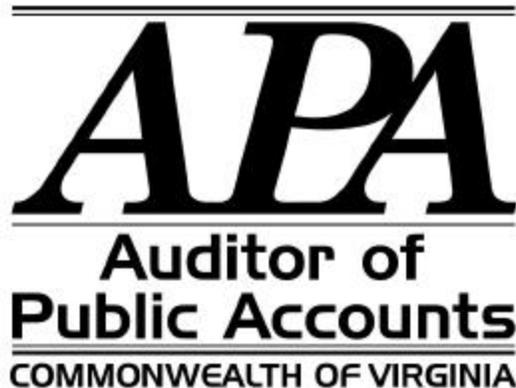


**COMMONWEALTH'S ELECTRONIC
PROCUREMENT SYSTEM**

eVA

RICHMOND, VIRGINIA

**SPECIAL REPORT
DECEMBER 6, 2002**



EXECUTIVE SUMMARY

Agency use of eVA has increased since our last report dated May 31, 2002. However, currently eVA only accepts and processes about 18 percent of interfaced agency purchases. The high rejection rate is due to the low number of registered vendors in the system. Currently, somewhere between 15 and 26 percent of known Commonwealth vendors are registered in eVA. To increase the number of registered vendors and increase the use of eVA, our report identifies and describes areas where General Services and agencies must focus their efforts:

- Enforce the requirement that agencies only conduct business with eVA-registered vendors as currently required in both the Vendor and Procurement Manuals;
- Establish policies and technical requirements for the eProcurement functionality so that agencies may plan for implementation in this time of budget shortfalls and reduced personnel; and
- Identify future eVA functionality and develop an implementation plan to include a cost/benefit analysis to identify agency participation.

General Services has modified the AMS contract and reduced the future revenue guarantees that are required in the remaining years. The reduced guarantee is the result of agreeing to accelerate payments to AMS in fiscal years 2003 and 2004 as AMS meets functional milestones. Funding of \$7.1 million to pay the accelerated payments came from a 2002 veto session amendment that temporarily ceased vendor fees as a source of revenue and instead required General Services to collect money from each agency and institution. General Services plans to resume collecting vendor fees in fiscal year 2004, rather than agencies paying for the system.

- TABLE OF CONTENTS -

	<u>Pages</u>
TRANSMITTAL LETTER	1-2
STATUS REPORT	
Introduction	3
AMS Contract Modification	3-5
System Usage	5-6
Independent Financial System Interface	6-7
Vendor Participation and Data Warehousing	8-10
Anticipated Costs	10
Future Cost Monitoring	10-11
DEPARTMENT OF GENERAL SERVICES RESPONSE TO STATUS REPORT	12-13

December 6, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, House Appropriations Committee

The Honorable John H. Chichester
Chairman, Senate Finance Committee

Gentlemen:

We have completed a follow-up examination of the Commonwealth's electronic procurement system, eVA, which is currently under development through a contract between the Department of General Services and American Management Systems.

In performing our work we reviewed the original and modified contract with American Management Systems (AMS), assessed the system functionality, attended weekly meetings of the interface development team, identified the level of participation by agencies and vendors, interviewed General Services' and other agency staff, and analyzed the procurement and payment activity. As our report indicates, agency use of eVA has increased since our last report dated May 31, 2002. However, currently eVA only accepts and processes about 18 percent of interfaced agency purchases. The high rejection rate is due to the low number of registered vendors in the system. Currently, somewhere between 15 and 26 percent of known Commonwealth vendors are registered in eVA. To increase the number of registered vendors and increase the use of eVA, our report identifies and describes areas where General Services and agencies must focus their efforts:

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source of revenue and instead required General Services to collect money from each agency and institution. General Services plans to resume collecting vendor fees in fiscal year 2004, rather than agencies paying for the system.

