

Procuring Software and Services  
for an  
ERP System in Illinois

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## **EXECUTIVE SUMMARY**

The agencies of the State of Illinois rely on manual or paper-based processes and use disparate technology systems that require employees to make repetitive entries and assemble cross-agency data from multiple systems. Implementation of a single, statewide Tier-1 enterprise resource planning (ERP) Software Package will enable greater financial transparency and compliance with applicable laws and regulations and will reduce overall costs and risks by eliminating the need to maintain multiple systems. The ERP Software Package will empower State leadership with critical and timely insights into the State's operations, helping them to improve management of State initiatives.

The State, lead by the State CIO in collaboration with a Project Management Office (PMO) vendor and the independent Chief Procurement Officer (CPO) split the ERP procurements into separate solicitations: one for the Software Package and the other for Systems Integration services to be provided by two (2) vendors. Both ERP-related solicitations were drafted using knowledge gained from numerous subject matter interviews across over 20 State agencies in addition to the information received in response to two separate Requests for Information (RFIs), one for the Software Package and the other for Systems Integration services. The Software Package and Systems Integration solicitations were issued in May and evaluations were conducted by diverse groups of State subject matter experts concurrently over the next few months.

The State awarded the Software Package contract to SAP in August, 2014 and the Systems Integrators contracts to Accenture and Deloitte in December, 2014. These contracts, which contain competitive terms in the best interest of the State, are the legal vehicles by which the State will implement an ERP system across the enterprise over the next several years. Conducting complex but successful procurement processes over the course of approximately 8 months for these transformative software licenses and services is unprecedented in Illinois.

### **Description of the Business Problem**

The State of Illinois has approximately 12.9 million residents, making it the fifth largest state in the nation (U.S. Census, 2013). The State government employs approximately 50,000 people dispersed over seventy-nine (79) agencies. The State government's annual operating budget is approximately \$65 billion, with an on-going capital program that has multi-year appropriations totaling over \$21 billion.

The State does not have a single system for administrative functions, such as Financial Business Management, Human Capital Management, and Administrative Services. Most agencies utilize disparate systems and applications to perform functions that are typically included in an ERP Software Package.

The State's current systems include various commercially available, off-the-shelf ("COTS") products, customized systems originally developed in-house, mainframe products and tools, desktop applications, and DB2/Oracle/SQL databases.

In the current environment:

- State agencies manage and sometime develop their own fiscal systems to meet individual needs. The resulting proliferation of systems has resulted in operational problems, such as duplicate data entry, time-consuming reconciliation of data from multiple source systems, and difficulty completing fiscal reports at period close. As a result, each year, State agencies struggle to complete audited financial statements in a timely manner. Similarly, the assembly of accurate and consistent Statewide data is laborious and difficult.
- Human Capital Management systems are fragmented. Hiring approvals and personnel transactions are each conducted in separate stand-alone systems, while benefits, employee performance, and timekeeping are managed by agencies through a wide variety of custom, COTS, and mainframe systems. Lastly, there is a strong reliance on mainframe-based payroll systems with shrinking talent pools of mainframe programmers and experts.
- Procurement approvals are conducted in a different set of systems than those that track inventory and those that process vouchers. As a result, most State agencies rely on paper-based procedures to track invoice requests, which are prone to mistakes, cause duplications, and increase processing time.

The Illinois Procurement Code requires competitive selection via, *e.g.*, a request for proposals (RFP) in order for the State to purchase goods or services, such as the solution to the business problem described above: a Tier-1 ERP System and the Systems Integration services required to integrate the same. Typically a procurement of this magnitude takes 12-18 months to complete due to not only the numerous steps in the procurement process (requirements gathering, solicitation drafting, issuance, receipt and evaluation of vendor proposals, contract negotiations and final selection and

award), but also to myriad factors including lack of: executive sponsorship; knowledge of the marketplace; familiarity with the procurement process; alacrity; foresight to identify and mitigate risks; bandwidth to coordinate all these steps, etc. Because of these factors even the least impactful, least expensive State of Illinois procurement can easily fail. In the case of a multimillion dollar project that will replace dozens of existing IT systems, streamline the State's business processes and transform government operations the risk of failure due to threatened incumbent vendors and bureaucratic and labor intransigence is especially high.

### **Description of the Solution**

The aspects of the business problem described above related to administrative functions are solved by procuring and implementing a Tier-1 enterprise resource planning (ERP) system.

In October, 2013 the State of Illinois under the leadership of the State CIO issued a Request for Proposals (RFP) from its Governor's Office of Management and Budget (GOMB) that solicited professional services to assist in establishing and operating a Project Management Office (PMO) to aid State leadership in managing and overseeing the procurement and implementation of Tier-1 ERP software and systems integration services. The State and the PMO vendor, which alleviated the aforementioned bandwidth stress, promptly began procuring the State's ERP solution in April of 2014.

State leadership, in consultation with the ERP PMO vendor, decided to split the procurement of the ERP solution into 2 separate solicitations—one for the Software Package and the other for Systems Integration implementation services to be provided by two vendors. This split procurement: (i) allowed the selection to focus on the technical merits of the software itself; (ii) allowed the State to work directly with the software vendor and thus avoid the inefficiencies of that vendor being a subcontractor to the systems integrator; and (iii) promoted price transparency as to the true total costs of the software and the integration/implementation services. This procurement approach also featured the solicitation of two Systems Integrators, rather than one, in order to maintain an internal competitive discipline and thereby decrease risk of failure and price overruns.

