

ProcureAZ Path Forward

June 1, 2016

Agenda

- Retrospective
- ITAC Presentation Feedback
- Points to Ponder
- Agency Review – April 2016
- Next Steps

RETROSPECTIVE

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Retrospective

- Periscope Holdings Inc., in partnership with AZ SPO, successfully implemented ProcureAZ in 2009
- ProcureAZ has resulted in significant, verified cost reductions of 26% in key commodities for State of Arizona and local governments
- ProcureAZ Co-op generates \$3 million of program sustenance funding per year since 2009, largely fueled by easy access from local governments
- Since implementation, ProcureAZ has won NIGP Innovation Award, Cronin Award Finalist, Procurement Leaders Finalist, and Best Fit Integrator Award
- BuySpeed continues to evolve, introducing new innovations with each release – v14.0 just released with numerous catalog and bidding enhancements

Electronic Procurement Solution
April 27, 2016

Project Overview

- Replacement of current Electronic Procurement Solution
 - Known today as ProcureAZ
- New solution or possible upgrade for management of the Procure to Pay process, (Solicitation, Contract Award, Ordering and Payment)

ITAC PRESENTATION FEEDBACK

ITAC Presentation – General Feedback

- Assertions regarding current ProcureAZ system appear not factually accurate
- Unbalanced representation of ProcureAZ solution
- Leading objective “Replacement of current Electronic Procurement Solution”
 - This predominant bullet cultivates strong bias against existing system, overshadowing “... or possible upgrade...” option in subsequent bullet
- Initiative may result in unnecessary expenditure of State taxpayer money without commensurate benefits

AFIS Compatibility – Periscope Perspective

Current Issue

- Compatibility issues with the current system and Arizona Financial Information System (AFIS)
 - Integration between the two (2) systems is currently inefficient, resulting in agencies adding additional staff to manage the procure-to-pay process.
 - Multiple workarounds to fix integration issues will require substantial testing time and added costs.

November 14, 2013 12:25 PM (T)

AFIS Compatibility – Fundamentals

1. Interfaces between BuySpeed and Advantage work as designed [by CGI]
2. Interface designs were prescribed to BuySpeed; and Periscope bore overwhelming majority of technical burden for interfaces
3. Periscope anticipated adverse impact on operational efficiency, identified alternatives in 2014 and offered to collaborate on design remediation – Offers were denied by CGI and the State team
4. CGI's response to the anticipated State user burden was *"...I would say that lets proceed with the integration as we discussed previously. We will revisit this issue if needed in future."*
5. Current approach is inconsistent with industry best practices
 - a. Per Gartner's 2015 Strategic Road Map for Postmodern ERP, "By 2020, most organizations will have adopted a hybrid ERP architecture with a loosely coupled mix of cloud and on-premise applications".

AFIS Compatibility – Design Weaknesses

- ProcureAZ should be considered the procurement “System of Record”
- Maintaining “shadow purchase orders” and calculations in financial system results in predictable challenges associated with shadow systems
 - Financial system recalculation of quantity, unit cost, tax, etc. at different levels results in slight deviation due to decimal precision and rounding
- Rounding differences on partial receipt and payment have significant exposure to rounding differences, which now require manual processing
- Equivalent of the financial system re-calculating withholdings for each employee pay cycle prior to issuing paycheck

A.R.S Title 35 Compliance – Periscope Perspective

Current Issue

- Non compliance with A.R.S. Title 35 (Timely payment)
 - Multiple payment delays and duplication of effort.
 - Inaccurate and blocked payments to vendors – different system base codes.