As of our last report General Services anticipated completing eVA by December 2002. All functionality, except reverse auctioning, electronic invoicing, and some additional interfaces will be in place near December 2002. We will continue to follow the development of outstanding functionality and issue periodic status reports. We discussed this report with the Director of the Department of General Services and the Director of the Division of Purchases and Supply on December 6, 2002.

AUDITOR OF PUBLIC ACCOUNTS

KKH:aom
aom: 27

Introduction

The Department of General Services (General Services) launched eVA as the Commonwealth of Virginia's electronic procurement system in March of 2001. Our office completed an interim report titled, "Commonwealth's Electronic Procurement System, eVA" dated May 31, 2002, that addressed the major system areas needing attention for successful implementation. The report contained background on the Commonwealth's procurement policies and use of independent financial systems, as well as historical information regarding procurement initiatives. In addition, we outlined the original design, functionality, funding, and usage of eVA.

We have completed a follow-up interim review of eVA. We conducted this review by examining the original contract and contract modifications, assessing the system functionality, identifying the level of participation by agencies and vendors, interviewing General Services' and other agency staff, and analyzing the procurement and payment activity.

AMS Contract Modification

At the time of our last report General Services was negotiating a modification to the American Management Systems (AMS) contract. The contract used a self-funding model; thus the number and value of orders processed through eVA determined the amount of vendor fees collected and these fees were to pay for the system. The contract provided for revenue sharing between AMS and the Commonwealth, and guaranteed AMS minimum revenue levels derived from vendor fees. At the time of the modification the amount of orders processed through eVA were lower than expected.

As stated in our last report, the modified contract accelerates payments to AMS and reduces future fiscal year guarantee levels. The total payments owed to AMS remains unchanged, however, the contract modifications accelerate the timing of the payments to the earlier years of development. The intent of accelerating payments was to provide incentives to AMS for completing system functionalities quickly, helping to increase eVA usage by both vendors and agencies. The reduction in future guarantees alleviated the immediate need for General Services and agencies to significantly increase eVA usage in order to generate sufficient vendor fees to pay for the system.

The amended contract establishes functional milestones that AMS must accomplish before receiving the accelerated payments. These milestones contribute to the completion of the overall eVA services outlined in the original AMS contract. If AMS meets the current project plan, General Services will pay AMS accelerated payments of over \$5 million during fiscal years 2003 and 2004. The source of the funds for the accelerated payments is the budget amendment from the 2002 veto session, which eliminates the fiscal year 2003 vendor fees and requires General Services to collect \$7.1 million from agencies and institutions for the development and implementation of eVA. An additional amendment from 2002 increased the amount of the treasury loan, provided for the development and implementation of eVA, from \$3 million to \$8 million.

The following schedule outlines the original and amended minimum revenue guaranteed each fiscal year:

<u>Fiscal Year</u>	<u>Original Contract</u>	<u>Amended Contract</u>
2002**	\$ 910,000	\$ 910,000
2003**	2,150,000	2,150,000
2004	2,990,000	2,333,500
2005	4,250,000	2,263,500
2006	4,670,000	2,223,000
Accelerated payment***	-	5,090,000
Total guarantee	<u>\$14,970,000</u>	<u>\$14,970,000</u>
Additional out-of-scope requirements		\$ 1,008,475

** The Governor's budget amendment, discussed in our May 2002 report, requires General Services to charge state agencies and institutions fees for fiscal year 2003, rather than charge fees to vendors. General Services will use monies received from state agencies and institutions to pay the fiscal year 2002 and 2003 guarantees owed to AMS.

*** The accelerated payment will be paid to AMS in fiscal years 2003 and 2004 if AMS meets specified functional milestones.

In May 2002, General Services reported that the project team would complete and have in production all major eVA tools by the end of calendar year 2002. General Services is currently on schedule with all major eVA tools, with the exception of the reverse auctioning and electronic invoicing tools, which General Services will not complete until sometime in calendar year 2003. Detailed implementation plans do not currently exist for the reverse auctioning and electronic invoicing tools. We believe that the lack of detailed plans may cause the project to incur additional costs for these required functionalities even though they were part of the original AMS contract.