The procurement processes for the ERP Software and Systems Integrators, led from the Office of the State CIO and Governor's Office of Management and Budget, were well coordinated, rigorous and fair, satisfied all legal requirements, emphatically withstood a vitriolic protest from an unsuccessful Software Package vendor, and spanned a gubernatorial election in which the incumbent lost. The Software Package process lasted from April to November (including successful resolution of the protest) and the Systems Integrators process lasted from April to December (including resolution of the Software Package protest and beginning of the transition of gubernatorial administrations).

These procurement processes involved over 20 State agencies and was co-lead by the Chief Procurement Office to ensure strict compliance with the Procurement Code. The scoring methodologies for each RFP were established and vetted prior to

the applicable RFP's issuance. Scoring variance meetings were held among both Evaluation Teams to validate adherence to the procurement process and scoring guidelines.

Requirements for the Software Package, many of which had been gathered during an aborted ERP implementation attempt, were compiled and prioritized through over 200 interviews of subject matter experts across over 20 State agencies. Industry knowledge was gathered through a request for information (RFI) prior to issuance of the RFP. The Evaluation Team consisted of 7 scoring members from several of the State's largest agencies, including the separately elected Comptroller's Office, as well as over 30 non-scoring evaluation subject matter experts from across the State. The State invested roughly 1,800 hours for evaluation of the Software Package proposals, including scoring of the written proposals, the system demonstrations and the oral presentations.

As with the Software Package, Systems Integrator-related industry knowledge was gathered through an RFI. The Evaluation Team consisted of 7 scoring members from several of the State's largest agencies, including the separately elected Comptroller's Office, as well as over 25 non-scoring evaluation subject matter experts from across the State. The State invested roughly 1,600 hours for evaluation of the Systems Integrator proposals, including scoring of the written proposals, the SI team profiles and the oral presentations.

These coordinated, rigorous and transparent procurement processes resulted in legally sound contract awards to SAP for software licenses and Accenture and Deloitte for systems integration services. The State arrived at a competitive Software Package price and competitive work plan proposals and rate cards from the Systems Integrators, which will be managed closely by the State and the PMO vendor in order to limit costs and maximize value.

### **Significance to the Improvements of the Operation of Government**

The State of Illinois has launched the ERP Program to lay the foundation for good and accountable government. The Program Vision is to rapidly implement a comprehensive ERP solution that will deliver a modern, integrated IT platform across finance, human capital management and procurement for the State of Illinois in order to:

- deliver accurate financial statements consistently;
- enable Statewide transparency, access to information, and swift decision-making;
- enable State operations to address audit findings from the Auditor General; and
- catalyze Statewide transformation of all administrative services.

Given the context, the speed and comprehensiveness with which the State conducted both the Software Package and Systems Integrators procurement processes

are unprecedented in Illinois and are a shining example of complicated procurement successes achieved due to strong executive level sponsorship and guidance, stakeholder collaboration and hard work.

## **Benefits of the Project**

### Financial

The ERP Project can achieve annual benefits of approximately \$450 million and enable better government through transparency, self-service and automation. There are three categories of financial benefits: direct benefits; initiatives enabled by the ERP foundation; and cost avoidance.

Direct financial benefits range between \$52 million and \$193 million annually and include:

- fully automating manual financial, payroll, hiring and procurement processing and fully integrating associated data into a single Statewide platform;
- replacing 120+ redundant, non-standard processes with 1-2 lean and standardized Statewide processes per function;
- consolidating 75% of 400+ legacy systems for finance and administrative functions into a single, modern Statewide system; and
- reducing demand for unnecessary or duplicate financial, HR and procurement services (e.g., unnecessary report generation).

Initiatives enabled by the ERP foundation realize financial benefits ranging between \$73 million and \$150 million annually and include the:

- optimization of \$8 billion of general services procurement by providing transparency to maximize master contracts and avoid emergency contracts;
- use of targeting sourcing to manage attrition (*i.e.*, compensate for retiring workforce and attract top talent); and
- improvement of the effectiveness of cash management and agency revenue collection by increasing transparency into revenue and disbursements across agencies and constitutional offices.

The ERP Program effects cost avoidance of approximately \$225 million annually by enabling the Grant Accountability and Transparency Act and complying with the Federal Grants Management Act to avoid incurring as much as a \$5 billion reduction in advance payments provided by federal grants.

### Non-financial

Non-financial benefits of the ERP Project include the following:

- higher taxpayer satisfaction achieved through increased transparency into State transactional data and enabled on-line services;
- greater vendor collaboration achieved through a new vendor portal and self-service options that increase transparency in payment status;
- improved employee morale achieved by reducing overhead for required daily activities through automation, streamlined processes, and increased self-service options to enhance the ability to perform one's mission; and
- increased investors' satisfaction achieved through improved transparency to the investor community by enabling timely and accurate preparation of the CAFR, single audit and federal expenditure reports.