Poor system performance (downtime, low response times)

A.R.S Title 35 Compliance – Data Facts

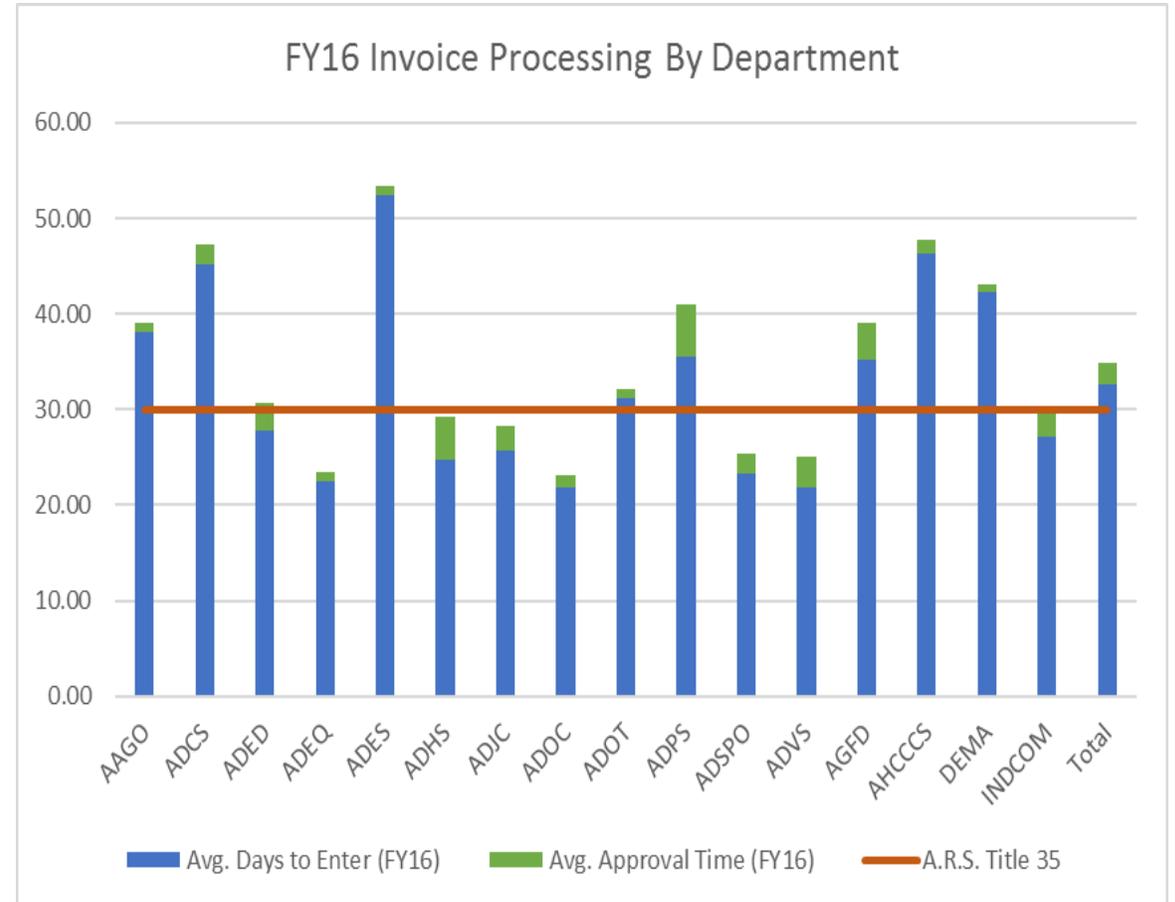