During contract modification negotiations, General Services and AMS agreed to and added new enhancements and requirements, known as out-of-scope requirements, totaling \$1,008,475 to the contract. The modified contract also attaches payments for these new requirements to the completion of functional milestones by AMS. General Services still anticipates more out-of-scope requirements relating to future functionalities and enhancements, but neither General Services nor AMS have quantified these costs. During our last report General Services estimated these enhancements would cost approximately \$1 million for each year of the current contract.

Recommendation # 1

General Services plans to implement electronic invoicing in calendar year 2003, allowing agencies to accept electronic vendor invoices and transfer payment directly to their bank accounts. The Department of Accounts has responsibility for establishing statewide accounting policies and procedures and the Department of Treasury has responsibility for managing the Commonwealth's cash flow. Also, Council on Technology Services (COTS) has recently formed a Commonwealth Enterprise Systems Workgroup to study a replacement for the current statewide accounting system, CARS, as well as other statewide systems, with a commercially available integrated enterprise system.

General Services understands the roles of the Departments of Accounts and Treasury and works with them when eVA functionality impacts their responsibilities. General Services should continue this working relationship and before proceeding independently with electronic invoicing, General Services should complete a detailed requirements document in

conjunction with the Departments of Accounts and Treasury and COTS. They should determine, through a cost/benefit analysis, whether it is better to implement electronic invoicing within the current eVA product or wait for the completion of the COTS study and its recommendations.

General Services plans to implement eProcurement in December 2002, which will provide for sealed bidding through an on-line process. General Services is currently finalizing the security rules and procedures, such as data encryption and a secure bid repository, to ensure they preserve the integrity of the sealed bid process.

In the eProcurement environment, each vendor must manage its own security, which places greater responsibility on the vendors by requiring them to understand and maintain the eVA security system for their employees. Vendors that do not properly establish and maintain their security encounter the risk of having their sealed bid compromised. For example, if a vendor fails to delete a terminated employee's access, then the terminated employee could continue to gain access to bids even if they go to work for a competing vendor. General Services plans to continue to accept traditional paper bids in lieu of eProcurement bids and some vendors may find the traditional method simpler, cheaper, and less risky.

As vendors submit bids they will receive an e-mail acknowledgement from the repository indicating the date and time received. As long as the bid deadline has not occurred, vendors can retract their original bid, make adjustments, and re-submit the bid to the repository. General Services is currently working with AMS to verify that an audit trail exists whenever vendors submit, retract, and resubmit their bids. An audit trail would help to protect the Commonwealth in the event a vendor claims they submitted a bid when in fact they did not.

