State of North Carolina
Department of Administration

Report on the North Carolina Procurement Transformation Project

August 2011

Table of Contents

I. DEPARTMENT OF ADMINISTRATION: OVERVIEW	
Introduction	**3**
Background	**3**
Project Vision and Expected Benefits	**4**
Project Approach	**4**
Guiding Principles	**6**
II. ACCENTURE: WORKSTREAM FINDINGS AND RECOMMENDATIONS	
Organizational Assessment and Design	**7**
Strategy and Governance Assessment and Design	**10**
Strategic Sourcing Assessment and Design	**14**
Technology Assessment and Design	**16**
Change Management Plan	**18**
Communications Plan	**20**
III. DEPARMENT OF ADMINISTRATION: IMPLEMENTATION PLAN	
Overview	**21**
Conclusion	**28**
IV. APPENDIX	
Attachment A	**ii**
Attachment B	**xi**

I. DEPARTMENT OF ADMINISTRATION OVERVIEW

Introduction

This report provides summary information regarding the initiative to transform the State's procurement function. The report summarizes the findings and recommendations of the consultant, Accenture, and provides the State's plan for implementation of key recommendations based on the consultant's study.

Section I presents the background to this initiative, begun in early 2009. Section II summarizes the key findings from the Assessment Phase and the Design Phase. Section III covers Implementation, which summarizes the State's approach to implementing the proposed recommendations.

A copy of Accenture's final report and associated deliverables produced by the consultant can be viewed on the Procurement Transformation website, http://www.doa.state.nc.us/procurement/.

Background

On January 12, 2009, Governor Perdue issued Executive Order No. 5, which created the Budget Reform and Accountability Commission (BRAC). Its charge was to "advise the Governor on…measures that improve efficiencies, cost-savings and effectiveness…"

At approximately the same time, the Office of State Budget and Management (OSBM) initiated a review of statewide procurement as a result of Executive Order No. 4, NC Open Book, which directed OSBM to create a searchable website on all grants and contracts awarded over $10,000, which would also include specific vendor and agency information. During the initial stages of identifying the data systems that might feed such a website, it became apparent that there is not a unitary procurement process or entity. Rather, the State has a complex set of procurement processes and systems. Further analysis and evaluation of the characteristics and interrelationships among these systems was warranted.

DOA was approached, based on these findings, because according to N.C. Gen. Stat. §143-48 through §143-64, the Department is charged with canvassing sources of supply, establishing specifications, and for the purchase or contract of all supplies, materials, and equipment required by State government under competitive bidding and to contract for, by sealed competitive bidding or other suitable means all contractual services and needs of State government.

In short, DOA is the lead general procuring entity and DOA thus became an active partner in the statewide review of procurement because of its statutory roles. The review found that DOA, as the lead procurement agency with responsibilities for the procurement "system," faces several critical issues that limit its ability to do what is mandated:

- Procurement Is Not an Enterprise Function: Decentralized structures exist, with no central authority, and there has been little collaboration among the agencies to identify what improvements are needed that would benefit all. The result is a lack of coordination and information with which to best achieve efficiencies and cost avoidances.
- Decision-Making Is Hampered by Lack of Clear Management Information and Reporting: Decentralization of purchasing, multiple disparate data systems, and the inconsistent application of rules results in a lack of readily-available information, such as a full list of vendors receiving awards, the spending against those awards, and the level of competition.
- There Are No Defined Performance Goals and Methods to Evaluate Effectiveness of the Procurement Process: Related to the lack of management information and reporting, the absence of clearly defined performance goals and valid effectiveness measures in the procurement arena has limited the support for making changes and participation at the statewide level, and the ability to effectively communicate the potential that improvements can yield at departmental levels and for the State. Also hampering progress is that savings, usually derived as cost avoidance, are not centrally redirected to the overall benefit of the State because of lags in actual procurement and questions regarding validity.
- Lack of Central Compliance Resources, Stringent Training Standards, and Limited Training Staff Are Key Risk Factors: The number of compliance staff is inadequate to ensure understanding of and compliance by agencies with policies and statutes. Compliance is also hampered by the lack of management information and common systems. It is also recognized that greater attention needs to be applied during the administration of contracts by compliance

and training staff to ensure the State's interests are protected. At present, this function resides primarily with the contracting agency, but more attention centrally is needed. Training is not centrally defined, directed or administered, and the resources for training are primarily devoted to the E-Procurement System.

- Enabling Legislation and Exemptions to Rules Creates a Maze: Statutes related to procurement are located in many chapters, are often written in technical language that is unclear, and allow exemptions and/or modifications that render coordinated purchasing less than optimal. Similarly, policies and rules are often unclear, leaving agency purchasing staff in a position of making errors, or not using best practices in procurement.

Around the same time as the above analysis, federal legislation to assist with economic recovery passed, and it appeared that there would be additional stringent requirements that required study in this area as well. Some of the federal requirements included even more detailed reporting than the reporting required under NC Open Book. This further reinforced the need to analyze the current procurement process and systems.

Based on all the above initiatives, the BRAC selected procurement as one of its first areas of consideration because of its enormous potential for cost avoidance and efficiencies.

Subsequently, the 2010 Session of the General Assembly proposed legislation affecting procurement activities of the State, including in North Carolina Ratified Senate Bill No. 1213 (SL 2010-194), changes that would increase the compliance and training components as well as introducing ISO9000 standards as part of the Division of Purchase and Contract's (P&C) operations, further underscoring the importance of procurement reform in the State.

With the initial review and the issues arising from NC Open Book, it was apparent that a thorough, comprehensive, detailed review was needed if North Carolina was to transform its procurement system. A three-pronged Procurement Transformation initiative was launched with the issuance of a contract described below.

Project Vision and Expected Benefits

Based on the above findings, the vision of the Procurement Transformation project is to:

> "*Create a customer-focused enterprise to achieve increased procurement effectiveness, efficiency, and compliance resulting in significant financial benefit for taxpayers by reducing the costs of acquiring goods and services.*"

Launched in November 2010, the Procurement Transformation initiative is designed to change the way the state does business in broad and substantial ways. By examining all aspects of procurement with the clear goal of reducing costs and increasing accountability, it will streamline procurement functions across state government by increasing efficiencies, leveraging buying power and reducing overlap of key functions.

The specific benefits expected to result from the project include:

- Better value and more effective use of tax dollars for the citizens of North Carolina
- More consistency across the enterprise to leverage the State's buying power
- More efficient processes and systems to provide customers with what they need—when they need it
- Employees working together to better serve their customers and the taxpayers

Project Approach

The project has been divided into three distinct phases: Assessment, Design, and Implementation. Led by Accenture, the Assessment and Design phases were completed in a 22-week timeframe, and the results are summarized in this report. The Implementation Phase by the Department of Administration already has begun in two areas, and details of the implementation overall approach are included in this report.

The Assessment Phase focused on evaluating the current state of the procurement function and identifying potential areas for improvement in the form of recommendations. During the Assessment, surveys and discussions were held with key stakeholders, procurement employees, agencies and institutions and vendors to understand the current state of North Carolina's procurement function.

The Design Phase focused on developing a cohesive plan to implement the identified recommendations that were a result of the Assessment. The Implementation Phase focuses on selecting and implementing Design Phase recommendations.

The four functional workstreams each focused on a particular area of the procurement function for which sets of Current-State Assessment and Impact summaries were developed, aligning to the Assessment and Design phase approach of the overall project. These workstreams focused on:

- **Organization** – Organizational structures, job profiles, procurement competencies, and training
- **Strategy and Governance** – Policies, statutes, compliance structures, and quality management processes
- **Strategic Sourcing** – Purchased goods and services, contracts, and the State's supply base
- **Technology** – Procurement technology capabilities in buying, consolidated spend reporting, master data management, and supplier integration

The functional workstreams were supported by two additional workstreams aimed at making sure the assessment, design, and implementation activities associated with each functional workstream are completed efficiently and effectively.

- **Change Management** – Gauges the readiness of the procurement function to change and facilitates the planning of change with the intention of maximizing stakeholder engagement
- **Project Management** – Provides executive oversight, reporting, quality assurance, and workstream integration to execute the project in a cohesive manner. This workstream did not produce a separate Current-State Assessment or Impact Summary.

Guiding Principles

An early step in the project was to establish the following set of Guiding Principles through surveys and direct discussion with a wide array of stakeholders. While other topics were considered, the following represents categories of feedback identified as essential to development of actionable recommendations for the State. They also will help determine which recommendations should be implemented.

Best Value	Procure goods and services at the lowest total cost of ownership by leveraging the State's buying power using the most appropriate channels to deliver economic value for North Carolina taxpayers
Customer Focus	Address all stakeholders' business needs and manage their expectations in a timely, informative, and responsive manner
Delivery Excellence	Develop, maintain, and execute standardized, repeatable procurement processes and procedures across the procurement function – supported by technology where appropriate – to achieve targeted business outcomes
Compliance and Accountability	Enforce compliance with statutes, administrative codes, executive orders, and policies while providing appropriate transparency for stakeholders through monitoring, measuring, and reporting activities
Operational Efficiency	Align people, processes, and technology to optimize the procurement function against defined procurement goals and metrics
Workforce Excellence	Maintain a workforce with the right knowledge and skills to be viewed as a trusted partner on procurement related issues to achieve targeted business outcomes
Strategic Planning	Strategically plan procurement activities using a proactive and collaborative approach to optimize the return on investment for the State of North Carolina

II. ACCENTURE REPORT: WORKSTREAM FINDINGS AND RECOMMENDATIONS

This section summarizes the key findings and recommendations arising from Phases 1 and 2 of the analysis of procurement. **Attachment A** provides a list of all the Accenture-proposed recommendations, organized by workstream; this listing also details what guiding principles are associated with each recommendation, where it can be found in the consultant report, and whether it has been included in the first wave or recommendations to be implemented.

1. ORGANIZATIONAL ASSESSMENT AND DESIGN FINDINGS AND RECOMMENDATIONS

The **Organizational Current-State Assessment** documents the current organizational structures and linkages, job profiles, and evaluation of the existing career development training programs and compensation profiles for state agencies and community colleges.

The **Organization Design** deliverable includes recommendations for future state organization structures, job profiles, salary ranges, as well as a current full-time equivalent role analysis to be leveraged for specific agency/college organization adjustments during implementation of any recommendations accepted by the State.

As noted earlier, a copy of Accenture's final report and associated deliverables can be viewed on the Procurement Transformation website, http://www.doa.state.nc.us/procurement/.

