IT Procurement Process Improvement Project

Project Report

Purpose and Objective:

This project was initiated by Company XYZ to review the process used by the IT department in procurement of high value, non-commodity equipment. The objective of the project was to develop a single, consistent, streamlined process which is agreed to, and used by, all involved.

Scope:

This project was planned as a defined and focused effort on the creation of a new process encompassing the CER process, purchase order creation, and invoice receipt and payment. It was scheduled to be to be completed within a 10 working day (two week) timetable.

Methodology:

Phase 1: Data Collection and Current Process Documentation

Process data was collected through interviews with process participants. The interviews ranged from 30 to 60 minutes each, and were focused on the process and data flow. As part of the interview process, data samples or examples were reviewed. Interviews were conducted with the following individuals:

Interviewees:

Name	*Department*
Barbra H.	Application Development
Beverly H.	Corporate Controller
Carran S.	Corporate Controller
Bryan L.	HO Office Automation
George T.	HO Procurement Admin
Linda E.	HO Procurement Admin
Mark B.	HO Procurement Admin
Jamie L.	HO Servsuite Internal Employee
Pamela N.	HO Servsuite Project
Ken F.	ITC Operations

In addition to the above interviews, discussions were also held with:

Wade G.	XYZ Finance

The above discussions was not an in-depth interview, but did provide clarity and support information. The individual noted was identified during the various interviews.

The purpose of the interviews was to develop and map an understanding of the current process and information flow. Based on this understanding, two process maps were created. The purpose of the maps is to act as the basis from which the Kaizen session discussion will start. They are not intended to show all the possible paths the process may take, or be an indictment of any persons work. They are a compilation of the information shared through the interviews, and represent a picture of everybody's understanding of the process.

The first map (Figure 1) represents the "most complex" process involving a CER and the associated purchase order and invoicing steps taken for invoice submission to Accounts Payable (A/P). The second map (Figure 2) represents the information connections or hand-offs and how the information flows from person (or position) to person. Again the representation is for the "most complex" process from CER creation to invoice submission to A/P for payment.