Recommendation # 2

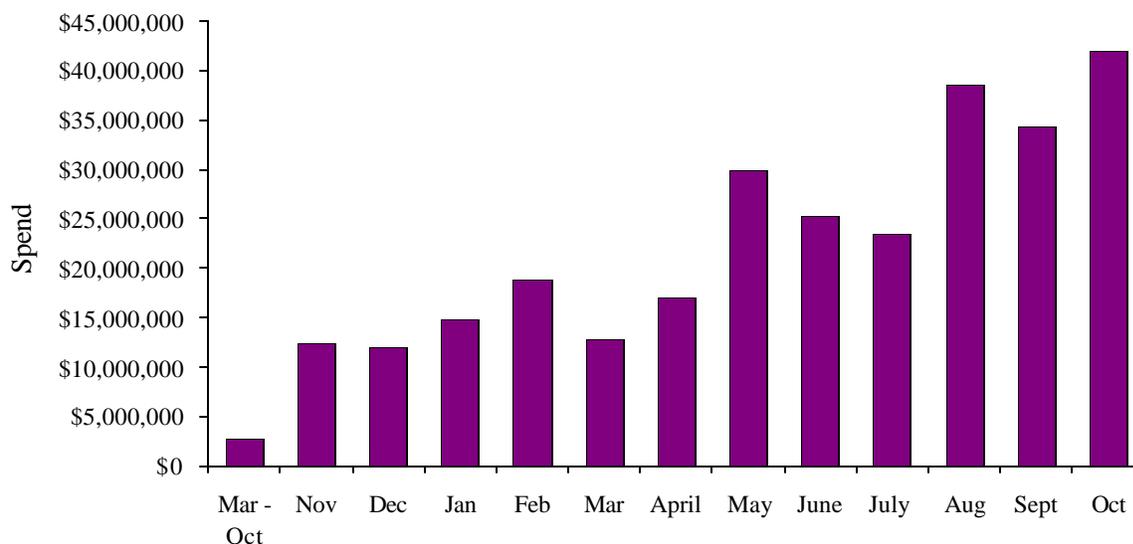
If General Services prefers electronic bids, they must develop a business case to convince vendors and mandate its use in both the Vendor Manual and Procurement Manual. Currently the Vendor Manual accepts both traditional paper bids and electronic bids but the vendor must register in eVA before receiving the contract award. Without a specific mandate to only submit electronic bids through eVA, vendors may determine that the personnel expense associated with maintaining eVA security software specifically for Virginia procurements does not outweigh the benefits over traditional paper-based sealed bids.

Further, General Services must provide adequate on-line training of the eVA security software and it must be intuitive and easy to maintain. If it is difficult or time-consuming, vendors will be reluctant to use the electronic sealed bid process.

System Usage

The following graph reflects the activity processed through eVA from inception through October 2002.

Summary Activity as of October 2002



Spend activity processed through eVA has continued to increase in recent months. Trends indicate that spend activity will continue to grow and will reach levels necessary to fulfill the revenues guaranteed to AMS for fiscal year 2004 and beyond. Meeting future years guarantees are only possible as a result of the \$7.1 million in revenues from state agencies and the funding model changes from the amended contract, which reduced the guarantees each fiscal year and adjusted the revenue split between the Commonwealth and AMS. Our analysis shows that current usage would not have been sufficient to meet the contract guarantees under the original contract.

If the 2002 veto session amendment giving General Services \$7.1 million in revenue from state agencies had not occurred, the Commonwealth would have had to process approximately \$1 billion in eVA spend to produce the necessary fees for fiscal year 2003, which would not have been reached given the current spending trend.

Independent Financial System Interface

The increase in spend activity since July is due partially to increased agency spend through eVA, but also due to the Virginia Department of Transportation (VDOT) successfully interfacing their independent financial system with eVA. The completion of the interface allows VDOT's financial system to directly send transactions, totaling \$800 million annually, to eVA for processing. Before the interface, VDOT could only manually enter select purchases into eVA.

As discussed in our prior report, allowing agencies to continue managing procurement activity in their independent financial systems yet enabling direct communication between these systems and eVA is necessary to realize full functionality of agency systems and is critical for eVA's success. Agencies with independent financial systems, General Services, and AMS have continued to work together in weekly meetings to resolve issues involved with the electronic ordering and receiving interface. Aside from VDOT, approximately one dozen additional agencies are currently working on their interface to eVA. Of the dozen agencies, over half have finished or plan to have their interface complete by the end of December 2002.

In the spring of 2002, General Services reported that with the implementation of interfaces, the rate of the increase in the volume of transactions and dollars in eVA would intensify. This occurred when VDOT interfaced, however we do not anticipate any further dramatic increases in the current fiscal year. The majority of the agencies planning on interfacing by December are currently keying all procurement activity in both their independent financial system and eVA. There are few agencies and institutions remaining that have not made efforts to maximize their use of eVA as the Governor mandated.

