

**Integrated Government Advisory Committee
Tuesday, August 17, 2004, 9:30 a.m.
General Assembly Building, House Room D
Richmond, Virginia**

The Integrated Government Advisory Committee, charged with exploring the issues created or enhanced by the transformation of government in the electronic age, met for the second time on Tuesday, August 17, 2004. During this meeting, the Committee received briefings on the Virginia Partners in Procurement program, VITA's procurement reform efforts, and legislative ideas suggested by Committee members.

***Virginia Partners in Procurement Program
(a.k.a. the Spend Analysis Consulting Services Contract)***

James T. Roberts, Director, Department of General Services (DGS), briefed the Committee on the information technology (IT) procurement savings achieved by the Virginia Information Technology Agency's (VITA) participation in the Virginia Partners in Procurement (VaPP) project. Mr. Roberts began his presentation by providing a little background of the project. It began after the 2002-2003 economic decline as a way to improve efficiencies for agencies and institutions. Research revealed procurement savings opportunities by consolidating multiple and duplicative contracts, establishing contracts where none existed, better coordinating and leveraging statewide procurement volumes, creating increased competition, and using lower cost substitute items that meet quality and service standards.

The first step in the process was to gather better data on spending. The Commonwealth established eVA, a single point of sale for vendors and state and local government agencies. Sales on eVA have reached between \$3 and \$3.5 billion on more than 366,000 orders. The next step was to analyze purchasing patterns to effectively leverage the Commonwealth's buying power. For this, the DGS entered into a fixed price contract containing a guaranteed return on investment with Silver Oak Solutions. The project's goals were to create value and savings from spend management and develop collaboration across agencies and institutions, higher education, key municipalities and other public bodies. The project is supported by all levels of government from the Governor and Cabinet Secretaries to key and affected agencies and institutions.

VaPP's three major components consisted of data analysis, contract negotiations and knowledge transfer. Analysis of data from numerous sources revealed key commodities in 17 commodity classes (covering IT and non-IT) accounting for roughly \$300 million in annual spending. Then, contract negotiation teams developed specifications for each class, conducted multiple solicitations and requests for proposal (RFPs), met with suppliers, and conducted negotiations to select vendors for each commodity class. Finally, and perhaps most important, the vendor transferred the knowledge gained during this project to the agencies as part of an ongoing process of spend management. Ultimately, agency and institution contracting officers are assuming spend management program responsibilities.

The VaPP to date resulted in better coordination across government, leveraging statewide purchasing power, more competitive negotiation processes, increased contract spending with

SWAMs (SWAMs are small, women and minority owned businesses and include disabled-veteran owned businesses.), and efficiencies for suppliers. The program continues to emphasize the use and close monitoring of its implementation. The first two waves of the program were run with the vendor. The Commonwealth (consisting of DGS, VITA and other agencies and institutions) is now analyzing categories for the third wave, which will be run without consultant assistance. Rebates and surcharges on renegotiated prices are covering the consultant costs and paying the \$5 million in contract costs. Despite the surcharges, which will disappear once the contract costs are recovered, agencies still realize substantial cost savings. Participation is increasing as local governments and schools begin to use eVA. Current spending and savings for the last 11 months of fiscal year 2004 were \$123.1 million (115 percent of the target) and \$15.4 million (127 percent of the target), respectively. Results are expected to increase as purchases through spend management contracts increase. While purchasing through the contracts is strongly encouraged and project leaders were convinced that they had the best price contract, they recognized that there might be a business reason to buy off the contract. They saw stronger use of the contracts even with this built-in flexibility.

Two questions raised by the Committee - the trend of usage for IT through eVA and the percentage of purchases on contract versus off contract – had to be deferred to another meeting.

Procurement Reform

Lem Stewart, Chief Information Officer of the Commonwealth, and Susan Woolley, VITA's Director of Supply Chain Management, updated the Committee on IT procurement reform. Chapter 579 of 2002 Acts of Assembly transferred statewide procurement authority for IT and telecommunications goods and services from DGS to the Department of Information Technology. Upon its formation, VITA, one of DIT's predecessor agencies, undertook an IT procurement reform effort to revolutionize the way the Commonwealth purchases IT goods and services.