A. Findings and Assessments

Numerous opportunities have been identified to improve efficiency, collaboration, and consistency of organizational design across the procurement function. Specifically, information collected during the Current-State Assessment yielded the following findings, among others:

- **Organizational Structure:**
  - Two central purchasing authorities (P&C and IT Procurement) perform similar functions under different statutes, utilizing different processes resulting in duplication of efforts and added complexity to the overall procurement function
  - Purchasing professionals in P&C and IT Procurement spend significant time on tactical activities (open market orders) preventing them from pursuing more strategic activities that drive a higher return on investment (spend analysis, Statewide Term Contract development through strategic sourcing, vendor relationship management, market research)
- **Job Descriptions**:
  - There are 24 different formal procurement-related job titles and many additional working job titles across the entities, adding complexity to the employee performance management process and the development and maintenance of job descriptions
- **Employee Performance Management**:
  - There is no comprehensive performance management program to drive consistent and effective management of employee performance
  - The existing performance management program minimizes the effectiveness of the employee performance process and doesn't recognize above average performance
  - There are limited mechanisms to motivate employees to deliver significant value (for example, no ability to adjust compensation based on performance, no defined career path)
- **Salary Model:**
  - Procurement salary ranges are comparable to other states such as Florida, Georgia, and Massachusetts salary ranges, but below the private sector

- **Training:**
  - There is no formalized procurement training curriculum tied to each job profile to improve overall procurement skills and increase accountability for employees and management. This includes procurement professionals and employees in the divisions/program areas in entities that are doing procurement and contract management activities.
  - There is no central learning management solution to track training against established curriculum and to deliver learning content to employees to provide consistent training, reduce training related travel expenses, and build a foundation for an enterprise-wide training program

B. Recommendations

Accenture's final report deployed relevant industry/trade benchmark findings and leading practices to guide the development of the recommended organizational structures. The following organizational-specific recommendations were offered for the State of North Carolina to consider implementing in order to improve the efficiency and effectiveness of the procurement function. Note that implementation of some recommendations may lead to realization of additional efficiencies that could be implemented at a later date.

- **Organizational Structure**:
  - Merge the Division of Purchase & Contract and IT Procurement organizations into a single procurement organization called State Procurement and locate it within the Department of Administration to create a central purchasing authority, including recommended roles
  - Establish an organizational structure for state agencies and community colleges, including recommended roles and factors to assist in identifying appropriate size of the procurement organization within an entity
  - Establish a Strategic Sourcing Group within State Procurement focused on sourcing high value categories of goods and services
  - Establish an Open Market Group within State Procurement focused on procuring good and services which are not part of strategic sourcing categories
  - Establish an Operations group within State Procurement to support the operational aspects of the procurement function (training, compliance, analytics)
  - Establish a dedicated Procurement Legal Counsel Group within State Procurement
  - Complete the implementation of organizational changes within 16 months of beginning the Implementation Phase for the Organizational Workstream
- **Full-Time Equivalent Role Analysis**
  - Establish the number of roles to be filled across the procurement function (State Procurement, state agencies, and community colleges)
  - Job Descriptions: Deploy standardized job titles and job profiles across the procurement function (State Procurement, state agencies, and community colleges) for all procurement-related positions using relevant industry/trade benchmark findings and leading practices
  - Implement a process to manage the standardized job profiles
- **Employee Performance Management**:
  - Develop and communicate clear career paths within the procurement function
  - Deploy rigorous standards for employee performance ratings so only above average performers receive the highest ratings
  - Develop objective individual performance metrics that align to the overall objectives of the procurement function for inclusion in the performance management process

- **Salary Model:**
  - Evaluate and update salary grades, where required, for procurement roles to attract and retain employees with the proper skills
  - **Training:**
    Deploy a comprehensive training program for employees in the procurement function

2. STRATEGY AND GOVERNANCE ASSESSMENT AND DESIGN FINDINGS AND RECOMMENDATIONS

The **Strategy and Governance** component of the review was intended to identify how the entire purchasing "enterprise" is carried out (centrally and among agencies). The **Current-State Assessment** deliverable provides a summary of current targeted procurement processes, procurement related statutes and policies, and procurement performance metrics, as well as a snapshot of how the State compares to other procurement organizations. The deliverable includes a summary of the following items based on discussions with the targeted representative entities and review of submitted information requested by the team:

- Current procurement processes (strategic planning, sourcing, contracting, requisitioning, and supplier management)
- Procurement statutes and policies
- Procurement performance measures
- Interaction points within procurement between central purchasing organizations and agency/community college purchasing organizations
- Interaction points between procurement and external stakeholders
- Comparison of the overall North Carolina procurement function's performance with other public and private sector organizations

To accurately assess the current state of the procurement strategy and governance processes, the team conducted information gathering sessions with procurement leadership from the targeted state agencies and community colleges. Information gathering sessions were also conducted with designated representatives from P&C and IT Procurement to provide detailed information by category regarding the State's central procurement processes.

In total, the Accenture project team issued data requests for 38 procurement related information items including documented sourcing processes, contract management, compliance, spend analysis, metrics, benefits tracking, statutes, policies and service level agreements; held multiple kick-off sessions to provide background and purpose of the Procurement Transformation initiative; conducted 32 survey discussions with 60 key procurement stakeholders across 17 entities; issued a survey to approximately 25,000 vendors through IPS, and sent separate emails to more than 330 of the vendors with the highest FY09/10 purchase order amounts in E-Procurement; conducted Accenture's Procurement Mastery Survey with 58 questions across six procurement dimensions; developed master list of over 85 procurement related statutes, administrative codes and Executive Orders.

A. Findings and Assessments

Information collected during the Current-State Assessment yielded the following findings, among others:

- Current statutes and policies limit the ability of the procurement function to drive maximum benefits for the State because of restrictions they impose
- There is no single vision or set of guiding principles for procurement used by all entities within the procurement function; similar themes exist across the many entity specific vision and mission statements
- There are no standard metrics across all entities to monitor the performance of and the value generated by the procurement function
- Procurement is reactive versus proactive; for example, there is not a multi-year sourcing plan that effectively coordinates the activities among the central purchasing authorities and the entities to aggregate common spend to reduce administrative efforts and drive lower costs
- There is a lack of consistent, documented procurement processes that incorporate leading practices in strategic sourcing and contract management
- There is no structured supplier relationship management framework that segments contracted vendors based on strategic importance and criticality of supply
- The Board of Award process creates inefficiencies in the procurement process without adding material value
- Existing procurement related statutes, administrative codes and executive orders reduce the procurement function's ability to optimize value and create confusion across entities and vendors

- Focus on low bids that meet specifications versus best value (except in IT category) prevents procurement from driving innovative solutions with vendors to reduce total cost of ownership of purchased goods and services
- Lack of an integrated spend data repository to capture data from E-Procurement, NCAS, P-Card, and other systems, limits the ability to effectively monitor and manage spend across all entities

B. Recommendations

Accenture's final used leading practices to guide the development of the recommended Strategy and Governance Assessment and Design. In identifying priorities and best-fit options, the following strategy- and governance-specific recommendations were offered for the State of North Carolina to consider implementing in order to improve the efficiency and effectiveness of the procurement function. Note that implementation of some recommendations may lead to realization of additional efficiencies that could be implemented at a later date.

The **Governance Model** portion of this deliverable presents the recommended future governance model, which defines the internal management of the procurement function to establish and achieve business outcomes, as well as support the State's guiding principles. The key objective of this deliverable is to provide the recommended structure, processes, and measurements to govern the procurement function.

- **Implement Statute Changes** which accomplish the following objectives:
  - Increase the ability of the procurement function to use the Best Value Concept
  - Consolidate and streamline relevant statutes and administrative codes making the legislation for the procurement of goods and services easier to understand and comply with
  - Reduce the number of limited value-added processes currently required in statute
  - Require regular reporting of procurement data by all entities funded by the State
  - Remove category-based exceptions so the full buying power of the State can be leveraged

- **Institute a Governance Model** that defines the key roles and responsibilities needed to provide governance of the procurement function, including central purchasing authorities, State agencies, and community colleges. This includes the recommended structure for decision-making frameworks, authorities, structures, metrics, and oversight to execute and manage the procurement function's processes, policies, and procedures and includes the following set of capabilities, functions, and characteristics:
  - Establish a Procurement Governance Team with representatives from State agencies, community colleges, universities, LEAs, and local governments
  - Empower the Procurement Governance Team to make key decisions, monitor performance, and champion changes to statutes, the administrative code, and policies
  - Implement a defined process which allows the Governance Team to establish sub-committees as necessary to support decision making, address identified problems, or work on continuous improvement
  - Implement processes to proactively monitor statutes and administrative code to ensure the procurement function is compliant, identify the potential for modifications, and ensure training/interpretation/clarification is provided in a timely manner
  - Implement a continuous improvement process where opportunities can be identified at all levels, both internal and external, to the procurement function
  - Consistently consider enterprise-wide impacts when making key decisions
  - Issue regular communications describing key decisions made and the potential impacts to all affected stakeholders
  - Use a Balanced Scorecard with metrics and targets to help manage the health and performance of the procurement function
  - Regularly monitor performance reports to identify performance trends or measures that are repeatedly above/below established targets and developing action plans as needed to drive the desired outcomes

- **Implement a Governance Process** that defines the processes to effectively establish and maintain policies, processes, and standards across the procurement function, as well as address contract compliance and procurement compliance
  - Rework the Contract Compliance Process, which includes recommendations on processes for approval signatures, central repository, key contract reviews, renewal requirements, and standard terms and conditions
  - Establish a new Procurement Compliance Process, such as recommendations on processes for monitoring compliance to sourcing strategies, cost avoidance tracking and SLA (service level agreement) management
  - Establish a statewide spend analysis capability to support decision making and strategic sourcing
  - Establish a market analysis capability to be used primarily in conjunction with strategic sourcing to understand current business needs, market size, environment and current trends, supply base and areas of opportunity by understanding current State needs using market intelligence/benchmarking
  - Implement an ongoing evaluation of entity delegation levels with the intention of allowing additional one-time purchases to be made at the agency/community college level in order to allow State Procurement to focus on strategic sourcing
  - Use reverse auctions as part of the sourcing process, when appropriate, in order to fast track the negotiation process and drive additional expenditure reductions
  - Require fewer approvers, especially for contracted catalog items, to decrease cycle times for items that have already been competitively bid and contracts established
  - Streamline the processes for implementing new contract catalogs and regularly updating catalog content for existing contracts
  - Apply a consolidated, standardized process for monitoring spend on state term contracts and adherence to state policies and procedures
  - Develop and use a set of procurement performance metrics to track performance at an individual, process, and organizational level
  - Conduct surveys with internal/external stakeholders on a regular basis in order to understand levels of satisfaction with procurement's performance and areas of opportunity

The **Operating Model** portion of this deliverable outlines the recommended activities and interaction points across central procurement group(s), executive agencies, community colleges, and other key stakeholder groups. The operating model includes details on the following procurement processes, including how the processes are conducted, the responsible entity and the various points of interaction:

1) Sourcing and Category Management (Sourcing Processes, Contract Management/Administration Processes, Demand Management, Supplier Performance Management)
2) Sourcing Support (Spend Analytics, Market Analysis, Spot Buy, Reverse Auction Services)
3) Procurement Operations (Requisitioning Processes, Supplier Enablement, Catalog Enablement, Compliance Monitoring Processes)

Specifically, the report recommends that the state implement an Operating Model to define and standardize the procurement function processes and responsibilities using the following set of capabilities, functions, and characteristics, including such things as:

- Use a strategic sourcing planning capability to establish a long-term sourcing plan
- Implement a statewide strategic sourcing methodology to conduct statewide procurement on behalf of state agencies and community colleges to increase purchasing power
- Create a single purchasing manual—maintained by State Procurement—for use by all state procurement organizations
- Establish a standard contract management process that includes specific protocol for managing contract templates, tracking contract reviews, establishing notifications for upcoming contract reviews and expirations, and predefined standards and controls for terms, approval flows, and audit trails
- Create and use standard contract templates that include standard terms and conditions and a standard set of supplemental terms and conditions for use by state agencies and community colleges

- Implement a rigorous demand management/planning process that includes regular collaboration with all relevant stakeholders (including across government levels)

Also of note, the deliverable addresses the State's high-level requirement from SB 1213 to implement a quality management system with comparable quality standards to the International Organization for Standardization (ISO) 9001:2008. The provisions of SB1213 are incorporated within the governance recommendations.