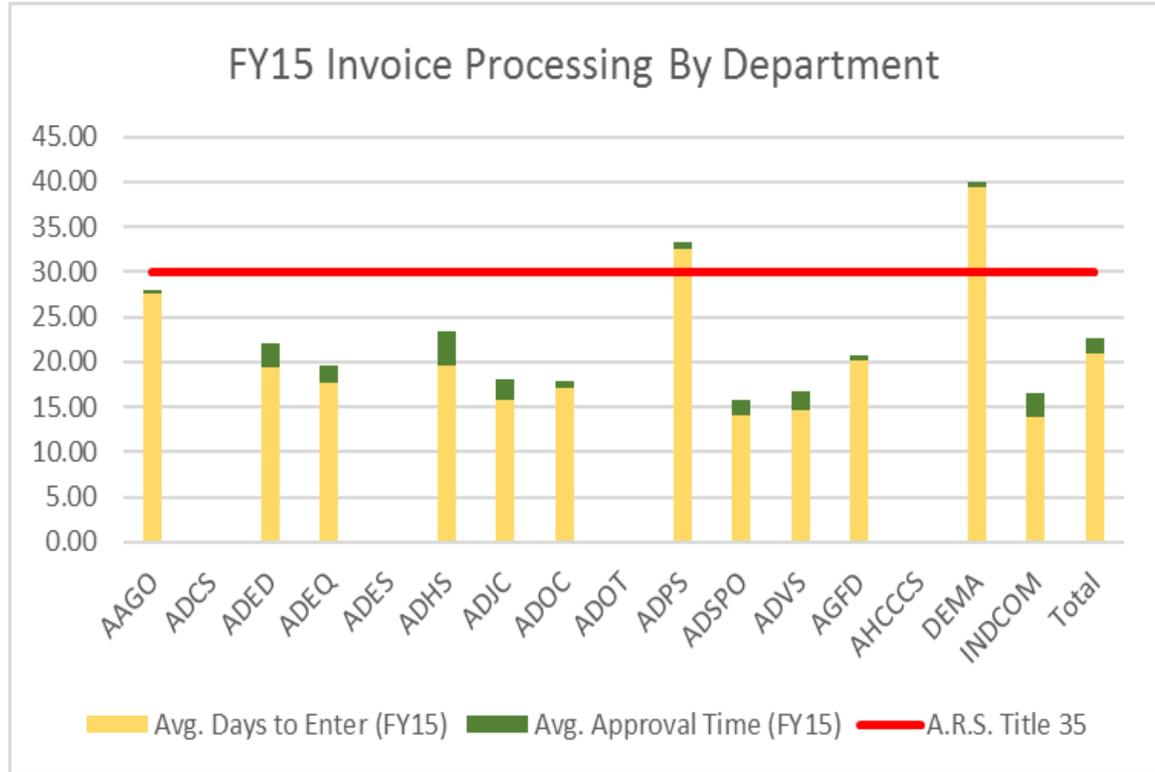
Based on analysis of data using the ProcureAZ Business Intelligence module comparing pre- and post- AFIS metrics:

- Systematic protracted invoice processing in ProcureAZ post Advantage integration is not an acute problem caused by the BuySpeed system. Time prior to entry of invoices is by far the largest contributor.
- Since July 1, 2015, the average time to process an invoice from creation to Approved for Payment status (e.g., sent to Advantage successfully) is 2.16 days
- Less than 1% (0.66%) of more than 219,000 invoices processed since July 1, 2015, required processing times greater than 29 days

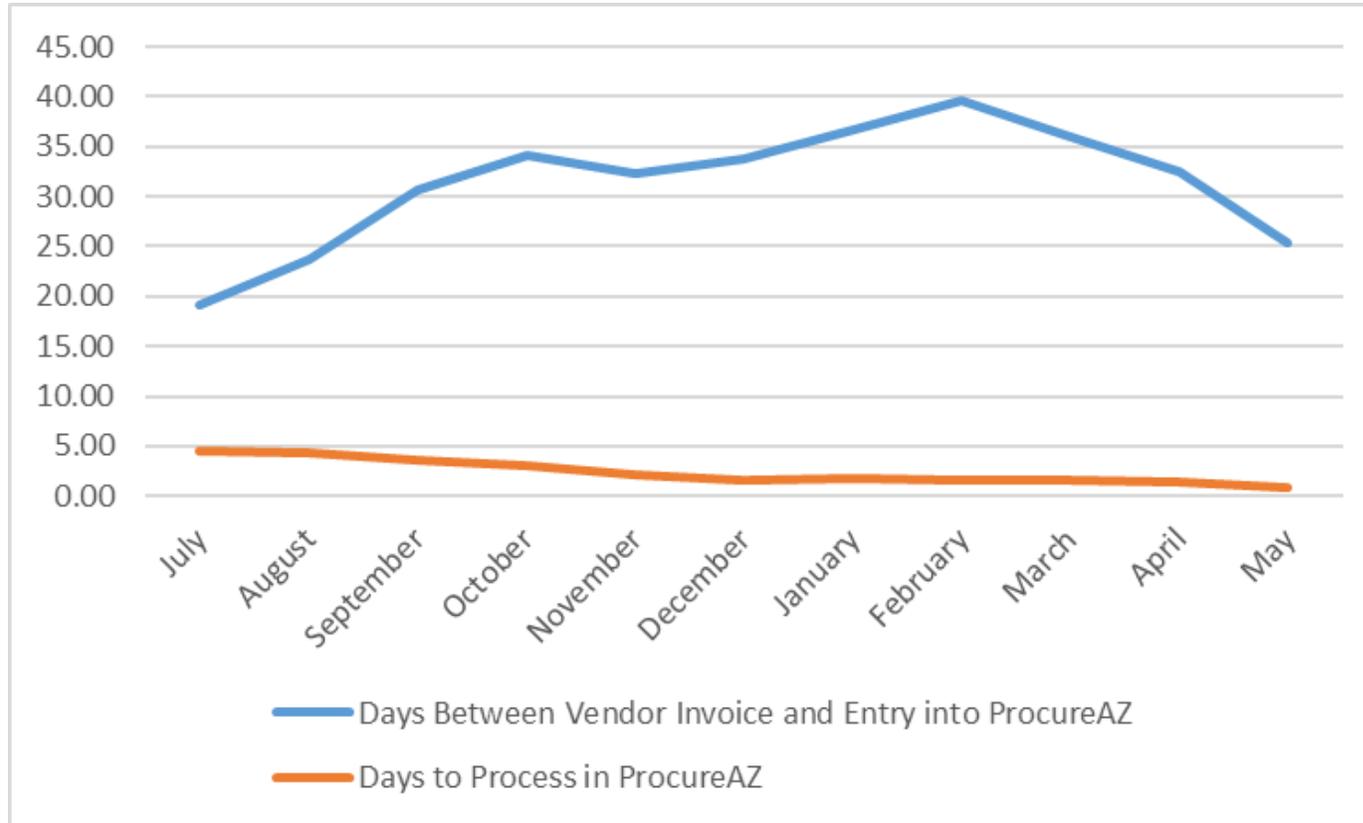
A.R.S Title 35 Compliance – Hypothesis

- ProcureAZ role in problems appear exaggerated, possibly due to fatigue associated with ERP implementation
- Perceived problems are not technology-related, but rather process
- Resolution for increased processing time likely operation/procedural based (*e.g., manual processing of partial receipts, zero tolerance for PO/invoice variance due to rounding*)
- Periscope Strategic Services can assist with streamlining procurement business processes
 - Best practices recommend conducting evaluation 6 to 9 months after implementation to assess the actual impacts to business processes
 - Re-calibrate and refine system and/or operations to maximize benefits