While interfacing will not result in further substantial increases in the amount of spend processed through eVA, it does reduce inefficiencies caused by duplicate keying, therefore saving agencies time and effort. We believe that General Services will eventually require the use of other eVA functionalities, such as the eProcurement, reverse auctioning, or electronic invoicing tools. To support these future functionalities while still maintaining the efficiencies of their independent financial systems, agencies will need to address further technical issues including additional interfaces necessary to use these tools without double keying.

Recommendation # 3

General Service's policies currently require agencies to use the eMall feature of eVA for low dollar and state contract purchases, but additional functionality such as reverse auctioning and eProcurement are not yet required. Interfaced agencies using the additional functionality will need to provide additional resources, training, and planning to make additional interfaces work. Therefore, we recommend that General Services establish policies and technical requirements as soon as possible so that agencies may plan for implementation in this time of budget shortfalls and reduced personnel.

Agencies have contributed significant time to the success of the electronic ordering and receiving interface. Agency personnel have been meeting weekly for over one year to resolve interface issues and have spent large amounts of additional time outside of the meetings. Many of the agencies involved in the interface effort were continuing to key their purchases into both eVA and into their own system because of concern of reprimands from the failure to use the system. In some cases, such as small agencies with very few monthly purchases, continued duplicate keying may have been inefficient, but less costly, than the effort to participate in the interface project. We are unaware of any cost/benefit analysis completed by General Services to determine which agencies should interface and which agencies would incur fewer costs by continuing to double key all transactions.

Recommendation # 4

Prior to beginning the next interface initiative, General Services should complete a cost/benefit analysis to determine which agencies would benefit from either participating in the interface development or continuing to duplicate key specific transactions. For example, if the Department of Transportation would derive the greatest benefit of interfacing to eProcurement because of the volume of sealed bidding they perform, they should be included in the interface development. On the other hand, including the Department of Medical Assistance Services, which does little if no sealed bidding, would add little increase to eProcurement usage. General Services completing a cost/benefit analysis would allow them to identify agencies that would receive the maximum benefit and would substantially increase eProcurement usage by interfacing.

Vendor Participation and Data Warehousing

Although spend levels will meet the minimum guarantees in future years, there is still opportunity to improve eVA spend activity through increased vendor registration. Proper vendor registration is essential to process transactions through eVA, otherwise the system will reject the transaction and the agency must complete the procurement using traditional methods. Rejected transactions do not generate vendor fees, therefore do not increase spend activity.

The number of eVA-registered vendors has continued to rise since eVA's inception; still, only about 7,000 vendors are registered. General Services estimates that the Commonwealth uses about 30,000 vendors, which means that currently 23 percent of the potential vendors have registered. The Wilder Commission reviewed procurement and they estimated about 46,000 vendors, in which case only 15 percent of the potential vendors have registered. We are uncertain which estimate is correct, however, part of the difference is because General Services excluded vendors having only one transaction per year.

VDOT's transactions clearly demonstrate the impact that non-registered vendors have on eVA spend activity levels. VDOT began successfully interfacing with eVA in August 2002, therefore allowing all \$800 million in VDOT transactions to go to eVA for processing and potentially generate fees. On average only 18 percent of VDOT transactions process through eVA, with the remaining transactions rejected because the vendor is a non-registered vendor, thus resulting in no vendor fee. While this issue does not impact AMS payments for fiscal year 2003 due to the accelerated payment schedule, it will have a negative impact in future years when vendors begin paying these fees, and these fees fund the system.

General Services has been working with agencies and institutions to compile a comprehensive vendor list requested by the Governor. We understand that on December 9th the Governor mailed letters to approximately 23,000 non-registered vendors encouraging them to register with eVA in order to do business with the Commonwealth. This demonstrates the Governor and General Services commitment to eVA and to addressing its problems. General Services, as well as some other agencies, have mailed letters and telephoned vendors previously, however, it has not been effective in significantly raising the registration level.