3. STRATEGIC SOURCING ASSESSMENT AND DESIGN FINDINGS AND RECOMMENDATIONS

As part of the Strategic Sourcing Workstream Assessment, an assessment of the State's spending patterns was conducted by Accenture. The **Refreshed Spend Assessment Report** provides the State with an updated and actionable plan for strategic sourcing. It includes the original Spend Assessment delivered in December 2009 and a FY2009-10 Supplement. The FY10 supplement is based on the December 2009 Spend Assessment, which used FY08 and FY09 spend data for State agencies and community colleges.

Development of the FY10 supplement includeutilizing using FY10 NCAS (North Carolina Accounting System) and E-Procurement data, updating industry information, reviewing contract analysis, updating category insights, and conducting stakeholder survey discussions. The FY10 Supplement profiled the State's spending patterns based on FY10 data and identified opportunities for the State to achieve cost avoidance by contracting differently for categories of purchased goods and services. The FY10 Supplement also recommends a sourcing "wave plan" by prioritizing these opportunities in groups and identifying the timing of expected expenditure reductions. Specific recommendations are provided for implementing Strategic Sourcing. These also quantify over time the benefits associated with the sourcing wave scenario determined to be the best fit for North Carolina.

Development of this deliverable was based on the findings in the Refreshed Sourcing Assessment FY10 Supplement and includes input gathered from key stakeholders during a workshop which reviewed and updated the sourcing wave plan presented in the FY10 Supplement. This document includes a summary view of the sourcing wave plan, estimated timing of the associated cost avoidance, and outlines the resources required to implement the defined sourcing wave plan.

A. Findings and Assessments

The Strategic Sourcing Assessment and Design focused on evaluating the spending patterns of the State through the analysis of spend data and discussion with key stakeholders. The Strategic Sourcing Workstream identified significant opportunity for the State to achieve increased cost avoidance by more strategically contracting for similar categories of goods and services. The key findings included:

- The supply base for at least 60 percent of the categories which can be highly impacted by a leading practice strategic sourcing process is highly fragmented and diminishes the State's buying power
  - A high number of vendors typically comprise the top 80 percent of category spend
  - Most categories have a high number of total vendors
- Inconsistent purchase prices exist for the same or similar items
  - The State pays different prices for the same or similar items suggesting inconsistent buying and/or contracting practices
- Statewide contracts are narrowly scoped and sometimes renewed numerous times instead of being competitively rebid
  - Multiple contracts exist for groups of items which could be purchased together based on supply market organization and capability
  - Contracts are renewed multiple times without being competitively bid, leading to missed opportunities to reduce costs or achieve higher product/service levels
- Updated leading practice purchasing strategies have not been pursued in particular areas
  - Leading practice purchasing strategies evolve over time as technologies and product/service offerings advance; taking advantage of these can lead to substantial benefits and a lower total cost of ownership

B. Recommendations

Accenture's final report deployed relevant industry/trade benchmark findings and leading practices to guide the development of the recommended Strategic Sourcing Assessment and Design. In identifying priorities and best-fit options, the following strategic sourcing recommendations are offered for the State of North Carolina to consider implementing in order to improve the efficiency and effectiveness of the procurement function.

- Execute a strategic sourcing effort across 32 target categories, potentially saving the State at least $30 million in annualized procurement cost avoidance. Cost avoidances are based on anticipated spend from state agencies and community colleges; expenditure reductions could be expanded by extending contract usage to universities, LEAs and/or local governments
- Organize the 32 target categories across three groups or "waves" of strategic sourcing, with 11 categories targeted in Wave 1, nine categories targeted in Wave 2, and 12 categories in Wave 3
- The first two waves of sourcing can be completed within 14 months using assistance provided by outside resources
- Implement recommended changes to statutes and policies, strategy and governance, organization, and technology to maximize and sustain the benefits gained from strategic sourcing

4. TECHNOLOGY ASSESSMENT AND DESIGN FINDINGS AND RECOMMENDATIONS

The Technology Current-State Assessment presents an analysis and overview of the State's current technology capabilities in the areas of Consolidated Spend Reporting, Master Data Management, Supplier Integration, as well the E-Procurement Buying Tool. The assessment was based on feedback and input gathered with State participants during assessment workshops as well as the consultant's analysis of the State's current environment, challenges/opportunities and requirement confirmation sessions.

The Ariba Buyer Recommendation presents a summary of the analysis and considerations regarding the required decision to keep and upgrade or replace the current Ariba Buyer platform. The recommendation is based on feedback and input from the State during workshop sessions focused on assessment, challenge/opportunity identification, and requirement confirmation.

The Technology Improvement Options and Preliminary Technology Plan provides an analysis of the State's current technology landscape in focused areas supporting procurement and recommends options to bridge identified technology capability gaps in those areas

A. Findings and Assessments

The Technology Workstream focused on four technology capability areas: buying, consolidated spend reporting, master data management, and supplier integration.

- The current buying capability, E-Procurement, provides the required functionality and meets the base needs of the stakeholders, however:
  - Many of the identified challenges (with the exception of catalog search and system performance) relate to the supporting processes and how effectively the system is used rather than technical issues with the system
  - Although not technically evaluated, one of the concerns identified was the current system performance during peak usage times. Potential areas for investigation or improvement include historic transaction volume (10 years of history in system today), number of customizations of the software, complexity of workflow rules, and high volume of catalog items
- Evaluation of the consolidated spend reporting capability identified significant capability gaps and overall low user adoption of the current technology capabilities in this area
  - Current Spend Reporting tools provide limited reporting capabilities and have not been widely adopted by end users
  - There is no single system where the State can report on consolidated purchase order, contract, and payment transactions
  - The State is currently able to report on less than 50 percent of its total spend including agencies, community colleges, universities, and LEAs; there is an opportunity to capture additional transactions from other systems such as those of the universities which is not in E-Procurement or NCAS
- There is effective master data management in some areas but it lacks the statewide adoption in numerous areas:
  - The State has several areas where master data management is implemented effectively including accounting, commodity codes, and units of measure
  - The commodity code structure is currently using an outdated version of NIGP and should be updated or replaced with another code structure
  - The State would benefit from improved vendor registration and management systems to create a single source for vendor data and facilitate interfacing with subscribing systems
  - An interface from the BEACON HR system to E-Procurement system would provide an improved ability to manage user attributes and tie user activation/deactivation with BEACON
- The State has several effective supplier integration capability areas but there are areas which could be improved:
  - The State has an electronic exchange for vendor catalog loading using the Aravo tool
  - The State has effective capabilities to notify vendors of bids and multiple order methods including e-mail, fax, and electronic orders via the Ariba Supplier Network

- Supplier integration capabilities could be improved including implementing and using sourcing tools that allow electronic bid submissions, as well as the implementation of an electronic invoice solution

B. Recommendations

In identifying priorities and best-fit options, the following technology-specific recommendations were offered for the State of North Carolina to consider implementing in order to improve the efficiency and effectiveness of the procurement function. They were based on leading practices to guide the development of the recommended Technology Assessment and Design

These recommendations include both immediate and longer term solutions aimed at increasing the procurement technology capabilities within the procurement function, and include the following:

- Retain and upgrade Ariba Buyer (to Ariba 9r1) as the core E-Procurement system for the State and affiliated entities
- Implement a spend reporting solution to improve visibility to what the State purchases, allowing for better identification of procurement opportunities and controlled spend
- Review the current vendor registration solution for enhancement/replacement and perform master data cleanup, creating a single master supplier data source
- Expand or supplement the current eSourcing/bidding capabilities to reduce bid entry and evaluation times
- Implement a user data interface between BEACON and E-Procurement to synchronize user attributes and user activation/deactivations. Connect E-Procurement to NCID for user authentication, minimizing user password management and aligning with the State's security initiatives
- Update the State's category code structure and implement the consultant-developed Category Taxonomy (created during the sourcing assessment) to improve consistency between systems and enhance spend reporting
- Improve the current "punchout" catalog management process to ensure effective price management between established contracts, and direct procurement users to items on contract
- Implement an electronic invoice processing solution to reduce manual overhead associated with paper-based invoice processes

5. CHANGE MANAGEMENT PLAN RECOMMENDATIONS

The Change Management Plan presents Accenture's strategy and framework to effectively manage the complex process of implementing the approved recommendations in the Strategy and Governance, Organization, Sourcing, and Technology areas to successfully transform North Carolina's procurement function. Additionally, when aligned with the Communications Plan, it provides a strategy and framework to effectively engage stakeholders and communicate changes as progress is made throughout the transformation effort, and presents an integrated timeline of change management and communications activities aligned to the draft implementation plans for transformation.

Change Management activities will enable leadership to gauge the organization's readiness, willingness, and ability to function in a new environment in which change efforts fundamentally alter how the organization is structured, the roles and responsibilities of the workforce, the policies, processes, and procedures to carry out the procurement of goods and services, and how performance and success are measured.

A timeline identifying integration points between the Change Management Plan and Communications Plan across the various transformation initiatives and specific change management activities and communications will be developed as a point-in-time baseline using the recommendations that DOA has chosen for implementation.

A. Findings and Assessments

Proactive change management activities—key to executing a successful transformation—are needed to enable the State to realize the potential benefits by:

- Planning, guiding, and controlling the implementation process
- Anticipating and addressing potential impacts of the change
- Anticipating and addressing potential resistance to change
- Enabling the workforce to perform successfully in the new environment
- Creating ways to sustain new processes and continuously improve operations

Current protocols lack ways for leadership to integrate and synchronize activities, measure progress, take action as required, and generally keep activities aligned with the program plan and goals of transformation and to maintain the momentum of the effort. Program leadership would benefit from:

- Establishing targets and milestones
- Conducting ongoing assessments against above
- Anticipating risks
- Building on early successes
- Identifying changes in context, complexity, or scope
- Planning parallel and future work
- Adjusting and realigning priorities, performance targets, and resources

In order to gauge the readiness of the procurement function to change, a survey was distributed to employees in the P&C, IT Procurement, Executive State agencies, and community colleges. Of the potential 464 employees identified as having a role in the procurement function, 188 responded to the survey for a response rate of 40 percent. The survey was divided into six focus areas:

- Vision/Leadership – to assess alignment of employees with the vision, as well as leadership/management support
- Action/Alignment – to determine potential barriers to implementing changes specifically at the working level
- Adaptability/Change – to understand organizational and individual reactions to changes
- Involvement/Collaboration – to gauge individual degree of involvement and group collaboration
- **Training/Performance Management** – to understand importance/need for training (also related to adaptability/change)

- **Communications** – to evaluate effectiveness of project communications and determine best communications channels (Communication recommendations are included in the following Communications Plan section)

The results of the survey were analyzed to develop a perspective of the current state, which was then used to develop a set of recommendations aimed at improving user engagement and making the transformation more effective.

