysis, supply and inventory management and forecasting.

With the new shared services center in place, a requirement was established that DGS would manage all agency procurements over \$500,000, unless an agency requests and is granted delegation. The threshold was lowered to \$250,000 in 2007.

The results of this work have been impressive. The commonwealth used to pay more than two dollars for a pack of yellow Post-It notes, now we pay less than 50 cents. We used to spend upwards of \$1,200 for a PC, we now spend just over \$700. In fact,

overall we've saved \$6.6 million in pharmaceuticals, \$7 million in office furniture, \$18.9 million in natural gas.

And despite the assertions that we're wanton with the commonwealth's IT spend, we've saved more than \$24.5 million in IT contractor staff support and \$30 million in IT hardware.

Cumulative savings of the program overall total \$320 million to date. I recommend you review the Legislative Budget and Finance Committee's 2008 report on strategic sourcing, which states that:

"In addition to generating savings through the reduction of procurement costs, the commonwealth's strategic sourcing initiative also changed the way the commonwealth conducts its procurement business. The initiative is intended to incorporate some of the best practices from the private sector to improve the efficiency and effectiveness of the commonwealth's procurement process."

*April 2008, Legislative Budget and Finance Committee, "A Review of the Commonwealth's Strategic Sourcing Initiative in Procuring Goods and Services."*

In order to drive competition, we implemented in 2007 a new procurement technology tool within SAP that makes the process easier and more transparent for suppliers and agencies. SRM provided: (1) a dedicated supplier portal for electronic bids and bid responses; (2) supplier registration and self-service for data maintenance; (3) enhancements to the requisitioning process; (4) live auction capability; (5) enhanced workflow controls; and (6) supplier collaboration.

We've worked hard to dramatically increase transparency and competition in all aspects of procurement. Suppliers and the public can visit our e-marketplace website, our online, one-stop shop for suppliers and agencies to view upcoming contracts, current solicitations, contracts awarded, winning bids and proposals, and recommendation memos.

Our sole source process is also very transparent. We now post every state agency sole source request on our website for 10 days before we make an award. Any supplier can review the sole source requests and respond if they believe they can provide the same material or service. Their response is reviewed by DGS as part of its overall evaluation of the request. If it's an IT sole source request, the Office for Information Technology must

approve before an agency engages DGS for review. If it's a sole source request related to goods, supplies, materials or equipment, it must also be unanimously approved by the Board of Commissioners of Public Grounds and Buildings after DGS approval.

In addition to these safeguards, all contractors who are awarded state work through no-bid contracts must file reports of all political contributions. The Secretary of the commonwealth makes these reports available for public inspection every year.

Sole sources are only used when absolutely necessary, and only when they meet one of the established statutory conditions for sole source, including when only one contractor is capable of providing the service, when a federal or state statute or federal regulation exempts the materials or services from the competitive procedure, or when the procurement is less than \$5,000. Sole sources account for only 2.5% of all procurements.

We're not a rubber stamp, by any means. This fiscal year alone we've denied 21 of 46 requests and sent countless others back to agencies for additional research, options or clarification. Since 2004, we've denied 357 sole source requests.

The net effect of these safeguards is a 63% reduction in the number of sole source contracts under our watch: 691 sole source contracts were awarded in 2003; 253 were awarded in FY 2008-09.

We've also enhanced our ethics training and policies. Procurement officers and senior staff participate in regular half-day ethics training sessions. Commonwealth professionals—including subject matter experts from various non-purchasing agencies across our government—who participate on selection committees affirm in writing that neither they nor members of their immediate families have any conflicts of interest with any vendors competing for the RFP they're scoring. These affirmations are reviewed by our Office of Chief Counsel.

Another key component to the commonwealth's reform of the procurement process has been the significant transformation of the role of Office of Administration's Office for Information Technology in helping to ensure oversight, competition and standardization in IT procurements.

Again, in 2003, IT purchasing was highly decentralized—agencies planned and purchased for their IT needs wholly and independently.

In addition to paying higher prices, the commonwealth's lack of centralization also meant that state government was building IT systems that couldn't necessarily talk to each other, building new IT systems when we had identical systems in a different agency, buying redundant licenses, and so on.

The effort to improve IT oversight—including procurement—began in 2004 and has been evolving for several years. Some key components include:

**2004** Governor Rendell issued executive order 2004-8 that, among other things:

- established an executive level information technology governance board;
- mandated and provided oversight for IT planning, priority-setting, and coordination processes across similarly-situated state agencies—called “communities of practice” and including agencies that focus on public safety, human services, the environment, or general government operations; and
- established an “enterprise architecture” function to establish IT policies, standards, and processes across all state agencies.

**2005** A statewide IT procurement policy was established, including different levels of review and approval based on specific dollar thresholds—all IT expenditures—including change orders—over \$100,000 must be approved by Office of Administration's Office for Information Technology, for example.