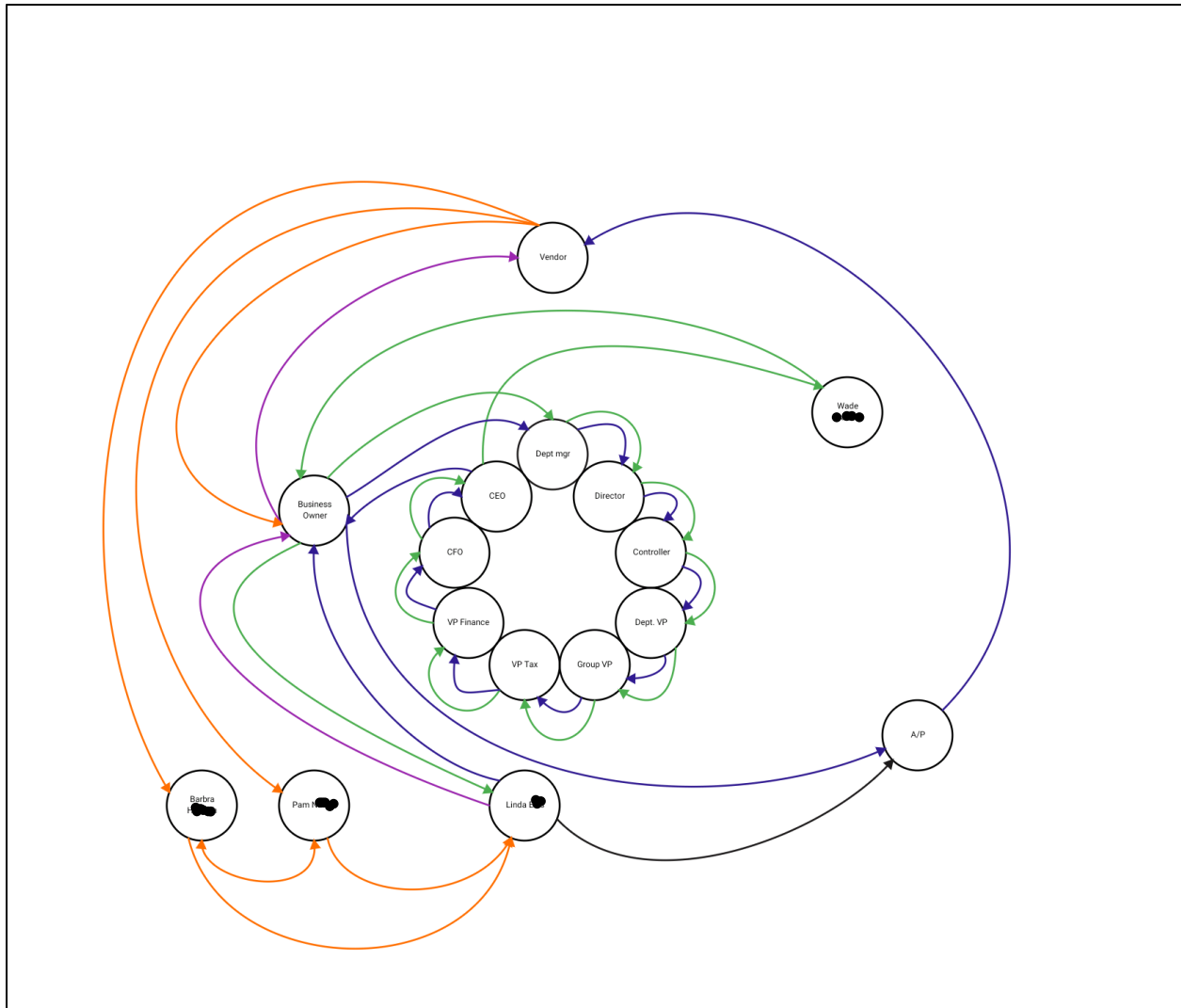**Figure 1: Company XYZ IT Procurement- CER to Payment Process**
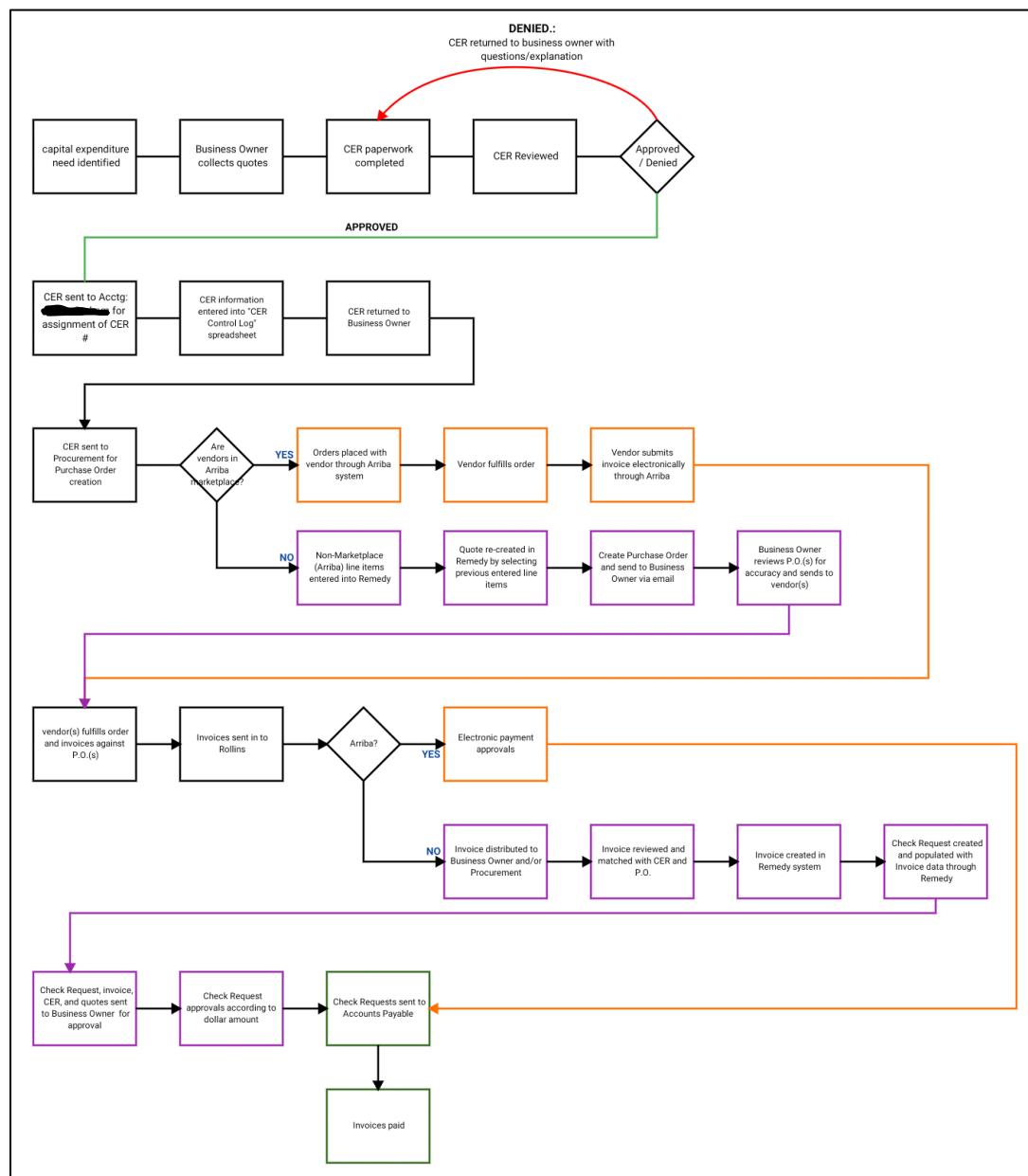
Figure 2: Company XYZ IT Procurement- CER to Payment Information Flow