B. Recommendations

In identifying priorities and best-fit options, the following change management-specific recommendations are offered for the State of North Carolina to consider implementing in order to improve the efficiency and effectiveness of the procurement function.

- **Build Alignment and Leadership Commitment**
  - Implement the recommended Governance Model to support creating leadership alignment allowing program sponsors and State leadership to speak with a "single voice" regarding the ongoing transformation effort and sustain the improved procurement function
- **Enable the Organization to Transform**
  - Implement the recommended Operating Model and supporting organizational structure to enable the procurement function's transformation and sustain changes necessary to achieve the vision
  - Implement the appropriate training and development programs to enable employees to succeed in the new operational environment
- **Manage the Change**
  - Closely align the change management effort with program leadership to assist in scheduling activities focused on identifying challenges based on the rate of change or the capacity for the organization/individuals to cope with the amount of change
  - Use a change management interaction model to select multiple and appropriate activities at any given point in time of the transformation
  - Implement a Change Network as a way to formalize peer-to-peer information sharing and support program communications, as well as implement changes as a result of process or technology initiatives
  - Leverage various meetings and forums to share successes and leading practices, prepare individuals for upcoming changes, encourage participation in change efforts, and gauge adoption of and/or resistance to specific changes
  - Use both Change Readiness Surveys compared to the results from the baseline survey and other short readiness surveys to monitor watch areas, gauge readiness for specific initiatives, and identify issues

6. COMMUNICATIONS PLAN RECOMMENDATIONS

The Communications Plan presents a strategy and framework to effectively communicate (a) the complex process of implementing the approved recommendations in the Strategy and Governance, Organization, Sourcing, and Technology to all stakeholders as progress is made throughout the transformation effort, and (b) activities aligned to the draft implementation plans for transformation.

A. Findings and Assessments

Proactive communications between procurement entities and stakeholders have been infrequent and not coordinated in past years—with the exception of recent communications related to the overall development of the Procurement Transformation Plan. As a result, it cannot be shown that communications have been effective in delivering broad or specific messages or enhancing "buy in" among stakeholders. Likewise, it is unclear if communications are shared with appropriate staff within any given entity.

B. Recommendations

The Communications Plan should be a living document outlining communications activities by timeframe, audience, key messages, recommended vehicles, and development/sender responsibilities. Communications activities should support stakeholder engagement across the broad sets of groups including leaders sponsoring transformation activities, the teams actively engaged in developing and implementing the changes, employees engaged in maintaining the procurement services throughout the transformation, and the customers and constituents of those services.

Since there was no established communications plan for the consultant to study, its final report deployed relevant industry/trade benchmark findings and leading practices to guide the development of the recommended Communications Plan. In identifying priorities and best-fit options, the following communications-specific recommendations are offered for the State of North Carolina to consider implementing in order to improve the efficiency and effectiveness of the procurement function.

- **Communications Management**
  - Consider communications best practices when developing and delivering all communications
  - Use a cascading communications approach to align messaging and leverage existing communications vehicles/channels throughout the organization
  - Implement an efficient process to review and approve all communications to allow for timely information sharing and mitigate the potential for information overload for employees involved
  - Use a single Communications Tracker as the primary mechanism to schedule, track, and unify formal communications in order to logically leverage multiple communications channels and minimize redundancy and information overload for stakeholders
  - View communications as an iterative process which must be continually monitored using various feedback mechanisms to gauge the effectiveness of messages
- **Communications Vehicles and Format**
  - Continue to use the website created during the Assessment Phase to communicate fact sheets, standard program briefings, Frequently Asked Questions (FAQs), and post links to related information, e.g., administrative code, pending legislation
  - Create standard communications vehicles— such as a Procurement Transformation Postcard and a Procurement Transformation Update—to "push" information to targeted stakeholder groups
  - Use formal memos from leadership to both State and procurement function audiences for formal announcements, to establish policy, and periodically provide updates on progress of the transformation and supporting activities
  - Use the official templates to create a program identity and support consistent communications

III. DEPARTMENT OF ADMINISTRATION: IMPLEMENTATION PLAN

The Department of Administration has invested significant financial and human resources on learning how to transform the procurement function for the State and taking the first steps to do so. This project will continue to be a key priority for finding ways to save money and increase efficiencies in state government. Although much has been accomplished in identifying areas for improvement, there is still much to do to realize the vision and expected benefits of this important initiative.

As initially envisioned at the start of the Procurement Transformation Project, the State planned to implement the Phase 1 and Phase 2 recommendations through a joint effort with a contractor in Phase 3. Due to a variety of factors, the implementation planning and execution will begin with in-house and stakeholder agency resources. This decision by the Department to follow a modified approach to implement was based on:

- Anticipated costs of contracting with a third party in light of budget reductions
- Recognition of the availability of alternative methods and resources to implement recommended changes and the desire to maintain independence in considering alternatives
- Ability to adapt implementation schedule based on changing circumstances, resources and needs

As implementation activities progress the State will continue to utilize these resources, but may also consider outsourcing certain implementation efforts or entering into public-private partnerships to accomplish the goals of the Procurement Transformation Project.

DOA proposes to implement most, but not all, of the key recommendations over the next 12-to-36 months based on a priority assignment model that considers:

- Logical sequence
- Availability of resources
- Linkage to the Guiding Principles, as noted on page 6 of this report
- Timing of other, related activities

While the implementation of recommendations may conceptually follow the workstreams of Phase 1 and Phase 2, implementation of necessity blends these. For example, implementation of strategic sourcing recommendations blends Organizational and Staffing Workstream recommendations and Strategy and Governance Workstream recommendations.

The department will develop a detailed work activities implementation plan which will be used as an internal document to track day-to-day operating implementation of the overall plan.

What follows in this narrative describes DOA's current and proposed implementation activities by workstream in summary. As the implementation plan proceeds, more details will be reported on the Department's Procurement website (http://www.doa.nc.gov/procurement/), in order for work progress to be followed.

1. STRATEGY AND GOVERNANCE IMPLEMENTATION

As noted in the discussion of the assessment of these workstreams areas considered and recommendations made were related to, among other things:

- Procurement Statutes and Policies
- Governance and Operating Models
- Procurement processes (including strategic sourcing, contracting, requisitioning, and supplier management)
- Performance Measures

A. Procurement Statutes and Administrative Code

Opportunities were identified within North Carolina's procurement related statutes and administrative codes to improve consistency, streamline processes, and encourage best value purchasing. Implementing recommended procurement related statute and administrative code changes will:

- Increase the ability of the procurement function to drive best value outcomes efficiently and effectively
- Consolidate and streamline relevant statutes and administrative codes making the legislation for the procurement of goods and services easier to understand and comply with
- Reduce the number of limited value added processes that are currently required in statute beyond the core procurement function
- Clarify rules and exemptions to statutes reducing the room for error and improving compliance

Due to the importance of timing with the General Assembly coming into long session (winter 2011) when new legislative initiatives can be proposed, DOA expedited implementation of many of the consultant's recommendations. Statutes they recommended changing were reviewed closely and the DOA project team selected those items of greatest potential impact and drafted proposed changes to the existing master statute that governs non-information technology procurement (G.S. 143-48-64). The result was Session Law 2011-339-SB404, *An Act To Modernize Procurement Methods Used By The Secretary Of Administration And State Departments, Institutions, And Agencies*. The full text of S.L. 2011-339 (SB404) is included in Attachment B. The changes will greatly assist DOA and all state agencies in getting more for their purchasing dollar, by authorizing more leading practices that can result in contracts that are more beneficial to the state, expanding Best Value Procurement Concept, routinely providing purchasing information, modifying statutes to include services in statewide contacts, repealing P&C approval of university contracts over $250,000.

The recommendations for other statutory changes will be considered as part of future legislation, revisions to rules, policies and procedures or studies required by HB200, Appropriations Act of 2011, Session Law 2011-145. DOA will also consider whether or not to implement certain recommendations based on changing circumstances, resources and needs. Some of the recommended changes that would be under consideration include creating one central procurement authority, requiring regular delegation reviews, allowing Board of Awards legislation to expire, removing category based exceptions, clearly defining types of contracts, streamlining protest procedures, clarifying eligible users of statewide term contracts, and discontinuing the Governor's office review of consulting contracts.

In addition, DOA will continue to implement the requirements of Session Law 2010-194-SB1213. The 2010 law strengthened legal and professional oversight of state contracting and purchasing processes. Some of these changes have been implemented; some are in process; and others will be incorporated in the overall Transformation Implementation Plan and include the following:

- Include standard clause in all state contracts providing for access to contractor records by State Auditor and agency internal auditors
- Monitor and enforce terms of statewide term contracts without delegation
- Develop rules prescribing how agency will monitor agency term and non-term contacts

- Consult with Attorney General in developing rules for agency submission of contracts for review by Attorney General or designee (implemented)
- Implement quality management system equivalent to ISO 9001-2008 by September 1, 2012 and report progress to legislative commission and Fiscal Research (partially implemented)
- To work in conjunction with Office of State Personnel to create a Contracting Specialist career path and training designation of Contracting Specialists within agencies (in process)
- To work in conjunction with Office of State Personnel and UNC School of Government to develop a rigorous contract management training and certification program (in process)
- To work with UNC School of Government to study and recommend procurement law improvements including feasibility of adopting ABA Model Procurement Code (in process)
- Prohibit cost plus percentage of cost contracts (implemented)
- Submit all proposed statewide and agency contracts that exceed $1 Million to Attorney General or designee for review (implemented)

Finally, Session Law 2011-360 (HB713) authorized the Department of Administration to use multiple award schedule contracts for the purchase of all ground maintenance, construction, communications and forestry equipment. DOA has established a work team to implement this, and is in the process of developing a Memorandum of Understanding with the Office of Information Technology Services (ITS) to develop the communications RFP. Requests for proposals were issued by the deadline of August 31, 2011, as directed by law. The impact of this compared to other procurement vehicles will be monitored.

B. Governance Model

Changes to existing governance structures have already informally commenced with the formation of executive and advisory groups which have guided this study. These will form the basic hierarchy of governance oversight for the ongoing procurement transformation process. As needed, new entities will be formed. At various levels, each committee advisory group will be empowered to make key decisions within their relative authority, monitor performance and take initiatives regarding statutory changes and administrative code revisions. The governance groups, through the formation of subcommittees, will implement processes to monitor progress toward achieving transformation goals and key milestone activities.

These various governance entities will meet on a regular basis and be held accountable for progress in procurement transformation. A key responsibility, aside from policy making decisions, will be to establish performance metrics and expectations for each procurement organization within state government and coordinate through policy directives, the goals, responsibilities and workstreams for each organization to advise an efficient procurement process within government. The groups and committees, at their respective authority level, will review the overall spend of state agencies to support decisions and initiatives.

