



July 20, 2016

Ms. Terri Johnson
Strategic Sourcing Manager
Arizona Department of Administration
State Procurement Office
100 N. 15th Avenue, Suite 204
Phoenix, Arizona 85007

Re: Protest of Solicitation No. ADSP017-00006413; Electronic Procurement Solution

Dear Ms. Johnson:

This letter is written to file an official protest regarding the issuance of the above referenced Request for Proposal for the acquisition of an Electronic Procurement Solution. As a matter of record, Periscope Holdings, Inc. (Periscope) has served as the State of Arizona's electronic procurement solution provider for over a 7-year period and has a current contract for continued support until April, 2017, a similar contractual arrangement as the State's contract for the HRIS system. Periscope, with its BuySpeed eProcurement software solution was originally procured and chosen through an open and fair competitive procurement process in early 2009. Since that time, BuySpeed has been in use by the State and was branded internally as ProcureAZ.

Although our seven (7) year journey together has not been without challenges, we value our relationship with the State of Arizona and ALL of our stakeholders. We believe our solution, BuySpeed, which is ProcureAZ, has enabled significant business value for the State. We believe our partnership to be unique – Arizona and Periscope have set the new standard on what was possible with technology that was purpose-built for the public sector business processes. Based upon the excellent use of technology, Arizona has won multiple national awards and was nominated for a global procurement award. Arizona even nominated Periscope for a national systems integrator award, which we gladly accepted. We look forward to continuing and building on this relationship in the future.

We question the State's decision and motivation behind this Solicitation. This sentiment appears to be shared by our competitors, as evidenced in Bid Question and Answer, Number 64 by Jie Zick of KPMG LLP, *"According to the business case published by Periscope, the ProcureAZ appears to have delivered significant benefits to the state of Arizona. What are the incremental business benefits the state hopes to achieve to justify the significant investment in replacing a solution that has publicly been declared a successful program?"*

Periscope requests a cancellation of the referenced Solicitation based on the following grounds:

1. **Unreasonable Contract Terms that Restrict Competition:**

Several of the contract terms required within the Solicitation are not achievable for vendors other than large, publicly held multinational corporations. Further, these terms serve to restrict the competitive landscape of the Solicitation, making it so only certain interested parties (including the State's incumbent ERP provider) can respond without undue financial burden. Finally, these terms represent a

significant shift in the playing field from the current contract, are not in line with terms included in other similar procurements underway, and appear unreasonable based on the risk associated with the procurement.

Specifically, the following terms are not reasonable and limit the competitive nature of this Solicitation:

- Requirement for \$10,000,000 in general liability insurance: This represents a 1000% increase over our current contract (which has never required any claims against this insurance policy), which is set at \$1,000,000. Further this requirement significantly exceeds published requirements outlined in the State’s guidelines attached to Solicitation ADSP017-00006411 “Comprehensive Health Platform / Wellness Portal”, currently posted, reference General Liability requirements as follows (see page 160 of 183):

30.3.1 Commercial General Liability (CGL) – Occurrence Form

Policy shall include bodily injury, property damage, and broad form contractual liability coverage.

- General Aggregate \$2,000,000
 - Products – Completed Operations Aggregate \$1,000,000
 - Personal and Advertising Injury \$1,000,000
 - Damage to Rented Premises \$50,000
 - Each Occurrence \$1,000,000
- Requirement for \$20,000,000 in Errors and Omissions coverage: This represents a 2000% increase over our current contract (which has never required any claims against this insurance policy), which is set at \$1,000,000. Further this requirement significantly exceeds published requirements outlined in the State’s guidelines attached to Solicitation ADSP017-00006411, currently posted, reference General Liability requirements as follows (see page 161 of 183):

30.3.4 Technology Errors & Omissions Insurance

- Each Claim \$2,000,000
- Annual Aggregate \$2,000,000

The insurance requirements listed above are identical to those included in Solicitation ADSP013-00001953 for the Arizona Financial Information System Replacement, awarded to CGI on March 11, 2013. The value of CGI’s awarded 5-year contract was over \$54 million, whereas the total expenditures for the current ProcureAZ contract over 7 years has been only \$14 million.

Further, based on a review of the current Certificate of Insurance for CGI’s contract (see <https://procure.az.gov/bso/external/document/attachments/attachmentFileDetail.sdo?fileNbr=1520382&docId=ADSP013-043465&docType=P&releaseNbr=0&parentUrl=/external/purchaseorder/poSummary.sdo&external=true&searchType=bid>), they do not conform to the original RFP requirements (current coverage: \$1 million in General Liability, \$10,000,000 in Professional Liability). This provides clear evidence that the insurance requirements in the Solicitation are beyond reasonable.