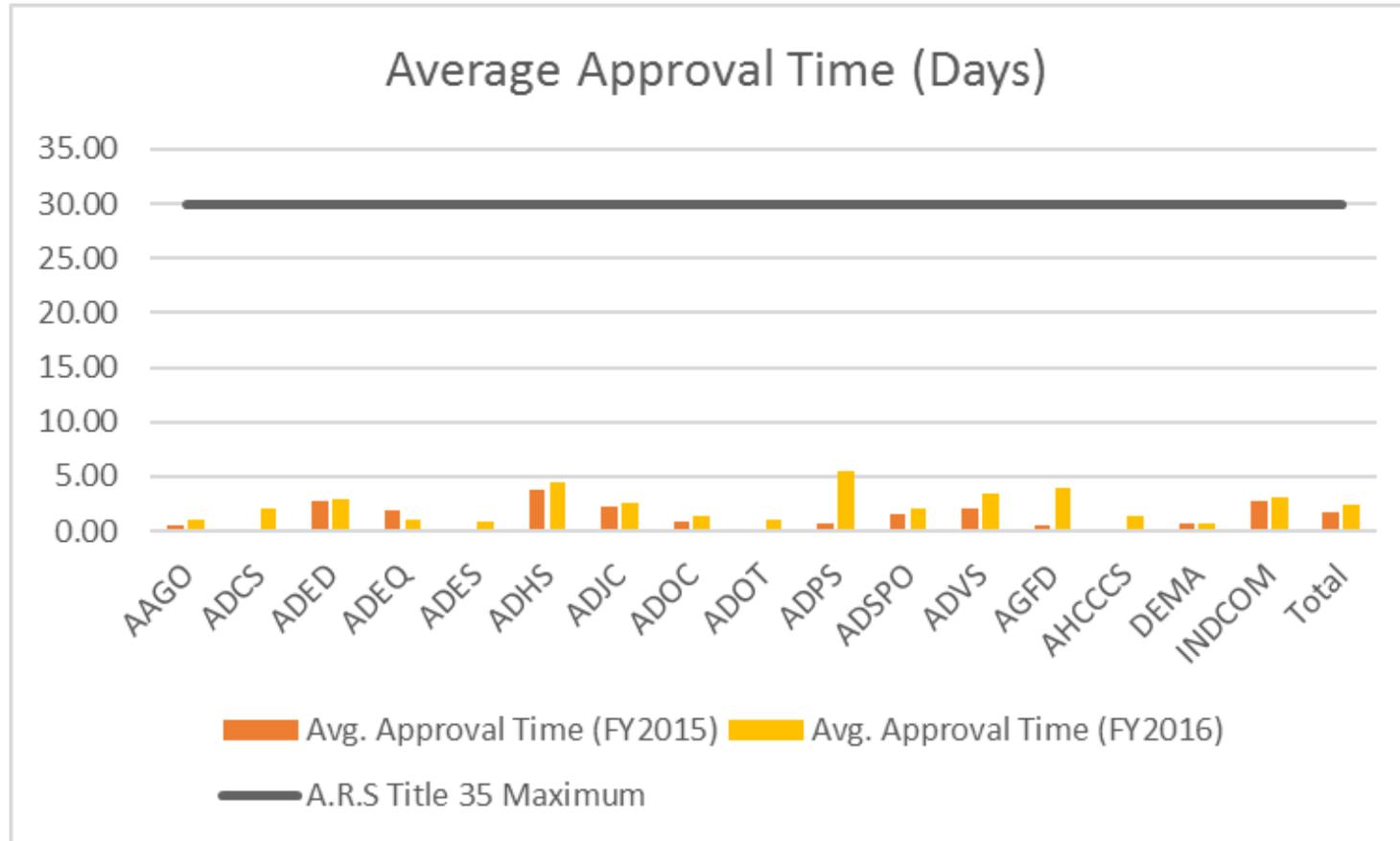
A.R.S Title 35 Compliance – Total Time



A.R.S Title 35 Compliance – Total Time



A.R.S Title 35 Compliance – Visualization



A.R.S Title 35 Compliance – Data Facts

Agency	FY 2015		FY 2016	
	# of Invoices	Avg. Approval Time	# of Invoices	Avg. Approval Time (Days)
AAGO	2,991	0.46	1,801	0.97
ADCS	0	0	13,972	2.10
ADED	5,400	2.71	3,875	2.98
ADEQ	4,218	1.86	3,699	1.07
ADES	0	0.00	29,525	0.92
ADHS	20,755	3.77	14,494	4.51
ADJC	2,862	2.27	1,683	2.59
ADOC	36,712	0.81	25,264	1.38
ADOT	0	0.00	49,241	1.02
ADPS	7,223	0.75	16,857	5.56
ADSPO	13,298	1.60	27,267	2.06
ADVS	5,280	2.04	5,441	3.37
AGFD	11,325	0.56	12,004	3.90
AHCCCS	0	0.00	2,249	1.43
DEMA	4,522	0.67	3,676	0.69
INDCOM	7,598	2.68	8,250	3.04
Total	122,184.00	1.68	219,298.00	2.35