The Executive Committee currently is comprised of the organizational heads of the Office of State Budget and Management, State Personnel, Information Technology Services, State Controller's Office, and the Department of Administration. The next level of governance oversight is an Advisory Committee. This currently is a large group composed of representatives from Office of State Personnel, Office of State Budget and Management, ITS, the University System, Community College System, and representatives from the State agency purchasing officers group.

The third wave of governance includes a group formed by the purchasing officers from each agency and the University and Community College systems. This group represents the front line of purchasing and is there to evaluate and implement changes in policy and procedures, as well as recommend changes in process. They will also provide a leading role in the strategic sourcing effort through the recommendation of sourcing categories, term contracts and procurement processes. The group will be empowered to commit staff time and personnel to the formation of strategic sourcing teams and efforts. Resources for training will be coordinated through this group of individuals.

Governance will build upon itself by involving all layers of management and access multiple disciplines across government agencies in a collaborative approach. As noted above, the foundation for a competent and efficient governance structure already exists through the assessment and design phase of the Procurement Transformation Project. What remains in implementation is to establish the formal structures and operating procedures for each governance group. Establishing this formal structure can be accomplished in a two-month time frame. Each governance group will establish its own operating structure and draft a charter outlining its goals, responsibilities, and workstreams.

C. Operating Model

Implementation of recommendations in this area involves changes in infrastructure:

- Sourcing and Category Management (Sourcing Processes, Contract Management/Administration Processes, Demand Management, Supplier Performance Management)
- Sourcing Support (Spend Analytics, Market Analysis, Spot Buy, Reverse Auction Services)
- Procurement Operations (Requisitioning Processes, Supplier Enablement, Catalog Enablement, Compliance Monitoring Processes)

In the short term, implementation will involve the following areas of effort in several broad activity categories:

Compliance Monitoring

A key element of the Operating Model is ensuring adherence to laws and rules. Significant opportunities exist to increase procurement compliance, eliminate waste and reduce unnecessary spending through modification of existing statute and code, streamlined and uniform management practices, leveraged buying, and increased engagement for ongoing process improvement.

Implementing compliance monitoring processes will increase transparency when monitoring compliance across state entities by mitigating risk of violating State procurement laws; increasing spend compliance because users are more likely to follow protocol if they are aware and trained on the processes; focusing on purchasing lower cost goods/ services by increasing spend on contracts that have been strategically sourced; and reducing risk of variation from State standards.

Work has already begun in this area.

Contract Monitoring

Another key aspect of the Operating Model is creating the capacity and implementing a means to monitor contracts while they are in effect, much has been done during the ARRA (American Recovery and Reinvestment Act of 2009) activity within the state. Establishing centralized contract monitoring policies and procedures will allow the State to gain more visibility into contracts across state entities by standardizing the process for managing contracts; increasing suppliers' ease of doing business with the State; increasing contract visibility and improving compliance monitoring; increasing visibility to obligations and commitments using a centralized contracts repository; providing standard business terms and contract templates for use throughout the State; and increasing efficiency for renewal management and amendment tracking.

Performance Measures

The Department will be entering into a memorandum of understanding with the Office of State Budget and Management to document unit costs of the first series of items to be strategically sourced in order to have baseline numbers. Once the new contracts are in place, and agencies begin making purchases off those contracts, OSBM will come back to verify the expenditure reductions achieved based on the contracts.

2. STRATEGIC SOURCING IMPLEMENTATION IN KEY SELECTED AREAS

The State of North Carolina has the potential to realize significant expenditure reductions by strategically sourcing goods and services on behalf of State Agencies and the State's 58 community colleges. Cost avoidances are based on anticipated spend from State Agencies and Community Colleges and could be higher based on State contract utilization by Universities and LEAs (local education authorities). The potential is even greater now with the passage of SB404. Using the consultant's spend analysis, and subsequent findings from new data, as well as taking advantage of what is now allowed by law, P&C is positioned to much more aggressively target areas with high potential for good return on investment from strategic sourcing.

However, successful implementation of strategic sourcing as a component of long-term procurement transformation will require participation from North Carolina resources and support from external resources. Effectively executing sourcing strategies will require a two-to-three experienced sourcing professionals per category to support research, analytics, RFP preparation, negotiations, contract implementation and contract management.

As noted in the recommendations related to training, in order to implement strategic sourcing, resources will need a strong procurement skill set in each area of a strategic sourcing methodology. Specific tasks during the upcoming months to launch this activity include:

- Assess Opportunities and Create Initial Organizational Structures
- Profile Internally and Externally
- Develop Category Strategy
- Screen Suppliers and Selection Factors
- Conduct Competitive Exercise with Supply Market
- Negotiate and Develop Sourcing Recommendations
- Implement Agreements

The initial implementation plan for strategic sourcing will begin upon finalization of sourcing activities, categories and identifying the source of the resources needed to execute to selected categories. This process began in August with three categories and is expected to last 20 months, when all categories in the initial list have been done, but it will become part of the ongoing operations of the Division.

2. ORGANIZATION AND STAFFING IMPLEMENTATION

As noted in the assessment for this workstream, the central procurement entities' structure was considered, along with the related staffing requirements (numbers and skill sets). The outcomes of that assessment and recommendations were that the State needs to create a single organizational structure to ensure ownership and effective management of procurement operations and transformation tasks, that the internal structure needs to be reformed to reflect key strategic activities, and that the State procurement professionals need to have the appropriate skills to improve the efficiency and effectiveness of the procurement function.

Along with creating a Central Procurement Agency that will most efficiently and effectively carry out the policies and procedures established during this modernization initiative, DOA with the advice and cooperation from other State government purchasing entities also will assess current organization structures and develop recommended procurement organization designs for each entity to deploy standardized procurement responsibility and ensure the appropriate sizing of procurement organizations across the procurement function statewide.

A. Organizational Design

The recommendations regarding the altered structure of the Division of Purchase & Contract will be implemented incrementally over a 12-month period and will follow functional shifts in the way work is being carried out. The first stages of these changes will include the creation of work teams to accomplish three key tasks:

- Strategic Sourcing Section – initial sets of team will focus on the initial commodity and service groups which will be sourced
- Compliance and Training – core staff will focus on implementing the revised contract monitoring and agency compliance efforts, and to begin research into curricula that can be adapted for use by the state
- Stakeholder Engagement Section – to focus on two key functions immediately in order to begin the process of ensuring full communication with and participation by stakeholders, the first members of the team will concentrate on a statewide procurement conference, and coordination throughout implementation of the many stakeholder groups involved with implementation.

Other structural changes, and increases to the above sections will be implemented once these initial changes are made and fully operational. The complete redesign will be in place within two years.

B. Training

DOA will develop training that will allow State Procurement and entity procurement employees to fully understand and execute the new, North Carolina-specific procurement processes and procedures that are applicable to their position. This training will provide employees with the understanding and knowledge to successfully perform their job-specific activities and tasks. This training will include both ongoing competency development training as well as roll-based capabilities training to enable employees to perform tasks required to carry out the modernized procurement functions and roles.

We will identify potential sources for available and affordable training that will align with Procurement Transformation goals and provide staff with the right skills to be successful within their roles:

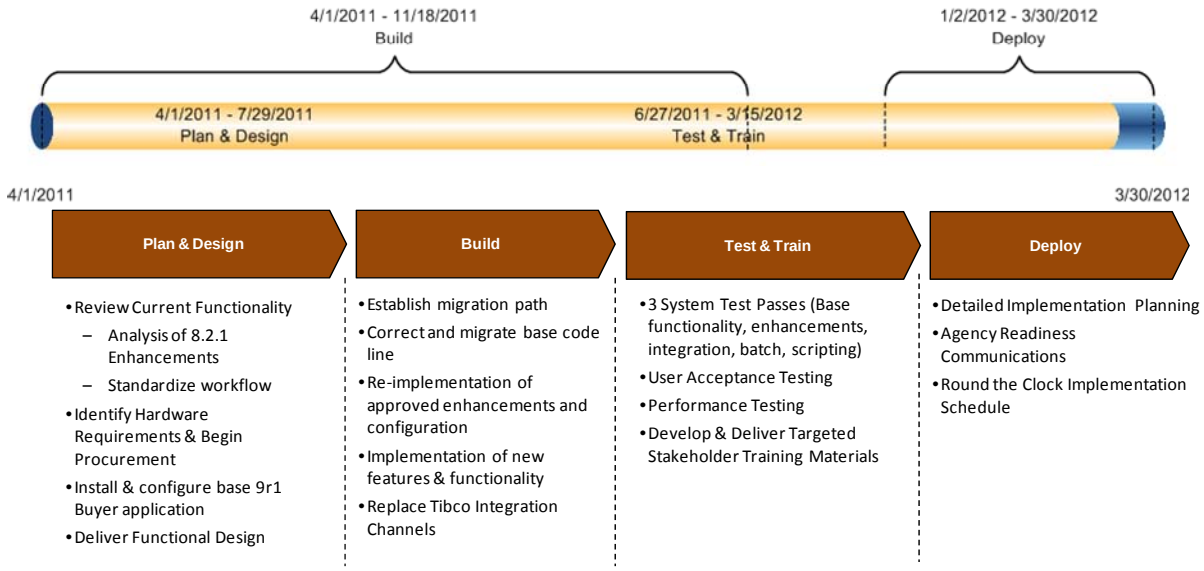
- Confirm key roles across State Procurement and entity procurement organizations that require role-based training
- Develop plan to conduct role-based training to the procurement function (e.g., pilot approach, which capabilities in which wave, format(s) to present training)
- Develop role-based training materials for each procurement capability and process (training will be conducted in conjunction with the implementation of the new organization)
- Participate in the identification of training and lead the delivery of a procurement-related training curricula based upon training needs and compliance reviews
- Develop the training plan, schedule and conduct the training courses

3. TECHNOLOGY IMPLEMENTATION

The first step in implementation resulting from the analysis was in the area of technology. As part of Phase 1 of Procurement Transformation, the E-Procurement application was assessed for potential improvements or replacement by other procurement systems. The technology assessment recommendation was that Ariba Buyer be retained and upgraded as the core E-Procurement system for the State of North Carolina and affiliated entities. Based on participation and review of the technology assessment regarding the existing E-Procurement application, DOA decided to accept the recommendation and move forward with the upgrade of the Ariba Buyer software that serves as the foundation of the current of the current E-Procurement application, due to the need to ensure timely transition of the outmoded software.

The implementation of the Ariba Buyer upgrade began in April 2011, with more than 25 stakeholder meetings held to date to get input on the current Buyer Modifications and agency Approval Flows. The Ariba Buyer upgrade effort provides an opportunity to deliver benefits that will drive user satisfaction and improved business performance opportunities for the State through NC E-Procurement @ Your Service. The upgrade is underway with a focus on key objectives, compatibility with existing interface systems, and a smooth transition. The upgraded NC E-Procurement @ Your Services application is expected to go live in March 2012.