In summary, the insurance requirements for the Solicitation are excessive and reflect an approach that imposes undue, unrealistic, and outsized burdens, and limits competition to only the largest providers.

2. Stated Executive Bias Towards CGI, the State's ERP Vendor:

Recent events indicate a clear bias among ADOA and SPO executives towards moving away from ProcureAZ and implementing the procurement module of CGI, the State's incumbent ERP system provider.

It was made clear that the State intended to move to CGI's procurement functionality when on March 29, 2016, Kevin Donnelly, Deputy Director of ADOA, stated in a meeting between ADOA/SPO and Periscope executives, "CGI won, you lost." Four weeks later, on April 27, 2016, SPO presented to the State's Information Technology Authorization Committee (ITAC) to request permission to issue a solicitation for a new Electronic Procurement Solution to replace the BuySpeed-based ProcureAZ solution with several of the points presented being completely inaccurate. Below is a recap of events:

- **March 17** – Chris Kennedy, Chief Operating Officer, and Fred Tillman, Chief Technology Officer, Periscope were requested to participate in a "touch base" call that in actuality turned out to be a BREAZ Steering Committee meeting. CGI and ISG representatives also participated and Periscope presented information on the performance issues and steps taken for resolution. Ms. Wentz was publically very critical of Periscope in front of vendors who will be 1) supporting the RFP process (ISG) and 2) responding to the RFP (CGI), and it is now clear that the meeting was used to justify moving forward with the RFP. After an hour, the vendors were asked to leave the room; Periscope representatives hung up, but Periscope has no assurance that CGI and ISG did not remain in the meeting.
- **March 29** – As a result of the March 17 meeting, Chris Kennedy, Brian Utley and Jim Norton met with Ms. Wentz, Ms. Johnson, and Ms. Garza with Mr. Kevin Donnelly briefly joining the meeting. The purpose of the meeting was to review the relationship and how to move forward. At one point, Kevin Donnelly, Deputy Director for ADOA, stated "CGI won, you lost," indicating the State's pre-selection and determination of a solution moving forward. However, with a goal to support the State, Periscope offered to meet with the agencies to gain a first-hand understanding of any potential issues and provide follow up of meeting outcomes. Periscope conducted these on-site meetings in Phoenix on April 6-7.
- **April 27** - SPO presented to the State's Information Technology Authorization Committee (ITAC) requesting permission to issue a solicitation for a new Electronic Procurement Solution to replace the BuySpeed-based ProcureAZ solution.
- **May 20** – Chris Kennedy received an email from Ms. Johnson asking for a meeting to discuss ProcureAZ performance issues and partnering to address them. Chris Kennedy and Ms. Johnson spoke by telephone on May 23 and planned a meeting for the following week.
- **June 1** – Brian Utley, Chris Jacoby, Chris Kennedy, Jim Norton met with Ms. Johnson and Ms. Garza to review the ITAC presentation analysis and discuss options for moving forward. (see discussion below)
 - Ms. Johnson stated she would recommend delaying RFP based upon new documentation and system and functionality performance review
 - Brian Utley committed to providing assistance in top 5 BI reports
 - Periscope committed to assisting with fix build testing; needed to look at resources and come up with schedule
- Subsequent to this meeting, our understanding is that Ms. Johnson communicated her recommendation to ADOA and SPO management with a recommendation to delay issuance of

the RFP. Periscope understands that management declined this recommendation and directed Ms. Johnson to not only issue the RFP, but to expedite the process.

In summary, the statement from Mr. Donnelly on March 29 and the subsequent course of events, indicates a predetermined outcome stated by the highest levels of management within ADOA to move away from Periscope and our BuySpeed solution, restricting our ability to operate in a fair, unbiased, open competitive procurement.

