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Background

Fostering Innovation in Information Technology (IT) Procurement

Tuesday, July 29, 2014
State Capitol, Room 437
1:30 p.m.

Hearing Objectives

This hearing will take a forward-looking approach to IT procurement in order to inform the Legislature on state IT purchasing processes and identify possible areas for improvement. Panelists will include representatives from the Department of Technology (Department) as well as IT businesses and interests.

Department of Technology and IT Procurement

There have been several recent changes to the state's IT procurement authority and approaches. Specifically, the Governor's Reorganization Plan No. 2 (GRP 2) of 2012, changed the governance of state IT. GRP 2 eliminated the California Technology Agency and replaced it with the Department under the newly-created Government Operations Agency. The plan specified that the Department would direct and set statewide IT policy. In line with these changes, SB 71 (Committee on Budget and Fiscal Review), Chapter 28, Statutes of 2013, transferred the procurement authority for large IT projects from the Department of General Services (DGS) to the Department. Additionally, AB 1498 (Buchanan), Chapter 139, Statutes of 2012, required the Director of the Department to report directly to the Governor on IT issues and declared Legislative intent for the Governor or his designee to develop a plan for transitioning IT procurement authority from DGS to the Department. All of these requirements became effective approximately one year ago.

Recent Changes and Plans

The Department established the Statewide Technology Procurement Division, with branches for both statewide Telecommunication Procurement and IT Procurement. The Department also specified various goals in its Strategic Plan 2014 Update, including "responsive and effective IT procurement." Objectives under this goal are to:

- Ensure the state's IT project procurements are completed within timeframes that mitigate risk to projects.
- Reduce state and vendor costs.
- Focus on customer service.
- Reduce bureaucratic and redundant processes.

As part of the 2013-14 Budget package, the Department was required to provide the Legislature with a report on IT Procurement by June 30, 2014. That recent report contained metrics about procurements as well as results of recent and upcoming changes designed to increase efficiencies.

According to the report, the Department completed 15 formal procurements during Fiscal Year 2013-14. Formal procurements are defined as complicated, high risk, and containing dollar values in excess of \$1 million. The procurement phase on average for these projects was just less than 9 months.

The Department conducted an initial assessment of IT procurement in light of its new statewide procurement responsibilities. The assessment involved discussing procurement issues with IT businesses and the former DGS Technology Acquisition Branch staff as well as reviewing past and current procurements. In response to identified concerns, the Department has begun instituting the following changes to processes:

- Releasing draft solicitations for vendor review prior to issuing formal solicitations to validate requirements, improve requirements, understand vendors' ability to provide solutions, and increase participation.
- Prequalifying bidders on administrative requirements for telecommunication procurements.
- Implementing a streamlined procurement template that removes redundant and contradictory requirements.

The Department also created a list of lessons learned from reviewing past procurements and is seeking to make changes to address identified issues. As part of this work, the Department has been meeting with IT businesses to discuss concerns and help create more efficient procurement approaches.

Business Perspectives

Several representatives from IT businesses and groups representing them have shared concerns about the state's procurement process for large IT projects. These concerns include:

- The timeframe of state IT procurement, which could last more than a year, means that the bid process is expensive for businesses and technology is often outdated by the time the project is implemented.
- Overly-specific project requirements limit innovation and do not always lead to positive outcomes to solve the business problem.
- The process to bid state IT projects is often complex and expensive, and this can prevent small and midsize businesses from participating.
- The scope of some state projects is so extensive that only a few businesses have the capacity to complete them, which means small and midsize businesses are sometimes excluded.

Possible areas for improvements that businesses identified include eliminating redundant and unnecessary steps in the procurement process, allowing for flexibility as technology changes, collaborating more with potential bidders about possible IT solutions, and dividing projects into smaller components that can be bid on by multiple companies.

Potential Areas for Discussion

- Where do opportunities exist that would lead to innovation and efficiencies in IT procurement?
- How can the IT procurement timeframe be decreased while still balancing state needs?
- Would flexibility in some areas of the procurement process lead to better outcomes?
- How can the state better engage small and mid-size businesses to participate?