The figure below depicts the overall project timeline expected for implementing the Ariba Buyer upgrade.



Other technology recommendations for subsequent implementation once the core system upgrade is in place include implementing a Spend Reporting Solution, Vendor Registration, eSourcing/Bidding, User Data Interface and Authentication, Category Structure Update, PunchOut Catalog Management, and Electronic Invoice Processing. Depending on the complexity and scope of each solution, the timelines vary from 2-3 months to 8-14 months for complete implementation. Each effort would require assistance from third party resources to assist with assessing requirements, soliciting bids, awarding a contract and implementing the solutions. Funding also would be needed.

4. CHANGE MANAGEMENT AND COMMUNICATIONS IMPLEMENTATION

These two workstreams were combined for purposes of implementation.

In order to ensure the successful transition of current and inconsistent procurement functions to a fully integrated procurement process built on transparency and efficiency, all affected stakeholders will be engaged in the implementation activities for each of the categories addressed. This includes current and potential vendors, as well as legislators, procurement employees, state and local agencies, the University and Community College systems, and others to be determined.

As noted in section related to Organizational Implementation, a Stakeholder Engagement and Communications group will be established within the Central Procurement Organization to manage relationships and outreach activities with customers (e.g.,

state agencies, community colleges, universities, LEAs, local governments, suppliers), and to develop and manage the Communications Plan for Procurement. This group will work with the Governance entities described earlier to ensure that decisions are developed based on a continuous flow of information among stakeholders, and communicated back to them.

Ongoing and effective communications between State Procurement executives, the Executive Steering Committee, and all stakeholders—including legislators and liaisons–must be maintained to ensure clear messaging and foster support for broad and necessary change. The Stakeholder and Communications group will represent the process and distribute vetted information in a timely and professional matter to convey "one voice" messaging to enhance understanding and build consensus.

CONCLUSION

The Assessment and Design Phase of the Procurement Transformation Project have been completed. Significant opportunities exist to increase procurement compliance, eliminate waste and reduce unnecessary spending through modification of existing structures, statute and code, streamlined and uniform management practices, leveraged buying, and increased engagement for ongoing process improvement.

As discussed throughout this report, the State has much work remaining to achieve its vision to "*Create a customer-focused enterprise to achieve increased procurement effectiveness, efficiency, and compliance resulting in significant financial benefit for taxpayers by reducing the costs of acquiring goods and services.*"

This report serves to summarize the Phase 1 and Phase 2 progress made to date and to lay out a proposed implementation plan for Phase 3 of this important initiative. DOA looks forward to continuing dialogue with all stakeholders and will provide update information on a periodic basis over the coming months.

IV. Appendix

Table 1: Summary of Recommendations

Recommendation	Cross Reference to Guiding Principles	Cross Reference to Page in Deliverable
Organizational		
Merge the Division of Purchase & Contract and IT Procurement organizations into a single Procurement organization called State Procurement.	C, D, E, F, G	OD1, Organization Design Deliverable, Page 4
Integrate the Historically Underutilized Business (HUB) Office into State Procurement to further support achieving the State of North Carolina's supplier diversity objectives.	B, C, D, E, G	OD2, Organization Design Deliverable, Page 4
Establish a Strategic Sourcing group within State Procurement with deep sourcing expertise to drive best value results.	A, B, C, D, E, F, G	OD3, Organization Design Deliverable, Page 4
Establish an Operations group within State Procurement to provide a robust operational support framework for state agencies, community colleges, and other stakeholders.	B, C, D, E, F	OD4, Organization Design Deliverable, Page 4
Establish a dedicated Procurement Legal Counsel group within State Procurement to review appropriate solicitations and contracts, and provide consistent guidance to the Procurement function on North Carolina statutes, administrative codes, executive orders, and policies.	B, C, D, E, F	OD5, Organization Design Deliverable, Page 4
Deploy recommended job titles and job profiles for procurement-related positions within State Procurement, and then identify qualified resources to fill the new positions.	C, D, E, F	OD6, Organization Design Deliverable, Page 4
Deploy standardized job titles and job profiles for procurement related positions across state agencies and community colleges.	C, D, E, F	OD7, Organization Design Deliverable, Page 4
Execute a standardized job profile management process to ensure ongoing relevancy to the needs of the Procurement function and maintain consistency across state agencies and community colleges.	C, D, E, F	OD8, Organization Design Deliverable, Page 5
Utilize Career Track Mappings within the Procurement function to facilitate improved planning and achievement of career advancement opportunities for employees.	F	OD9, Organization Design Deliverable, Page 5
Develop and deploy a comprehensive training solution for resources performing procurement related activities to provide them with the right skills to be successful within their roles.	A, B, C, D, E, F, G	OD 10, Organization Design Deliverable, Page 5
Finalize and deploy updated salary grades for Procurement roles to better attract, retain, and incentivize appropriately skilled resources that are critical for transforming the Procurement function and sustaining the benefits to be derived through an enhanced workforce.	F	OD11, Organization Design Deliverable, Page 5
Develop individual performance metrics from the recommended Procurement Balanced Scorecard for inclusion in job descriptions to increase accountability and enable more objective performance evaluations.	C, D, E, F	OD12, Organization Design Deliverable, Page 5
Sourcing		
Develop a strategic planning capability by establishing and publishing a long term sourcing plan	A, B, G	OM1, Operating Model Deliverable, Pages 24-26
Implement a statewide strategic sourcing methodology to conduct statewide procurements on behalf of the state agencies / community college to increase purchasing power	A, B, C, F, G	OM2, Operating Model Deliverable, Pages 24-26

Table 1: Summary of Recommendations

Implement an eSourcing solution to streamline and increase visibility into the sourcing process, in addition to standard RFx templates to be utilized statewide	C, D, E	OM3, Operating Model Deliverable, Pages 24-26
Implement recommended statute changes to allow for pricing negotiations and drive best value solutions from suppliers	A	OM4, Operating Model Deliverable, Pages 24-26
Consolidate to one centralized purchasing manual which is maintained by Central Procurement Authority	B, E	OM5, Operating Model Deliverable, Pages 24-26
Review other state's protest processes to identify additional opportunities to streamline the process	D, E	OM6, Operating Model Deliverable, Pages 24-26
Contract Management/Administration		
Establish a standard contracts management process that includes: – Specific protocol for managing contract templates – Tracking contract reviews – Establishing notifications for upcoming contract reviews and expirations – Predefined standards and controls for terms, approval flows, audit trails	C, D, E	OM7, Operating Model Deliverable, Pages 27-30
Develop and maintain standard contract templates – Develop a standardized contract template which will include a single set of standard terms and conditions and common supplemental terms and conditions to be used by agencies and community colleges	B, C, D	OM8, Operating Model Deliverable, Pages 27-30
Implement a contracts management tool to store contracts and monitor contract compliance and usage	C, D, E	OM9, Operating Model Deliverable, Pages 27-30
Demand Management		
Establish rigorous demand management / planning process that includes early collaboration with all relevant stakeholders (including across government levels)	A, B, G	OM10, Operating Model Deliverable, Pages 31-34
Implement a demand management program that focuses on driving additional value with existing suppliers – Focus on rationalizing specifications and lifecycle management – Investigate usage of substitute products, where applicable – Place ownership with supply base to identify areas of consolidation or ways to drive efficiencies for bottom line cost savings	A, C	OM11, Operating Model Deliverable, Pages 31-34
Supplier Performance Management		
Segment supplier base to ensure all suppliers the proper level of focus and interaction	B, C, D, E	OM12, Operating Model Deliverable, Pages 35-38
Collaboratively set realistic metrics that will measure the value delivered to the State by the strategic supplier. These should be set and included in the contract – Establish Supplier Scorecard to measure performance and identify areas of improvement	B, D	OM13, Operating Model Deliverable, Pages 35-38
Drive continuous improvement with suppliers after the contract is established in order to	A, B	OM14, Operating Model

Table 1: Summary of Recommendations

streamline processes and reduce the total cost of ownership		Deliverable, Pages 35-38
Implement a Performance Improvement Plan to be used when supplier performance falls below target	B, C, D	OM15, Operating Model Deliverable, Page 35-38
Streamline Process to collect feedback on supplier performance across end users	B, C, E	OM16, Operating Model Deliverable, Pages 35-38
Spend Analysis		
Formalize statewide spend analysis capability to support decision making as part of strategic sourcing methods	C, E, G	OM17, Operating Model Deliverable, Pages 40-43
Review spend commodity codes to align with spend visibility needs	E, G	OM18, Operating Model Deliverable, Pages 40-43
Utilize industry accepted category classification scheme consistently at the transaction level (e.g., UNSPSC, NIGP)	C, E	OM19, Operating Model Deliverable, Pages 40-43
Implement spend analysis technology to support procurement function activities – Determine approach to incorporating University and LEA spend data into central data repository	C, E, G	OM20, Operating Model Deliverable, Pages 40-43
Market Analysis		
Utilize market analysis as part of the sourcing process to understand: – Current business needs – Market size, environment and current trends – Supply base – Areas of opportunity by understanding current State needs by utilizing market intelligence / benchmarking	A, B, C, E	OM21, Operating Model Deliverable, Pages 44-47
Review relevant agreements to evaluate market conditions / pricing benchmarks (e.g., other state contracts, co-op agreements, GSA)	A, E	OM22, Operating Model Deliverable, Pages 44-47
Utilize Supply Base Meetings prior to developing and conduction solicitations in targeted categories to provide an open forum to gather suppliers' insights into opportunities for the State to reduce total cost of ownership and examples of how other states / companies have approached developing contracts (e.g., leading practices and lessons learned)	A, B, C	OM23, Operating Model Deliverable, Pages 44-47
Spot Buy		
Explore increasing entity delegation levels, allowing additional one-time purchases to be made at the agency/community college level in order to allow for Central Procurement Authority to focus on strategic sourcing	B, C, E, G	OM24, Operating Model Deliverable, Pages 48-51
Establish Central Procurement Authority led team that solely focuses on bids that are above entity delegation of authority and are not on state term contracts (open market bids)	A, B, E, F	OM25, Operating Model Deliverable, Pages 48-51