3. **Requirements That Are Exclusionary and Indicate Preference to ERP Solution:**

There are a number of requirements included in the Solicitation which can only be met by the State's incumbent ERP provider. These requirements indicate a predisposition of the State to award to CGI and to exclude true competition. Among such requirements are the following:

Attachment 5 – AZ EPS Current Systems Background:

- **The State expects that the EPS system's rounding methodology will be compatible with the AFIS rounding methodology.** All 3rd party systems manage internal calculations differently. Periscope has worked countless hours to refine its approach to rounding and, while the margin of error has been reduced to a statistically negligible amount, it is impossible for any 3rd party system to match rounding in all cases. Unless the Solicitation can provide exactly how Advantage rounds, what data the EPS will send, which elements Advantage will calculate and which ones need to round the same, there is not a way that competitors can respond to this requirement with any degree of confidence. Unless detailed integration and internal business logic specifications are present as it relates to rounding, no one can respond to this requirement. Full compliance with this requirement is possible only by CGI's Advantage system, which makes this requirement non-competitive.
- **The State expects that an interface transaction is completed (posted in target system) in 3.5 seconds or less 90% of the time.** Throughout performance testing, CGI's Advantage system consistently took over 8 seconds to process transactions through their ABI and within Advantage. It is not possible for a 3rd-Party provider to meet the performance standard on transaction processing time if the recipient system (CGI's Advantage product) cannot support the requirement in an integrated environment.

In summary, the above requirements preclude any 3rd party vendor from being able to submit a compliant response. Because of the emphasis placed by the State on integration issues, these requirements (while few in number) are likely to rule out any 3rd party vendor during technical and functional evaluations.

4. **Evaluation Requirements That Minimize Cost in Scoring:**

The State has established a scoring approach that deprioritizes the cost impact of the solution, which provides an upper hand to more expensive solutions like the CGI Advantage system. This is in stark contrast to prior related RFPs, including:

AFIS Replacement Solicitation:

In accordance with the Arizona Procurement code A.R.S. § 41-2534, awards shall be made to the responsible Offeror(s) whose proposal is determined in writing to be the most advantageous to the State based upon the evaluation criteria listed below. The evaluation factors are listed in their relative order of importance.

Exceptions to the Terms and Conditions, as stated in the Uniform Instructions Section C.4, will impact an Offeror's susceptibility for award.

- 15.1 Implementation Services Approach and Tools (e.g. Project Management, Software Configuration and Development, Testing, Integration, Training, Change Management, Shared Services, Business Process Reengineering, etc.);
- 15.2 Offeror and Project Team Qualifications and Experience; Qualification and Experience of Implementation Services Team; References of Software Installations;
- 15.3 Costs (e.g. Implementation Services, Development Services for the Software, Software License, and Software Maintenance); and
- 15.4 Software Fit (Software Requirements and Usability).

eProcurement Solicitation

In accordance with the Arizona Procurement code A.R.S. § 41-2534, awards shall be made to the responsible Offeror(s) whose proposal is determined in writing to be the most advantageous to the State based upon the evaluation criteria listed below. The evaluation factors are listed in their relative order of importance.

Exceptions to the Terms and Conditions, as stated in the Uniform Instructions Section C.4, will impact an Offeror's susceptibility for award.

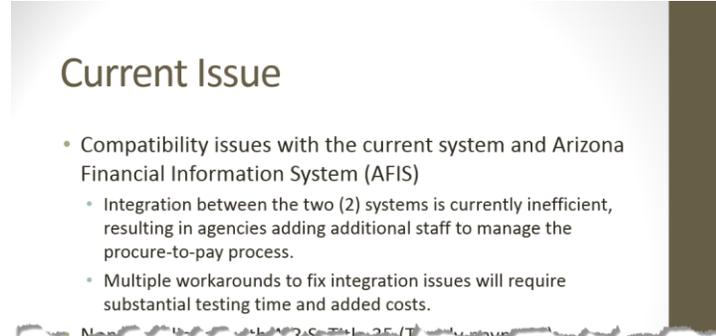
- 14.1 Implementation Services Approach, Tools and Delivery Methodology (e.g. Project Management, Software Configuration and Development, Testing, Integration, Training, Change Management, Shared Services, Business Process Reengineering, etc.);
- 14.2 Offeror and Project Team Qualifications and Experience; Qualification and Experience of Implementation Services Team; References of Software Installations;
- 14.3 Software Fit (Software Requirements, Software Demonstrations, Business Intelligence/Data Analytics); and
- 14.4 Cost (e.g. Implementation Services, Development Services for the Software, Software License, and Software

This variation in evaluation criteria is arbitrary and provides a clear advantage for the State's ERP incumbent, who is likely to provide a high-cost solution.