A.R.S Title 35 Compliance – Exceptions

Agency	FY 2015		FY 2016	
	# of Invoices	Avg. Approval Time (FY2015)	# of Invoices	Avg. Approval Time (FY2016)
AAGO	2,991	0.46	1,801	0.97
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A.R.S Title 35 Compliance – New Adopters

Agency	FY 2015		FY 2016	
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AAGO	2,991	0.46	1,801	0.97
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Poor System Performance – Periscope Perspective

Current Issue

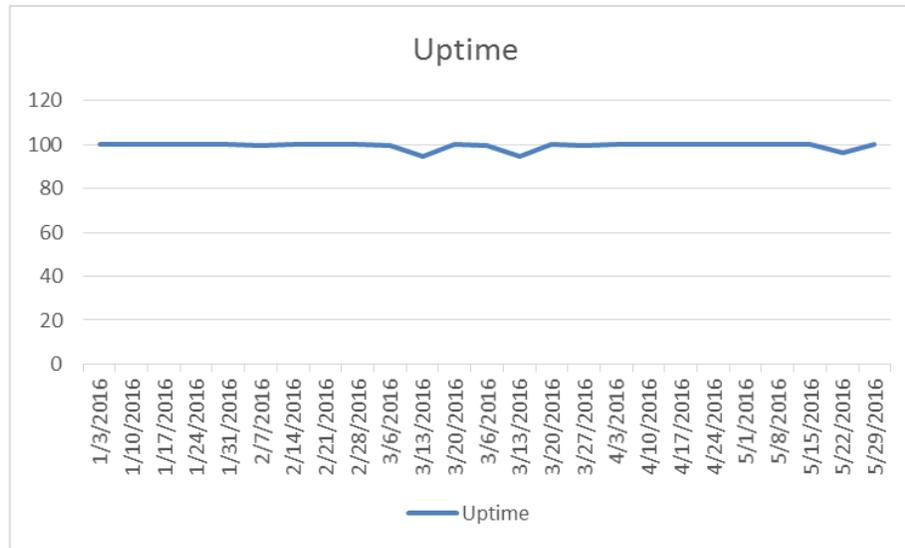
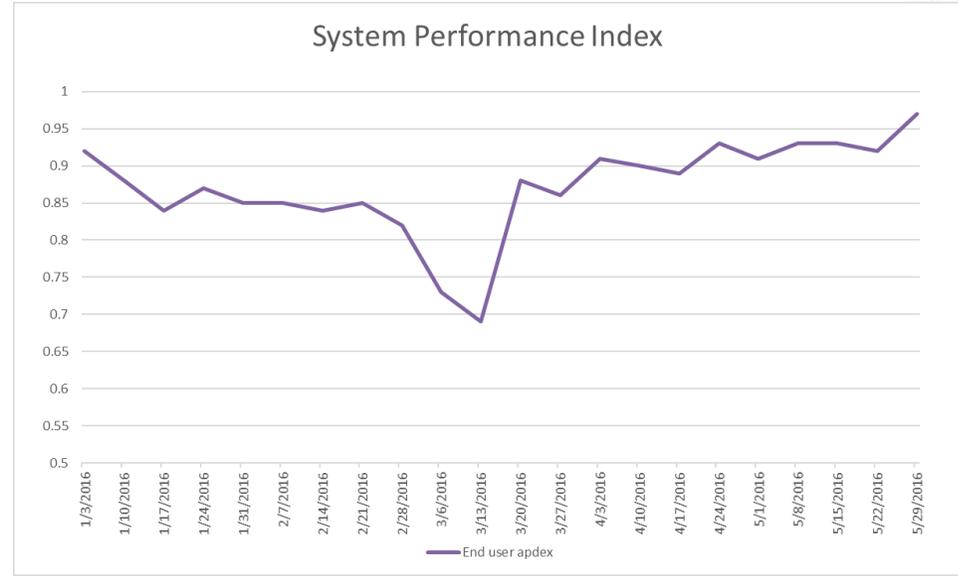
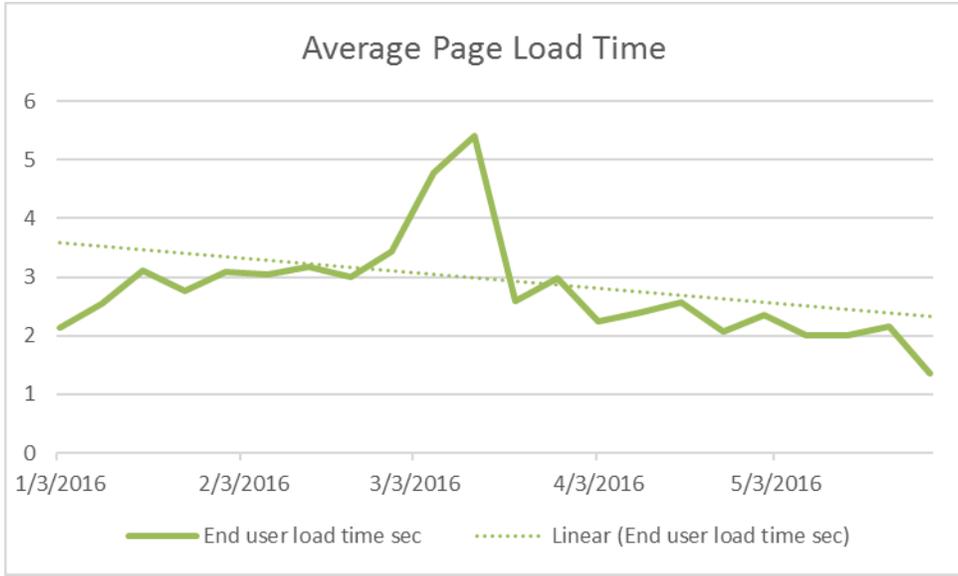
BASE CASES.