Table 1: Summary of Recommendations

– Sourcing process may be accelerated depending on the complexity of the category and spend		
Reverse Auction Services		
Utilize reverse auctions as part of the sourcing process in order to fast track the negotiation process and drive additional savings for appropriate categories – Suppliers participating in the reverse auction will need to participate in either a formalized bid process or be pre-qualified based on set specifications – The results of the reverse auction will be considered in the overall award decision, but will not be the only decision factor (e.g., low bid does not necessarily mean business is awarded to the supplier)	A, C	OM26, Operating Model Deliverable, Pages 52-55
Implement an eSourcing tool that can support the State's reverse auction activities	C, E	OM27, Operating Model Deliverable, Pages 52-55
Technology/Buying Tool		
Requisitioning		
Evaluate opportunities to simplify and standardize the agency workflow requirements within E-Procurement	B, C, E	OM28, Operating Model Deliverable, Pages 57-62
Consider implementing fewer required approvers, especially for contracted catalog items to decrease cycle times for items that have already been competitively bid and contracted	B, C, D, E	OM29, Operating Model Deliverable, Pages 57-62
Develop role or activity based training and make training guides and tools accessible via the web	B, F	OM30, Operating Model Deliverable, Pages 57-62
Increase training for professional purchasing staff to maximize compliance and use of system – Focus on areas such as when to use catalogs, what to request from suppliers to maximize search effectiveness, when to best use punch-out sites, etc.	B, D, F	OM31, Operating Model Deliverable, Pages 57-62
Supplier Enablement		
Streamline the supplier registration process to minimize integration points	B, C, E	OM32, Operating Model Deliverable, Pages 63-66
Establish and execute a process to identify inactive / active suppliers and remove duplicate supplier records	C, E	OM33, Operating Model Deliverable, Pages 63-66
Catalog Enablement		
Refine or reduce number of available products through structured strategic sourcing initiatives	A, B, C, E	OM34, Operating Model Deliverable, Pages 67-70
Implement improved processes and internal service level agreements regarding implementing catalogs for new contracts and keeping catalog content up-to-date and reflective of expiration dates	A, B, C, D, E	OM35, Operating Model Deliverable, Pages 67-70
Implement a strategy / process to review pricing on catalogs to increase accuracy	B, C, D, E	OM36, Operating Model

Table 1: Summary of Recommendations

		Deliverable, Pages, 67-70
Compliance Monitoring		
Consolidate state agencies and community colleges compliance monitoring processes used to monitor spend on state term contracts and adherence to state policies and procedures	C, D, E	OM37, Operating Model Deliverable, Pages 71-74
Develop and implement a set of procurement performance metrics that track performance on an individual, process and organizational level	C, D, E	OM38, Operating Model Deliverable, Pages 71-74
Stakeholder Management		
Establish a communication process to increase procurement knowledge and awareness, understand customer needs, and communicate procurement value achieved	B, C, E	OM39, Operating Model Deliverable, Pages 76-79
Conduct surveys with internal / external stakeholders in order to understand levels of satisfaction with Procurement's performance and areas of opportunity	B	OM40, Operating Model Deliverable, Pages 76-79
Update and maintain website that provides listing of all state term contacts, including description of scope, benefits, FAQ, How To Use, Geographic Coverage, Contractors, Contractors' HUB status, Recycled / Sustainable Products Flag, etc. – Website should enable advanced searches and include key words for each state term contract to improve ability for stakeholders to find contracts quickly	B, C, D, E	OM41, Operating Model Deliverable, Pages 76-79
Governance Model		
Deploy a Governance Model that defines the decision-making frameworks, authorities, structures, metrics, and oversight to execute and manage the procurement function's processes, policies, and procedures	A, B, C, D, E, F, G	GM1, Governance Model Deliverable, Pages 8-11
Establish, define, and empower a Procurement Governance Team to make key decisions, monitor performance, and champion changes in statute, administrative code, and policies	A, B, C, D, E, F, G	GM2, Governance Model Deliverable, Pages 8-11
Identify potential Procurement Governance Team representatives from state agencies, community colleges, universities, LEAs, and local governments and facilitate a process to select one representative for each user segment (Note: university, LEA, and local government representatives are optional members of the Procurement Governance Team)	A, B, C, D, E, F, G	GM3, Governance Model Deliverable, Pages 8-11
Proactively monitor statutes and administrative codes to: – Ensure the procurement function is compliant – Identify potential needs for modifications – Ensure training / interpretation / clarification is provided in a timely manner	B, D, E, F	GM4, Governance Model Deliverable, Pages 8-11
Governance Process		
Key Decision Approval Process		
Develop, maintain, and promote a continuous improvement process where opportunities can be identified at all levels, both within and outside the procurement function, and be pursued / brought to the Procurement Governance Team as appropriate (e.g., review delegation of authority levels for opportunities to improve efficiencies)	B, C, E, F, G	GM5, Governance Model Deliverable, Pages 19-22

Table 1: Summary of Recommendations

Develop and maintain a Business Case template for use by all parties when suggesting a potential procurement-related opportunity	B, C, E, G	GM6, Governance Model Deliverable, Pages 19-22
Consider enterprise-wide impacts when making a key decision, utilizing the sub-committee process as necessary	A, B, C, D, E, F	GM7, Governance Model Deliverable, Pages 19-22
Review, contribute to, and approve for each opportunity a final implementation plan that includes identifying updates needed to existing documents	B, C, D, E, G	GM8, Governance Model Deliverable, Pages 19-22
Issue regular communications describing key decisions made and potential impacts to all affected stakeholders	B, E, F	GM9, Governance Model Deliverable, Pages 19-22
Develop a measurement plan for each approved opportunity to proactively track implementation success and confirm desired outcomes are achieved	C, D, E	GM10, Governance Model Deliverable, Pages 19-22
Reporting Process		
Implement and utilize a Balanced Scorecard with metrics and targets to help manage the health and performance of the procurement function	B, C, D, E, F, G	GM11, Governance Model Deliverable, Pages 23-26
Implement the appropriate technology to enable the capturing, tracking, and reporting of key performance measurements	B, C, D, E	GM12, Governance Model Deliverable, Pages 23-26
Verify each agency / community college states how they will capture and manage relevant Balanced Scorecard performance measurements in their strategic plan	B, C, D, E, F, G	GM13, Governance Model Deliverable, Pages 23-26
As procurement priorities shift, continuously assess performance measurements to ensure they are relevant, adding new ones as appropriate	B, C, D, E, F, G	GM14, Governance Model Deliverable, Pages 23-26
Procurement Results Management Process		
Monitor performance reports to identify performance trends or measures that are repeatedly performing above / below established targets and develop an action plan to drive the desired outcomes	B, C, D, E, F	GM15, Governance Model Deliverable, Pages 27-31
Issue communications describing the results management action plan and the potential impacts to all affected stakeholders	B, D, E, F	GM16, Governance Model Deliverable, Pages 27-31
Monitor the implementation of the results management action plan by conducting regular checkpoints and formal status reviews	B, D, E	GM17, Governance Model Deliverable, Pages 27-31
Recognize entities / functions that consistently perform above established targets and potentially develop an award to congratulate exceptional value delivered to the State	B, C, D, E, F	GM18, Governance Model Deliverable, Pages 27-31
Promote open communication by developing a process to accommodate feedback from results management action plans (e.g., questions, issues, and results)	B, C, E, F	GM19, Governance Model Deliverable, Pages 27-31
Sub-Committee Process		
Empower the Procurement Governance Team with the responsibility and authority to form sub-committees as necessary to support decision making, identify root causes of issues, and develop implementation / action plans	B, C, D, E, F	GM20, Governance Model Deliverable, Pages 32-36

Table 1: Summary of Recommendations

Proactively seek situations where subject matter expertise is required and a sub-committee should be formed	B, C, E, F, G	GM21, Governance Model Deliverable, Pages 32-36
Develop and maintain a sub-committee charter template to be completed by the Procurement Governance Team when additional subject matter expertise is required	C, D, E, F	GM22, Governance Model Deliverable, Pages 32-36
Require sub-committees to routinely report on the status of the chartered objective by creating and maintaining a project work plan	C, D, E, G	GM23, Governance Model Deliverable, Pages 32-36
Statutory and Administrative Code		
Create One Central Procurement Authority	A, B, C, D, E, F, G	Statutory and Administrative Code Recommendations Deliverable, Page 11
Expand Best Value Procurement Concept	A, B, C, D, E, F, G	Statutory and Administrative Code Recommendations Deliverable, Page 12
Routinely Provide Purchasing Information	A, B, D, G	Statutory and Administrative Code Recommendations Deliverable, Page 13
Require Regular Delegation Reviews	A, B, D, F, G	Statutory and Administrative Code Recommendations Deliverable, Page 14
Modify Statutes to Include Services in Statewide Term Contracts	A, B, C, E	Statutory and Administrative Code Recommendations Deliverable, Page 15
Allow Board of Awards Legislation to Expire	B, C, E, F	Statutory and Administrative Code Recommendations Deliverable, Page 16
Remove Category Based Exceptions	A, B, C, E, G	Statutory and Administrative Code Recommendations Deliverable, Page 17
Clearly Define Types of Contracts	B, C, D, E	Statutory and Administrative Code Recommendations Deliverable, Page 18
Repeal P&C Approval of University Contracts Over $250,000	B, C, E, F	Statutory and Administrative Code Recommendations Deliverable, Page 19
Streamline Protest Procedures	B, C, D, E	Statutory and Administrative Code Recommendations Deliverable, Page 20
Clarify Eligible Users of Statewide Term Contracts	A, B, C, E, G	Statutory and Administrative Code Recommendations Deliverable, Page 21

Table 1: Summary of Recommendations

Discontinue Governor's Office Review of Consulting Contracts	B, C, E, F	Statutory and Administrative Code Recommendations Deliverable, Page 22
Quality Management System		
Senate Bill 1213 requires the Department of Administration to implement a quality management system (QMS) to ensure that citizens and agency customer requirements are met.	A, B, C, D, E, F, G	Governance, Operating and Organizational Models
Technology/Other than Buying Tool		
Spend Reporting Solution		
It's recommended that the State conduct a formal sourcing process to procure and implement a spend reporting solution with Software as a Service as the optimal delivery model. – A spend reporting solution would allow the State to more effectively monitor its spend. – The State should seek to understand all of its sources of spend data and evaluate the quality of that data. The State may look to Data Enrichment services to enhance missing data.	A, B, C, D, E, G	Technology Benefits Case and Implementation Plan Deliverable, Pages 12-14
Vendor Registration		
It's recommended that the State improve its vendor management processes and tools. – Improve the current vendor registration solutions or implement a new one to create a single vendor master data source and distribute it to all subscribing systems.	B, C, D, E	Technology Benefits Case and Implementation Plan Deliverable, Pages 16-18
eSourcing/Bidding		
– Improve or replace the current online bidding tools giving vendors the ability to submit responses electronically. – Ensure vendors can see their bid submission status.	B, D, E	Technology Benefits Case and Implementation Plan Deliverable, Pages 20-22
User Data Interface and Authentication		
– Implement a user data interface from the BEACON HR source of truth system to the eProcurement system. – Connect eProcurement to NCID for user password authentication. – Modify the eProcurement solution to allow users to change organizations without having to create another user id in the solution. – The user data interface between BEACON, NCID authentication, and eProcurement improvements should be completed in conjunction with the Ariba 9r1 Upgrade. This is standard practice in major Ariba deployments.	B, C, D, E	Technology Benefits Case and Implementation Plan Deliverable, Pages 24-26
Category Structure Update		