5. False Statements Used to Gain State Oversight Approval to Move Forward with Solicitation:

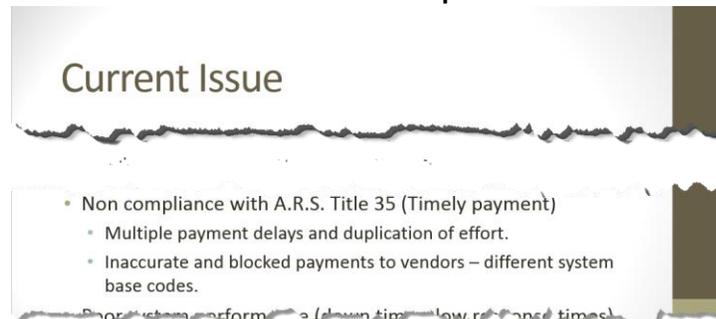
We place into the record the attached report, which outlines a number of misstatements to State leadership (via ITAC) used to justify this solicitation to replace ProcureAZ. Among these misstatements are the following:

ITAC Presentation Claim 1: Compatibility issues with the current system and AFIS



1. Interfaces between BuySpeed and Advantage work as designed [by CGI]
2. Interface designs were prescribed to Periscope, and we bore the overwhelming majority of technical burden for interfaces
3. Periscope resources anticipated an 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”.

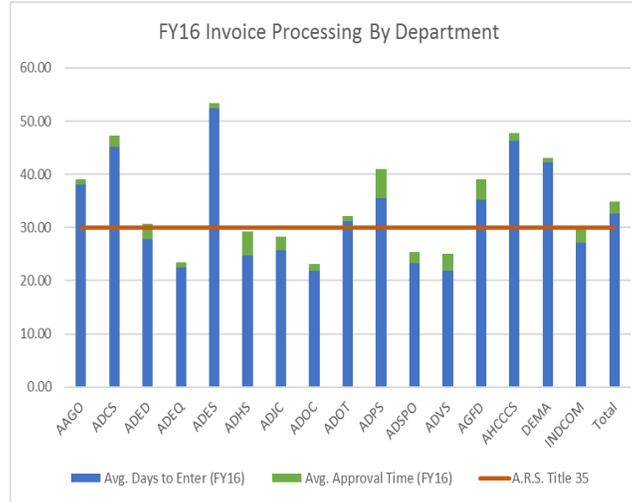
ITAC Presentation Claim 2: Noncompliance with A.R.S. Title 35 (Timely payment)



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

1. 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.
2. Since July 1, 2015, the average time to process an invoice from creation to Approved for Payment status *within ProcureAZ* (e.g., sent to Advantage successfully) is 2.16 days
3. Less than 1% (0.66%) of more than 219,000 invoices processed since July 1, 2015, required processing times greater than 29 days *within ProcureAZ*

4. Problems related to late payments appear to occur **prior to entry into ProcureAZ**. The average time between a vendor's invoice date and when a user first entered the invoice into ProcureAZ was **31 days**, so the invoices were late before the were ever entered into the system.



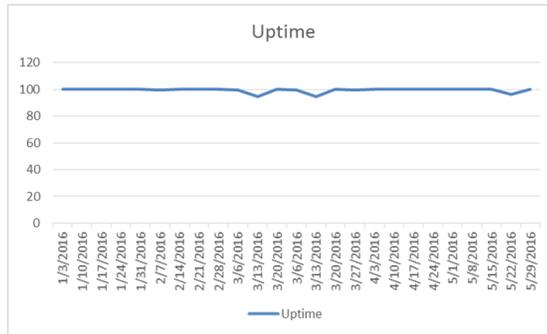
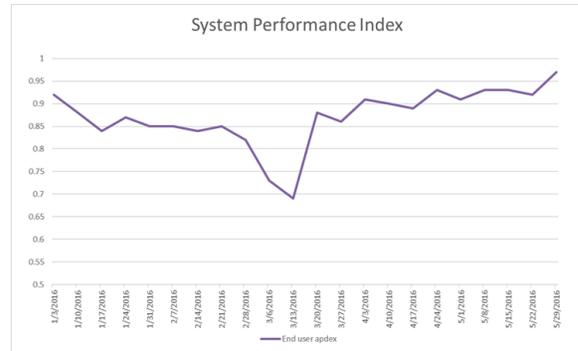
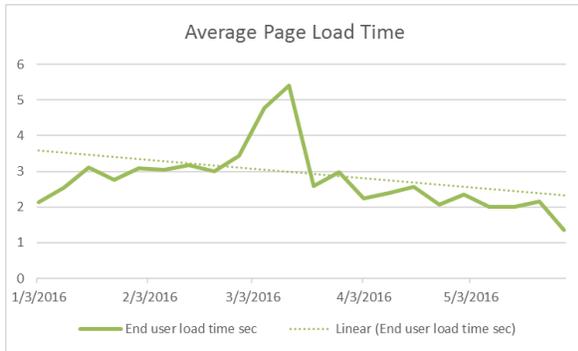
ITAC Presentation Claim 3: Poor system performance (down time, slow response times)