For more than a year General Services and the Governor have asked agencies and institutions to take responsibility for ensuring that their vendors register and for monitoring the progress of their vendors until they register. However, some agencies have expressed to us that short of threatening to stop purchasing from vendors, convincing them to register has been challenging because the vendors do not recognize the benefits eVA will provide over traditional procurement methods. In addition, if sufficient vendors do not register by fiscal year 2004, General Services may need to charge agencies for the lost vendor fees when using a non-registered vendor. Although the 2002 veto session gave General Services the authority to charge agencies using non-registered vendors, this fee would be an additional expense for agencies to incur at a time of substantial budget cutbacks.

Lack of vendor registration is also impacting one of the primary eVA goals, which is to allow for the capture and analysis of all procurement transactions in order to negotiate better contracts for the Commonwealth. eVA stores transactions correctly processed through it in a data warehouse where General Services can easily analyze purchasing information and trends. However, when a purchase occurs with a non-registered vendor, the transaction information goes to a separate database, referred to as the "holding tank" that General Services cannot easily analyze. Currently, eVA rejects the majority of interfaced transactions and sends them to the "holding tank" because they are with non-registered vendors. As mentioned above, about 82 percent of VDOT transactions alone go to the "holding tank." Therefore, General Service's goal of providing visibility over the goods and services purchased by the Commonwealth, as well as the ability to make business decisions that will leverage the Commonwealth's buying power is not economically feasible due to the difficulty analyzing data in the "holding tank."

In order to maximize the data warehouses potential, General Services and AMS are looking for a solution that will process non-registered vendors through eVA, but charge only registered vendors the 1 percent fee. While this solution will allow for complete data analysis, the Commonwealth and AMS will still not earn vendor fee revenue for non-registered vendors. In addition, AMS may consider the programming required to modify the current system for this process an out-of-scope requirement that could result in additional costs to the Commonwealth.

Although agencies have continued to increase their use of eVA, either by duplicate keying or interface efforts, agencies are still concerned over the required use of eVA. The policies currently in place do not sufficiently distinguish between how eVA will handle transactions for agencies directly entering into eVA and for agencies interfacing to eVA. General Services' policies also do not adequately describe which transactions must go through eVA, and what criteria General Services will use to evaluate whether an agency has made sufficient efforts to use eVA. In some situations non-registered vendors offer goods and services that are less costly than a registered vendor. Agencies are unsure whether they can purchase from the best-priced vendor if that vendor is a non-registered eVA vendor. In addition, by only purchasing from registered vendors currently reduces an agencies selection to somewhere between 15 and 23 percent of the normal vendor population.

General Services' Procurement Manual states that all agencies and institutions shall place all orders through eVA for mandatory sources, mandatory contracts, optional use contracts, and pricing agreements by July 1, 2002, **to the fullest extent possible**. In addition, they have outlined specific types of purchases currently excluded from this eVA mandate, such as over-the-counter Small Purchase Charge Card purchases and utilities. The Vendor Manual informs vendors that they shall register in eVA if they desire to provide goods and services to the Commonwealth. During this review General Services told us that agencies are to purchase from eVA registered vendors and that only when a vendor is sole source and will not register, or there are no registered vendors and none of these vendors will register, can agencies purchase from a non-registered vendor. However, General Services' Procurement Manual states that if a purchasing officer cannot obtain a vendor registration in eVA from a vendor, using any method of procurement, the purchasing officer shall document the file with the efforts made to register the vendor and move forward with the procurement. The Procurement Manual is not as restrictive as General Services' comments regarding when it is appropriate to use a non-registered vendor.

General Services has been reluctant to set benchmarks to quantify their statement, "eVA use to the fullest extent possible," although agencies have requested that they do so. General Services has concerns that agencies will reduce their momentum once they meet the benchmarks. Without benchmarks agencies have spent unproductive efforts documenting situations that prevented purchases from going through eVA.

Recommendation #5

The Code of Virginia gives General Services the authority to establish procurement regulations for the Commonwealth. If General Services is mandating procurements to only eVA-registered vendors, except for the specific exclusions in the Procurement Manual, then they must be willing to enforce their mandate. Giving agencies the option of procuring from non-registered vendors has resulted in eVA spend levels being lower than anticipated, data warehouse problems, and no consequences to vendors who refuse to register.