- Poor system performance (down time, slow response times)

System Performance – Periscope Perspective

Periscope is committed to ongoing improvement:

- Identified and remediated memory issue adversely affecting performance and reliability
- Improved performance by adding an additional app server
- Expanded I/O throughput by distributing database across storage devices
- Improved performance of Requisition Summary and PO Summary screens
- Eliminated database locking which reduced transaction delays
- Improved database server performance through re-architected database layer



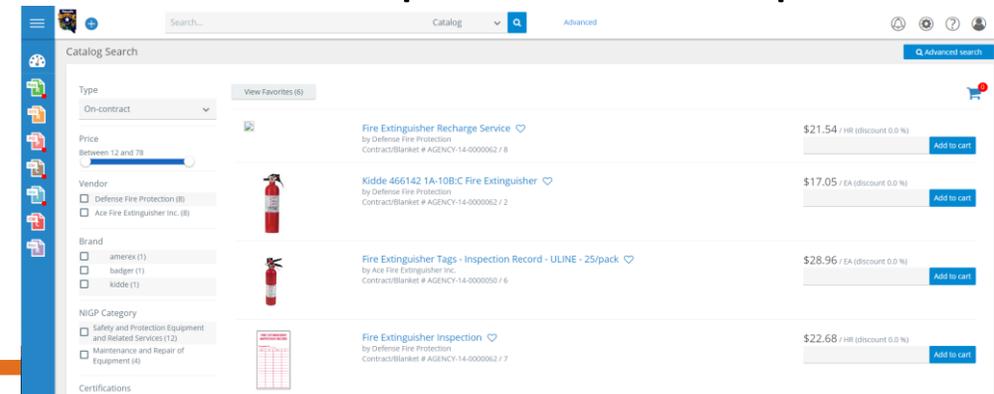
Risks of taking no action

- Continued lack of functionality regarding modern sourcing methods, such as Reverse Auctions, and Online Catalog Ordering.