Mr. Stewart explained that the VITA first had to integrate all IT procurement through eVA to get a handle on IT spending volumes, activity, trends, processes and overall, as well as by agency and by vendor. This information has never been available and is needed to establish a baseline for spending and to understand the current situation. Comparable size organizations have the information needed to leverage their buying power and the Commonwealth will do the same.

As Mr. Stewart put it, agencies procure IT in any number of ways. If state contracts were optional and this practice continued, the Commonwealth would not be able to leverage its spending power. Prices would be higher because the Commonwealth could not guarantee any volume to the vendor. To illustrate his point, Mr. Stewart explained that costs for virus software ranged from \$9 for a large agency with large volumes to \$42 for a small agency with no volume. Therefore, he is proposing mandatory contracts with guaranteed volumes for lower pricing. The process would build in some flexibility with the approval of the CIO if a good business case can be made. VITA will be developing master contracts for basic hardware and software to achieve quick savings and offset integration costs. The more difficult and complex contracts will come later.

Ms. Woolley explained that the goals of the procurement reform are based on industry best practices. VITA expects to develop an easy to use procurement process with solutions-oriented solicitations, business-driven procurements and performance-based contracts. Prior to the reform, approximately 90 percent of IT procurements were requirements driven and focused only on the best price. The new process will be enterprise-oriented and leverage the Commonwealth's buying power; if the Commonwealth were a corporation, it would rank 50th on the S&P 500. VITA will use the reform to develop partnerships with the vendors that share the risks and benefits, thereby creating opportunities for both.

To meet its goals, VITA reformed the terms and conditions by reducing mandatory terms and conditions to those required by law or by the business owner. All on-line procurements have been consolidated through eVA. VITA also has developed a prequalification process for vendors, mandatory statewide contracts and partnering relationships between itself and its IT suppliers. Among its other achievements this year, VITA executed the first on-line reverse auction for storage media, which yielded substantial cost savings.

The agency also has enabled consistency in ordering IT goods through eVA, which has resulted in better data and more information on the Commonwealth's IT spending. Given the challenge of integrating the IT infrastructure of executive branch agencies, eVA became the common point for all approval requisition processes. The agency will buy what it needs through eVA and the bill will be sent to VITA. This effort requires all agencies to change their existing order and approval processes. DGS is providing the system, training and support to convert the current processes to eVA.

To increase SWAM involvement, VITA is raising awareness among SWAMS by increasing the visibility of opportunities to suppliers and increasing its focus on SWAM objectives. To improve access, the agency is investing in outreach to suppliers and expecting primes to use SWAMs and subcontractors and report on their progress. The new evaluation criteria for contracts considers use and quality of SWAM subcontractors as a factor, though specific targets and goals have yet to be developed. Finally, VITA is tracking the effectiveness of its efforts through communication and feedback. Because SWAMs have indicated that they need more time to respond to solicitations, VITA is giving advanced notice by releasing potential procurement opportunities well before RFPs are issued. VITA has even developed a new website devoted to SWAMs (<http://www.vita.virginia.gov/procurement/DoingBusinessW-VITA.cfm>).

VITA has developed various procurement processes based on the value (low or high) and need (common or unique). It is currently developing a process to enable agencies to purchase off of the federal GSA schedules, which was authorized during the 2004 General Assembly Session. VITA currently allows use of the GSA schedules in cases of low value and a common need where a direct relationship with the supplier is not needed. While VITA is still gathering all contracts to develop baseline spending and determine volume, preliminary results reveal cost savings over the next six years of more than \$63.4 million that are attributable to the spend management contract and approximately \$97.7 million attributable to VITA.

The Committee asked Ms. Woolley to compile a chart of all terms and conditions to compare with its own procurement matrix developed over the last two years.

Electronics Recycling

After the procurement discussion, two committee members raised issues and presented them to the Committee. Daniel G. “Bud” Oakey, CEO of Advantus Strategies, discussed asset recovery (i.e., electronics recycling). According to Dell Corporation’s research, 95 percent of all new personal computers (PC) replace existing systems, and 88 percent of customers have excess computer equipment. With all of these systems to dispose, 68 percent of customers are unaware of how to do it and 52 percent do not know how to address environmental liabilities. Storing these systems can be costly not only because of the wasted space, but also because the average cost of storing a PC for one year is \$450 with a six percent per month depreciation rate.