We recommend that General Services enforce their requirement that agencies only conduct business with eVA-registered vendors as currently required in both the Vendor and Procurement Manuals. General Services' may find it difficult to enforce their requirements given the current regulation that allows the agency to buy from non-registered vendors if they document their attempts to register the vendor. If General Services intends to enforce eVA

use, they must remove this contradictory language from the Procurement Manual. Although mandating eVA will limit agency selection of vendors and perhaps cost the Commonwealth more money initially, it will force vendors to register if they want to continue to receive State business, remedy the data warehouse problem, and significantly increase vendor fee revenue in fiscal year 2004.

Anticipated Costs

The total potential cost of eVA for fiscal years 2002 through 2006 are as follows:

AMS contract guarantees	\$ 9,880,000
Accelerated payment of contract guarantees	5,090,000
Additional requirements added during renegotiation	1,008,475
Anticipated out-of-scope additions	<u>3,000,000</u>
Total	<u>\$18,978,475</u>

As discussed in the section titled "System Usage," a budget amendment passed during the 2002 veto session increasing the amount of the treasury loan for the development and implementation of eVA from \$3 million to \$8 million. At this time, General Services has used over \$1 million of this loan and plans to repay the used portion of the loan with part of the \$7.1 million collected from agencies during fiscal year 2003. General Services plans to use the Commonwealth's share of the future eVA transaction fee revenue, if any, to repay any additional portions of the loan used.

During contract modification negotiations General Services added over \$1 million in new requirements, and we expect that it will incur more out-of-scope costs in the future. By the end of fiscal year 2003, if the project team meets the project plan and achieves all of the functionality in the contract, the Commonwealth will have paid AMS over \$9 million with little or no recovery through the revenue sharing outlined in the revised funding model.

General Services intends to recover the accelerated amounts noted above from AMS through the revenue split changes. However, if eVA usage is not sufficient to recover the amounts due to General Services in a given year, the contract allows AMS to carry forward the amount owed to successive periods. The contract is unclear as to what will happen to any amounts owed by AMS to General Services that remain outstanding at the end of the contract in fiscal year 2006.

The \$9 million stated above includes only costs specified in the contract. It does not account for the large amount of Commonwealth personnel time invested in eVA or the agency technical and operational resources needed to maintain eVA. We are unaware of any analysis performed, and therefore, cannot identify costs associated with the implementation of eVA at an agency level.

Future Cost Monitoring

We cannot estimate the total cost to implement eVA or long-term savings that the implementation may realize. In addition, we believe both General Services and the agencies underestimated the staff commitment required to interface with eVA and the deployment is not capturing costs that State agencies are incurring. For example, the interface team has continued to meet weekly for over a year to discuss potential concerns and resolve issues involved with the eVA interface.

There will be continued costs associated with the development and implementation of future eVA functionalities. Although the Secretary of Technology has not issued any standards for systems development costing, General Services should attempt to estimate the total cost of each functional development by including both General Services and State agencies costs. General Services should also develop a method to accumulate the actual development costs and analyze them against the estimate for monitoring and control. This fundamental change is important to control the use of valuable agency resources.

Recommendation # 6

As noted in our report “Review of Financial System Implementation” dated November 28, 2001, the Secretary of Technology has not developed any standard for the consistent accumulation of costs for systems development projects. Without a consistent method for accumulating project costs, it is impossible to know how much a system actually costs the Commonwealth and whether the Governor, Legislature, and agency management should continue to fund its development.

We understand that the Secretary of Technology and the Department of Technology Planning are working to define project costs in conjunction with their Project Dashboard development, a self-reporting project management tool. However, the Secretary has not issued a standard that describes the types of costs that agencies must consider as part of a systems development and how to capture the information. We recommend that the Secretary develop and issue a standard to improve the capture of systems development costs and improve information for decision-makers.



