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**NATOMA TECHNOLOGIES | PARTNERING FOR BEST PRACTICES IN IT PROCUREMENT**

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**1. State Articulates the Business Need, Vendor Provides the Solution**

- The current procurement practice is solution-centric because the State routinely dictates to the Vendor a customized solution, rather than having the Vendor understand the business need and provide the right solution.
- A solution-centric procurement often results in unclear requirements because the business case is poorly defined for the Vendor.
- For technology solutions to lower costs and increase efficiencies, Vendors need to understand how the business functions. The State, specifically the relevant Agency or Department, is best positioned to discuss its business needs and be able to articulate where pain points exist.
- Vendors can then provide expertise in the varied technologies and solutions that exist in the marketplace that are configurable to the stated business need, thereby providing valuable cost-savings and implementation efficiencies.
- Purely customized solutions are costly and high-risk to state agencies, although they remain commonplace among procurements.
- State agencies should define their business case and then demo marketplace offerings with Vendors to ensure that the State obtains the most cost-effective solution using the most current technologies available.

**2. Procurements Should be Performed by State Employees, Not Vendors**

- State employees understand their business needs best and they should actively manage the process of defining the requirements for developing the procurement.
- Training should be provided for employees in order to shift this practice “in-house”. This approach will strengthen internal engagement in IT projects and enhance a career path for State IT professionals.
- It costs the State a significant amount of money to hire Vendors to develop procurements. Often these Vendors are unfamiliar with the business of a particular agency and they typically charge an hourly rate for this work – known as Time and Materials. Unfortunately, this approach provides an incentive for the Vendor to drag out this process, thereby increasing the cost of the procurement and, in turn, the cost of the overall project.
- Working with an outside facilitator for this process is appropriate in circumstance where an agency is small or when it lacks an IT department. However, if outsourcing this process, the contract should be capped at a fixed price, rather than time and materials, in order to ensure that the project costs stay low and the procurement process is efficient.
- Consequences of lengthy procurements can include employee/talent attrition, aging technology, changing department needs, and increased costs to the State.

**3. Mandate Executive Sponsorship**

- The biggest indicator as to whether an IT project will succeed or fail is whether there is executive sponsorship.
- Active involvement by an executive-level sponsor is needed to ensure accountability so that the project stays on time and within budget, that risks can be managed immediately, and to ensure the Vendor performs in conformance with the contract.
- Mature agencies can and often do run full procurements; less mature agencies should operate with a triage team. For example, with procurement expertise from DGS, oversight from CDT should be utilized as opposed to reliance on outside vendors.
- **Example:** Assembly Member Cooley's bill AB 2523 would help address this.

#### 4. Encourage Competition and Promote Small Business Opportunities

- Current procurement requirements prevent many small businesses from bidding on state IT projects because Vendor requirements are focused on past project size and contract dollar amount, as opposed to analyzing a Vendor's past performance, which should be a key criterion for state procurement practices.
- Past performance provides a better indicator of a Vendor's capabilities and successes, as opposed to simply qualifying a vendor based upon the price and size of previous contracts.
- There are many small businesses with successful track records that could provide cost savings to the State, but are not big enough to bid under current procurement requirements.
- This reduces options for the State when procuring new technologies and often increases costs because large Vendors will mark-up their small business sub-contractors by 30% or more.
- The current state procurement process eliminates competition from small businesses like Natoma and ensures repeat failures by a limited vendor pool.
- By not encouraging competition, the State is limiting its access to new technologies offered by tech start-ups and small businesses that are more agile and responsive to the changing technology trends than the State, thereby inhibiting growth in the Sacramento marketplace.

#### 5. Smaller-Dollar Projects with Shorter Timeframes Mitigate Risk for the State

- **Big projects equal big risk**, as demonstrated by recent IT project failures in the State.
- State agencies routinely procure large IT projects that demand significant taxpayer dollars with lengthy timeframes.
- These types of large projects have partially resulted from misinterpretation of the "Bowen law".
- Lengthy projects are subject to attrition issues, as well as loss of expertise and knowledge along the way.
- IT project size should be reduced to smaller dollar projects with shorter durations to eliminate the high risk / high failure rate that commonly occurs with state procurements.
- Smaller projects allow for check points of vendor performance and/or if requirements adjustments are needed, which can easily be structured around a project's lifecycle.
- **Example:** Department of the Navy – No billion dollar projects allowed.

#### 6. Implement a Gate System

- Current State discussions are trending towards this approach, which is a positive step

- A Staged Gate Process is a best practice for the Federal Government and the private sector.  
**Example:** Dow Chemical; Departments of the Army & Navy.
- Structure IT projects in shorter phases of deliverables, work processes, lifecycle, etc. (e.g. 6 months).
- Implement rolling approvals to determine whether Vendor can continue and track vendor performance at each stage to mitigate risk of failure.

## **7. Public Contract Code Section 6611 as the Standard for Procurements**

- To allow for transparency, the standard for all procurements should be P.C.C. Section 6611, as it provides for open dialogue and negotiations with Vendors throughout the process.
- State agencies spend time investigating the marketplace of technology offerings with Vendor input.
- Allow Vendors to provide demos to state agencies; Demos are a best practice for the Federal Government. They should be fully utilized by the State.
- The State should cease reinventing the wheel with risky, customized solutions when technologies and software offerings already exist in the marketplace. This approach reinforces the notion that the State should focus on the business case, while Vendors should provide expertise on solutions.

## **8. Past Performance is Key for Selecting a Vendor**

- Re-hiring the same companies that fail is commonplace for California IT projects.
- Past performance is the major criterion used by the Federal Government for selecting a Vendor.
- Past performance is not considered in CA; hence, we experience repeated IT failures by some of the same Vendors.
- California should use the Federal Government's past performance scorecard as a model and standardize this practice among state agencies.
- Misinterpretation of the "Bowen law" has resulted in state agencies wrongly claiming that incumbent Vendors cannot work on related projects or multiple phases of projects. This misinterpretation results in cramming all phases and parts of a project into one large, billion dollar contract, thereby barring smaller businesses from bidding because vendor requirements are then based on having million/billion dollar projects. As a result, poor performing Vendors keep getting rehired because there is a lack of competition (see #4 above).
- Create a Vendor system to review past performance – this allows small businesses and new companies a share of the marketplace and prevents those companies with poor track records from continuing work for the State.

## **9. Avoid 'Lowest-Cost' Contracts**

- These types of contracts hurt the market by shifting focus from local jobs to firms offshore that can offer lower wage rates.
- Low cost does not mean best solution or most qualified and can often cost the State more in the end to repair mistakes.