Any type of electronics can be recycled and numerous companies have programs. According to the Aberdeen Group, three reasons outline the need to recycle electronics: cost/value, data security and environmental concerns. If stored IT equipment has any value, rapid depreciation dissipates it; if it has no value, it constitutes a pure storage cost. Either way, the sooner the equipment is disposing of, the greater the gain. The equipment may contain sensitive or legally protected information raising the risk of liability or business harm. Effective sanitation of drives, while labor intensive, must be done to reduce this foreseeable business risk. Finally, obsolete electronic devices contain hazardous materials that are not wanted or allowed in dumpsters and landfills. The ability to track and comply with the ever-changing regulations governing this material is crucial.

Mr. Oakey cautioned that existing procurements consider only acquisition issues and not disposition. However, public policy should consider the entire lifecycle cost from acquisition to disposition. As part of this consideration, he recommended that procurement contracts be modified to include disposition. Mr. Oakey noted that all of the companies from which the Commonwealth procures offer asset recovery services and would be more than happy to pick up competitors’ equipment to replace with their own, which is also covered by their programs.

Among the programs discussed or presented were those operate by Dell, Nextel, IBM, and Gateway. In 2003, Dell hosted recycling events in 17 U.S. markets and collected nearly two million pounds of electronic waste. Dell is also working to minimize and eliminate use of materials that are environmentally sensitive, to reduce the impact that its facilities have on the environment and to reach out to customers and provide them with needed information. Dell developed the Sustainable Business function in 2003 to ensure the integration of social and environmental concerns into its business operations and interactions with stakeholders while ensuring that its economic goals are met.

With an estimated 60 million handsets sitting idle, Nextel has developed a Refurbishing and Recycling Program (NexR²) that encompasses all aspects of used equipment handling, including collecting, refurbishing and recycling cell phones. Customers who participate can receive account credit or a tax deduction by donating their phones to the Red Cross. To make participation convenient, Nextel offers customers the ability to print out prepaid FedEx labels

through the company's website or to return phones to retail stores, service centers or even NASCAR events. Once received, the company separates phones from the usable, which will be refurbished, to the waster, which will be disposed of or reused for other uses. The company also uses phones to support internal programs and marketing. Like Dell, Nextel is looking for new ways to reuse, repurpose, refurbish and recycle phones.

IBM, Gateway, and many more companies offer similar services to recycle or dispose of unwanted information technology assets. Benefits to using these programs include door to door shipping services, credits for assets that still have value, and assurances that data will be completely cleaned from devices. Widespread use of these programs requires a change in mindset and procurement practice in the Commonwealth.

Certified E-Mail

Fred Norman, Principal of Commonwealth of Virginia Consulting, apprised the Committee of a relatively new service called certified electronic mail (e-mail). South Carolina provided in its recently adopted Uniform Electronic Transactions Act (UETA) that e-mail using the United States Postal Service (USPS) electronic postmark (EPM) service is a legal alternative to certified or registered U.S. mail for certain types of electronic communications, and carries the same force of law and legal effect as those physical mail services. UETA provides a legal framework for electronic transactions, and gives electronic signatures and records the same validity and enforceability as manual signatures and paper-based transactions. Specifically, the legislation states that the "United States Postal Service electronic postmark means an electronic service provided by the United States Postal Service that provides evidentiary proof that an electronic document existed in a certain form at a certain time and the electronic document was opened or the contents of the electronic document were displayed at a time and date documented by the United States Post Office."

Mr. Norman explained that the USPS EPM protects the integrity of electronic data through the use of auditable time stamps, digital signatures and hash codes and enables any third-party to verify the authenticity of electronic content. He indicated that with VITA as the agency of centralized ownership of a digital authentication program and the USPS EPM system, the Commonwealth has the ability to implement an enterprise solution for itself and its citizens to further conduct electronic transactions in a secure and trusted environment.

Uniform Electronic Transactions Act (UETA)

Committee members unfamiliar with UETA received a brief summary of the Act. The National Conference of Commissioners on Uniform State Laws proposed UETA to enable electronic commerce by providing that electronic contracts, records and signatures could not be denied legal effect or enforceability solely because they were in electronic form. At least 42 states plus the District of Columbia have adopted UETA in one form or another.