The previous executive order was amended to increase procurement oversight, coordination, and accountability by requiring agencies to work with the Office for Information Technology on procurement prep and evaluation, contract negotiation, change order management, deliverable acceptance, and project management.

It also directed that the commonwealth identify which, if any, technology services could be centrally managed and shared across agencies.

**2006** A technical architecture review board was established to scrutinize IT projects to ensure they adhere to technical standards and leverage investments across the state.

**2007** The executive order was amended to establish a legal office to review, negotiate and approve IT contracts.

It also created a direct reporting relationship for all state agencies' chief information officers to the commonwealth's chief information officer—enhancing accountability and allowing the commonwealth to improve and enforce expertise and performance standards for agency CIOs.

A project management office was established through which seasoned IT project managers move from agency-to-agency as needed to ensure that the commonwealth has sufficient in-house expertise to monitor vendors.

**2009** DGS executed a new Information Technology-Invitation to Qualify contract, generally known as the IT-ITQ, to increase competition, exert greater control, and improve the efficiency of the solicitation process. The vast majority of contracts reviewed by the Auditor General were awarded through request for proposals associated with the IT-ITQ.

All IT-ITQ solicitations over \$100,000 are first reviewed and approved by the Office for Information Technology. Agencies are prohibited from spending more than \$100,000 on one supplier in the same category in a fiscal year without approval and agencies must now solicit *all* qualified suppliers in the category from which they're proposing to purchase.

DGS created a new quality assurance division in the Bureau of Procurement to monitor agency-purchased materials and services to ensure compliance with procurement specifications and standards as well as applicable laws and regulations.

Let me explain how these reforms translate into practice.

Communities of practice include the CIO's of similarly-situated state agencies, headed by a commonwealth-wide deputy CIO. Communities of practice meet on a regular basis throughout the year to discuss IT work, systems, and priorities in their respective fields.

Agencies use standard templates to outline new projects they believe they need to undertake to achieve priorities and goals, as considered with their communities of practice. These templates are submitted to the commonwealth CIO in January.

Taking into account citizen impact, overall government priorities, and fiscal realities, the commonwealth CIO works with the deputy CIOs to review submissions. Inefficient or ineffective submissions don't make it beyond this point. Other submissions may be combined across agencies to obtain more effective solutions. Remaining submissions are given the green light to develop detailed specifications and cost/benefit analyses.

These second submissions go through a two-step review. The first is a more detailed review by the commonwealth CIO and the deputy CIOs who prioritize projects in four categories: recommend approval; recommend approval pending agency funding; recommend denial; no recommendation—more information needed. Projects and recommendations are presented to the Governor's IT governance board for review and approval or denial—typically in September.

All of this happens *before a project ever enters the procurement process* that I outlined before.

We know, however, that not all IT expenditures are associated with new projects; an agency may need to purchase 500 new desktop computers, for example. In addition to DGS procurement processes and safeguards, all IT expenditures—including change orders—over \$100,000 require the approval of the community of practice deputy CIO. In fact, commonwealth comptrollers will stop any order over \$100,000 that does not have a community of practice approval attached to it.

Given the typical pace of bureaucratic organizations, the magnitude of the improvements in procurement is impressive. The advancements that have already been achieved are extended by the demonstrated commitment to continuous improvement—making changes year after year until its right.

Is it perfect yet? No. Have we had dramatic success? Yes. In addition to more coordinated planning and purchasing across state agencies, many day-to-day IT functions that used to be redundant have been consolidated, saving taxpayers tens of millions of dollars. Pennsylvania's work in this area has been lauded by the ComputerWorld Honors program, recognized by the National Association for State CIOs, and featured in Public CIO magazine.

Let me now address the audit.

First, we are gratified that the audit rightfully concludes that none of the professional men and women who serve citizens every day through the Department of General Services, the Office of Administration's Office for Information Technology, or various state agencies covered in the scope of the audit violated any conflict of interest standards or laws.

Let me say that again because the most important conclusion of the audit was not included in the findings: after months of digging, reams of documents, and scores of interviews, there was not a shred of evidence to conclude that legal or ethical violations occurred.

I think it's important to note that we agree with the Auditor General on more areas of substance than we disagree. *Two thirds of the issues raised by the Auditor General had already been substantially addressed through the reforms we began in 2003.*

This audit focused on Deloitte contracts in effect between 2004 and 2007, some of which were awarded as long ago as 2000. Given this scope, it was impossible to provide simple, broad strokes answers to certain questions.

An IT contract would have followed a very different path in 2001 than it would have in 2004, in 2007, and even today. Data that we can provide for newer contracts—as a result of the implementation and maturation of our SRM system, for example—simply didn't exist for earlier contracts. These are not signs of haphazard oversight or nefarious purposes; rather, they reflect the evolution of improvement.