Current Issue

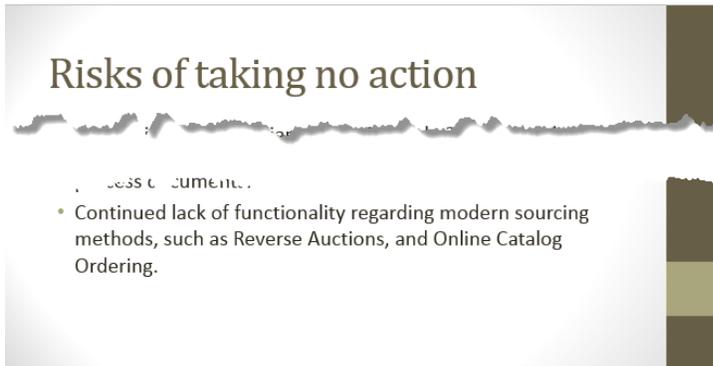
Base Cases:

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

We will take responsibility for several problems which contributed to poor response times for users in ProcureAZ, particularly in November 2015 and March 2016. However, we have put in place several changes to our infrastructure and software, which has resulted in significant improvements in page load time, performance indices and uptime.



ITAC Presentation Claim 4: Lack of reverse auction and catalog ordering functionalities



ProcureAZ has provided modern sourcing functionality since 2010:

1. State conducted 15 reverse auctions between 2010 and 2013
 - a. Reverse auctions managed by 6 different agencies in ProcureAZ
 - b. Saved an average of 26% against traditional procurements, based on analysis performed with SPO
2. ProcureAZ supports catalog ordering for over 6,000 contracts
 - a. Includes 13 punchout contracts integrated to suppliers' order management system
 - b. Catalogs available for state agencies AND local governments as part of Periscope's licensing agreement
 - c. Additional enhancements are available in v14.0 (currently available at no cost to the State)

The screenshot displays the Periscope catalog search interface. On the left, there is a navigation sidebar with icons for home, search, and various filters. The main content area is titled 'Catalog Search' and includes a search bar, a 'View Favorites (6)' button, and a list of search results. The results are filtered by 'On-contract' type and a price range of 'Between 12 and 78'. The search results include:

- Fire Extinguisher Recharge Service**: by Defense Fire Protection, Contract/Blanket # AGENCY-14-0000062 / 8, Price: \$21.54 / HR (discount 0.0 %), Add to cart.
- Kidde 466142 1A-10B:C Fire Extinguisher**: by Defense Fire Protection, Contract/Blanket # AGENCY-14-0000062 / 2, Price: \$17.05 / EA (discount 0.0 %), Add to cart.
- Fire Extinguisher Tags - Inspection Record - ULINE - 25/pack**: by Ace Fire Extinguisher Inc., Contract/Blanket # AGENCY-14-0000050 / 6, Price: \$28.96 / EA (discount 0.0 %), Add to cart.
- Fire Extinguisher Inspection**: by Defense Fire Protection, Contract/Blanket # AGENCY-14-0000062 / 7, Price: \$22.68 / HR (discount 0.0 %), Add to cart.

The sidebar filters include Vendor (Defense Fire Protection (8), Ace Fire Extinguisher Inc. (8)), Brand (amerex (1), badger (1), kidde (1)), NIGP Category (Safety and Protection Equipment and Related Services (12), Maintenance and Repair of Equipment (4)), and Certifications.

In summary, we believe that the statements made to the ITAC place into question the decision-making process to issue this Solicitation. In addition, the misstatements and lack of factual accuracy put forth in a public setting and, as a result, made available to all of our competitors places Periscope at an inherently non-competitive disadvantage.

Conclusion:

As a result, Periscope submits this protest letter and requests that the State terminate the current Solicitation No. ADSP017-00006413; Electronic Procurement Solution.

The goal of any procurement should be to have an open, competitive process to select a solution that will provide greatest value. We believe that the State's decision is one based on misstatements, a lack of accurate data, and influences from vendors that does not lead to the type of process that drives good government.

We appreciate the opportunity provided over the past seven years to advance the State's procurement program by providing best-of-breed, state-of-the-art procurement technology.

Sincerely,

Brian Utley,
Chief Executive Officer

cc: Andrew S. Gordon, Coppersmith Brockelman PLC