Lack of Functionality – Periscope Perspective

ProcureAZ providing modern sourcing functionality since 2010:

- State conducted 15 reverse auctions between 2010 and 2013
 - Reverse auctions managed by 6 different agencies in ProcureAZ
 - Saved an average of 26% against traditional procurements, based on analysis performed with SPO
- ProcureAZ supports catalog ordering for over 6,000 contracts
 - Includes 13 punchout contracts integrated to suppliers' order management system
 - Catalogs available for state agencies AND local governments as part of Periscope's licensing agreement
 - Additional enhancements are available in v14.0



POINTS TO PONDER

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Future Proof Investments

- Reasons to reconsider monolithic ERP strategy, according to Gartner:
 - *“Planning for a single megasuite encompassing all business applications is no longer the starting point for building a postmodern ERP strategy.”*
 - *“Hybrid ERP environments comprising coexisting cloud and on-premise applications and domain suites are the norm.”*
- Should your eProcurement solution upgrades be tethered to your financial ERP?
- Does using ERP procurement solution exacerbate vendor-lock?

Periscope Corporate Differentiators

- Purpose based company – Focused on helping our customers eradicate waste and maximize the value of every dollar spent
- BuySpeed is developed, implemented and supported using 100% US resources
- Periscope Holdings is a privately held company – Not beholden to Wall Street quarterly earnings reporting
- Periscope has no business motivation or conflict of interest associated with the State's ERP decisions – Our only goal is to empower our clients to eliminate waste and maximize the value of every dollar spent
- As demonstrated for more than 6 years, we are a true partner who shares your success as well as failure

AGENCY REVIEW – APRIL 2016

SPO Feedback to Periscope– April 2016

Performance

- Several (3-4) Invoice screens exhibit lag during periods of peak system usage
- Integration transactions with ERP lag – heavily dependent on the number of line items

Policy

- Additional approval requirements causing extra step for almost all Invoices
- Invoice variance limits require additional coordination and time
- Lack of adoption of new software versions has prevented benefit from new features that directly improve user experience and performance, e.g., Invoice Receipt auto-matching, Optional final Invoice approval

AFIS Integration

- Frequent errors from AFIS (ERP system) cause significant delays and user frustration
- Integration design choices by State require multiple extra steps and data entry for end users

Approach/Policy Recommendations

Testing Approach:

- To improve QA results, allow Periscope to use environment connected to Advantage for integration testing prior to testing by the State
- Would still need Advantage resources to confirm data in AFIS
- Without this, we cannot adequately test integration changes

Approach/Policy Recommendations

Policy Recommendations:

- Invoice approvals – ADES and ADOT reported new requirement for approval of **ALL** invoices, and guidance not to use List & Approve. Prior to 7/1/2015, approvals for these agencies were required for invoices over \$50,000.
 - Recommend revisiting this policy to address process delays.
 - Focus approvals on large dollar invoices and where variances exist (Miscellaneous and Freight) within specific thresholds.

Interface Recommendations

- Revisit need to have PO details required to support Asset Shells in Advantage constrain the integration model
- Configure Advantage (or modify Advantage processing) to override natural rounding discrepancies within acceptable thresholds
- Allow transforms to calculate invoice line-item unit price when received by quantity to remove need for users to calculate manually and to reduce discrepancies
- Consider modifying design to simplify integration and data-entry for business users

Upgrade Recommendations

- Implement new build of 12.5 to install numerous fixes
 - Performance improvements to invoice summary, invoice item, home page, system messages, other functions
 - Locking documents
 - Numerous other fixes and features
- Plan for upgrade to v14.0 in fall
 - Enhanced catalog
 - Enhanced user experience
 - Security enhancements
- Use BuySpeed Assurance™ to reduce testing burden for v14.0

NEXT STEPS

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Partnership

- Objectively assess weaknesses in business support
- Work in collaborative manner to identify solutions to problems
- How can we help?