Table 1: Summary of Recommendations

Evaluate the current NIGP code structure and ensure that it is synchronized across all source systems and expand the adoption of a higher level category taxonomy – Adopt a category taxonomy to facilitate sourcing planning and category management – Update or replace the current NIGP Commodity Code structure in NCAS and E-Procurement – Assess impact to Community Colleges, LEAs and other State agencies utilizing the code structure and synchronize the updated NIGP codes across those systems as needed	C, E, G	Technology Benefits Case and Implementation Plan Deliverable, Pages 28-30
PunchOut Catalog Management		
– Implement audit process and/or tools to review vendor prices from punch-out catalogs. (i.e. periodic online audit or price comparison of actual prices from purchase orders) – Limit punch-out catalog use to catalogs where product and pricing change frequently (e.g. daily or weekly) or the vendor site offers unique configuration / build capabilities (e.g. PC providers). – Reduce the number of items on contract and in catalogs through structured strategic sourcing initiatives.	A, B, C, D	Technology Benefits Case and Implementation Plan Deliverable, Pages 32-34
Electronic Invoice Processing		
– Implement a supplier enablement program to move vendors with the highest volume of invoices to electronic invoicing; allowing invoices to be posted directly into the State's invoicing systems. – Utilize an electronic invoice processing solution that provides vendors the ability to check the status of invoices and payments, online.	B, C, D, E	Technology Benefits Case and Implementation Plan Deliverable, Pages 36-38

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2011

SESSION LAW 2011-338
SENATE BILL 404

AN ACT TO MODERNIZE PROCUREMENT METHODS USED BY THE SECRETARY OF ADMINISTRATION AND STATE DEPARTMENTS, INSTITUTIONS, AND AGENCIES.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 143-49 reads as rewritten:

"**§ 143-49. Powers and duties of Secretary.**

The Secretary of Administration shall have power and authority, and it shall be his duty, subject to the provisions of this Article:

(1) To canvass sources of supply, including sources of ~~supply of materials and supplies~~goods with recycled content, and to purchase or to contract for the purchase, lease and lease-purchase of all ~~supplies, materials, equipment and other tangible personal property~~ goods required by the State government, or any of its departments, institutions or agencies under competitive bidding or ~~otherwise as hereinafter provided.~~other suitable means authorized by the Secretary including, without limitation, negotiations, reverse auctions, a best value procurement method such as that defined in G.S. 143-135.9(a)(1), and the solicitation, offer, and acceptance of electronic bids. For purposes of this Article, the term "goods" includes, without limitation, all commodities, supplies, materials, equipment, and other tangible personal property.

(2) To establish and enforce specifications which shall apply to all ~~supplies, materials and equipment~~ goods and services to be purchased or leased for the use of the State government or any of its departments, institutions or agencies.

(3) To purchase or to contract for, by sealed, competitive bidding or other suitable ~~means, all contractual services and needs~~means authorized by the Secretary including, without limitation, negotiations, reverse auctions, a best value procurement method such as that defined in G.S. 143-135.9(a)(1), and the solicitation, offer, and acceptance of electronic bids, all services of the State government, or any of its departments, institutions, or agencies; or to authorize any department, institution or agency to purchase or contract for such services.

(3a) ~~When~~ To request, and the Attorney General shall assign a representative of the office of the Attorney General to assist in negotiation for the award of any contract for contractual services exceeding a cost of one hundred thousand dollars ($100,000) that requires negotiation with prospective ~~contractors, the Secretary shall request and the Attorney General shall assign a representative of the office of the Attorney General to assist in negotiation for the award of the contract.~~contractors. It shall be the duty of such representative to assist and advise in obtaining the most favorable contract for the State, to evaluate all proposals available from prospective contractors for that purpose, to interpret proposed contract terms and to advise the Secretary or his representatives of the liabilities of the State and validity of the contract to be awarded. All contracts and drafts of such contracts shall be prepared by the office of the Attorney General and copies thereof shall be retained by such office for a period of three years following the termination of such contracts. The term "contractual services" as used in this subsection and G.S. 143-52.2 shall mean work performed by an independent contractor

S404-V-3

requiring specialized knowledge, experience, expertise or similar capabilities wherein the service rendered does not consist primarily of acquisition by this State of equipment or materials and the rental of equipment, materials and supplies. The term "negotiation" as used ~~herein~~ in this subdivision shall not be deemed to refer to contracts entered into or to be entered into as a result of a competitive bidding process.

…

(6) To make available to nonprofit corporations operating charitable hospitals, to local nonprofit community sheltered workshops or centers that meet standards established by the Division of Vocational Rehabilitation of the Department of Health and Human Services, to private nonprofit agencies licensed or approved by the Department of Health and Human Services as child placing agencies, residential child-care facilities, private nonprofit rural, community, and migrant health centers designated by the Office of Rural Health and Resource Development, to private higher education institutions that are defined as "institutions" in G.S. 116-22(1), and to counties, cities, towns, local school administrative units, governmental entities and other subdivisions of the State and public agencies thereof in the expenditure of public funds, the services of the Department of Administration in the purchase of ~~materials, supplies and equipment~~goods and services under such rules, regulations and procedures as the Secretary of Administration may adopt. In adopting rules and regulations any or all provisions of this Article may be made applicable to such purchases and contracts made through the Department of Administration, and in addition the rules and regulations shall contain a requirement that payment for all such purchases be made in accordance with the terms of the contract.

…

(17) To establish procedures to permit State government, or any of its departments, institutions, or agencies, to join with any federal, State, or local government agency, entity, or subdivision, or any nonprofit organization in cooperative purchasing plans, projects, arrangements, or agreements if the interest of the State would be served thereby."

SECTION 2. G.S. 143-51 reads as rewritten:

"**§ 143-51. Reports to Secretary required of all agencies as to ~~needs.~~ needs and purchases.**

(a) It shall be the duty of all departments, institutions, or agencies of the State government to furnish to the Secretary of Administration when requested, and on forms to be prescribed by him, estimates of all ~~supplies, materials, contractual services and equipment~~goods and services needed and required by such department, institution or agency for such periods in advance as may be designated by the Secretary of Administration.

(b) In addition to the report required by subsection (a) of this section, all departments, institutions, or agencies of the State government shall furnish to the Secretary of Administration when requested, and on forms to be prescribed by him, actual expenditures for all goods and services needed and required by the department, institution, or agency for such periods after the expenditures have been made as may be designated by the Secretary of Administration."

SECTION 3. G.S. 143-52 reads as rewritten:

"**§ 143-52. Competitive bidding procedure; consolidation of estimates by Secretary; bids; awarding of contracts; cost plus percentage of cost contracts strictly prohibited.**

(a) ~~As feasible, the~~The Secretary of Administration ~~will~~ shall compile and consolidate all such estimates of ~~supplies, materials, printing, equipment and contractual~~goods and services needed and required by State departments, institutions and agencies to determine the total requirements of any given commodity. Where such total requirements will involve an expenditure in excess of the expenditure benchmark established under the provisions of G.S. 143-53.1 and where the competitive bidding procedure is employed as hereinafter provided, sealed bids shall be solicited by advertisement in a newspaper widely distributed in this State or through electronic means, or both, as determined by the Secretary to be most advantageous, at least once and at least 10 days prior to the date designated for opening. Except as otherwise provided under this Article, contracts for the purchase of ~~supplies, materials or~~

~~equipment~~ goods and services shall be based on competitive bids and ~~acceptance made of the lowest and best~~suitable means authorized by the Secretary as provided in G.S. 143-49. The acceptance of bid(s) most advantageous to the State ~~as~~ shall be determined upon consideration of the following criteria: prices offered; best value, as the term is defined in G.S. 143-135.9(a)(1); the quality of the articles offered; the general reputation and performance capabilities of the bidders; the substantial conformity with the specifications and other conditions set forth in the request for bids; the suitability of the articles for the intended use; the personal or related services needed; the transportation charges; the date or dates of delivery and performance; and such other factor(s) deemed pertinent or peculiar to the purchase in question, which if controlling shall be made a matter of record. Competitive bids on such contracts shall be received in accordance with rules and regulations to be adopted by the Secretary of Administration, which rules and regulations shall prescribe for the manner, time and place for proper advertisement for such bids, the time and place when bids will be received, the articles for which such bids are to be submitted and the specifications prescribed for such articles, the number of the articles desired or the duration of the proposed contract, and the amount, if any, of bonds or certified checks to accompany the bids. Bids shall be publicly opened. Any and all bids received may be rejected. Each and every bid conforming to the terms of the invitation, together with the name of the bidder, shall be tabulated and that tabulation shall become public record in accordance with the rules adopted by the Secretary. All contract information shall be made a matter of public record after the award of contract. Provided, that trade secrets, test data and similar proprietary information may remain confidential. A bond for the faithful performance of any contract may be required of the successful bidder at bidder's expense and in the discretion of the Secretary of Administration. When the dollar value of a contract for the purchase, lease, or lease/purchase of ~~equipment, materials, and supplies~~goods exceeds the benchmark established by G.S. 143-53.1, the contract shall be reviewed by the Board of Awards pursuant to G.S. 143-52.1 prior to the contract being awarded. After contracts have been awarded, the Secretary of Administration shall certify to the departments, institutions and agencies of the State government the sources of supply and the contract price of the ~~supplies, materials and equipment~~goods so contracted for.

…."

SECTION 4. G.S. 143-53 reads as rewritten:

"**§ 143-53. Rules.**

(a) The Secretary of Administration may adopt rules governing the following:

…

~~(3) Defining contractual services for the purposes of G.S. 143-49(3) and G.S. 143-49(5).~~

…

(5) Prescribing conditions under which purchases and contracts for the purchase, installment or lease-purchase, rental or lease of ~~equipment, materials, supplies or~~ goods and services may be entered into by means other than competitive bidding, including, but not limited to, negotiation, reverse auctions, and acceptance of electronic bids. ~~Reverse auctions may only be utilized for the purchase or exchange of supplies, equipment, and materials as provided in G.S. 115C-522.~~ Notwithstanding the provisions of subsections (a) and (b) of this section, any waiver of competition for the purchase, rental, or lease of ~~equipment, materials, supplies, or~~goods and services is subject to prior review by the Secretary, if the expenditure exceeds ten thousand dollars ($10,000). The Division may levy a fee, not to exceed one dollar ($1.00), for review of each waiver application.

…

(7) Prescribing conditions and procedures governing the purchase of used ~~equipment, materials and supplies.~~goods.

…."

SECTION 5. G.S. 143-55 reads as rewritten:

"**§ 143-55. Requisitioning ~~for supplies~~ by agencies; must purchase through sources certified.**

(a) Unless otherwise provided by law, ~~after~~ where sources of supply have been established by contract and certified by the Secretary of Administration to the said departments, institutions and agencies as herein provided for, it shall be the duty of all departments,

institutions and agencies to make requisition or issue orders on forms to be prescribed by the Secretary of Administration, for ~~all supplies, materials and equipment~~purchases required by them upon the sources of supply so certified, and, except as herein otherwise provided for, it shall be unlawful for them, or any of them, to purchase ~~any supplies, materials or equipment~~ from other sources than those certified by the Secretary of Administration. One copy of such requisition or order shall be furnished to and when requested by the Secretary of Administration.

…."

SECTION 6. This act becomes effective July 1, 2011.

In the General Assembly read three times and ratified this the 17th day of June, 2011.

s/ Walter H. Dalton
President of the Senate

s/ Thom Tillis
Speaker of the House of Representatives

s/ Beverly E. Perdue
Governor

Approved 11:43 a.m. this 27th day of June, 2011