COMMONWEALTH of VIRGINIA
Department of General Services

D. B. Smit
Director

December 20, 2002

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Mr. Walt Kucharski
Auditor of Public Accounts
James Monroe Building
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Dear Walt:

This letter provides comments on your draft update report on the Commonwealth's electronic procurement solution, eVA. Thank you for the opportunity to publish this letter with your report.

DGS staff has welcomed APA staff into eVA team meetings and we have accommodated every request from your staff. We have been pleased to do this. Our staffs worked well together and we sincerely appreciate the ideas Karen Helderman and her team have offered in developing eVA thus far.

My comments in this letter attempt to clarify not criticize. My reaction has a lot to do with where I sit, so I hope you will recognize my comments as coming from someone who has a great deal of pride and satisfaction in the fine work State employees, as well as the eVA team, have accomplished on behalf of the Commonwealth.

With this in mind, I offer the following comments regarding your draft follow-up report:

- eVA is being developed on schedule and within budget. AMS is being held accountable to provide the Commonwealth what was contracted for at the original cost. There should be no mistake about this. In a follow-up meeting with your staff, they agreed with this statement.
- I believe that a corporate approach to developing Enterprise Resource Planning (ERP) system saves the Commonwealth money. This view is consistent with the Governor's IT Strategic Plan. By your own estimates, Commonwealth agencies spent or budgeted in excess of one half of one billion dollars on ERP's over the past five years. These ERP's are expensive and have achieved varying degrees of success. We, as a corporate body, seem to be spending the same ERP dollars over and over again. eVA, on the other hand, provides a single procurement ERP solution available to all agencies and eliminates the need for buying the individual ERP's procurement solutions. By the way, we are not

suggesting scrapping the existing agency ERP's. There is no need. We are having a great deal of success interfacing with these ERP's.

- APA's recommendation that DGS immediately accept only electronic bids is, I believe, well intentioned but impractical. In implementing eVA we have had to be aggressive in urging our stake holders to adopt electronic procurement. Nonetheless, implementation by fiat can have adverse impact on suppliers, particularly Virginia's small, women-owned, and minority businesses. The transition to electronic procurement, as badly as we need it, takes time. DGS has a Business Outreach Center to assist businesses in making this transition. We are working with the business community to help them do business through electronic commerce.
- More importantly eVA works. I understand that your review focuses on process and not outcome. However, over \$316 million has been spent through eVA over the past 12 months. This represents over 54,000 transactions. We now have six major state agencies which are fully integrated into eVA, 4,700 users in 169 agencies and 142 local entities, and 7,265 registered vendors. We have between three and four million items available for purchase in 635 catalogues. The project is nationally recognized and Virginia is leading the nation. The simple fact that eVA is successful should be mentioned in your report, in my opinion.
- Finally, your report incorrectly states that modifications to the eVA contract by DGS have alleviated the pressure for General Services and agencies to significantly increase eVA usage in order to generate sufficient vendor fees to pay for the system. The modification does not change the fact that the contract is based on a reverse funding model and includes minimum transaction fee revenue guarantees to AMS. AMS and the Commonwealth still have to generate the sufficient fees to meet revenues guarantees to AMS and pay back the Treasury Loan. Further, the contract is clear that the service would be provided to 2006 or AMS must reimburse the Commonwealth for any guaranteed revenue accelerated revenue would not have otherwise been received prior to the effective date of the contract termination.

Aspects of the APA report have merit and we are dealing with the majority of the issues raised. The results of careful project planning, project monitoring and oversight, and listening to and acting on user feedback has resulted in the most successful implementation of e-procurement by any state in the nation. This is an ongoing process and we will keep APA updated on the continued progress and success.

Sincerely,



D. B. Smit

c: The Honorable Sandra D. Bowen
Mr. Ron Bell
Ms. Caroline Rapping