Initial Observations:

During the course of the first week's interviews some preliminary observations and general ideas were developed. The following observations and ideas are not intended to be recommendations or promotion of any particular process solution. They are provided here in this format as background and context for future consideration. They may or may not have been part of the discussion during the Kaizen session. The more prominent observations include:

- There does not appear to be formal project reviews/reporting at the mid-management level.
  - While it was shared that senior management reviews and discusses project status, and the PMs meet with their project team members to review and discuss the individual projects, there does not appear to be a regular meeting at the PM level to discuss cross-

project interactions and information (i.e. an awareness of vendors supplying equipment to multiple projects and therefore the potential for invoices to be miss-applied)

- There does not appear to be any pipeline reporting providing a comprehensive view of CER status.
    - A comprehensive list of the CERs and their associated spend is maintained by the Finance group, but this information is not routinely shared with the managers responsible for tracking the CER budgets.
    - Also, any overage of budget spend is captured monthly. This creates the potential for the CER managers to not be aware of potential problems until well after their occurrence.
- There does not appear to be cross integration of projects and project information.
    - See above
- Invoice processing responsibilities are not clearly defined, which has resulted in process duplication and gaps.
- Project invoicing lacks a clearly defined and consistent process, and process management controls.
- The overall process lacks metrics, management controls and oversight.
- Invoicing sign-off appears to be redundant to the CER creation and approval process
    - Do invoices need to be signed off/approved when the CER (authorization to spend the money) was already approved?
- There appears to be little visibility into the CER approval process.
    - Once the CER is completed and submitted, the creators do not have knowledge of the status within the approval flow.
- Ariba can be used for the CER process.
- Only one person is entering vendors into Arriba.
- A Manual/Paper process is more favorable to senior executives.

Phase 2: Analysis and Future Process Creation

The analysis phase consisted of working with the team of process stakeholders who were previously interviewed, and are directly involved in completing some part of the overall process. In this endeavor, a Kaizen (improvement) event was conducted. The event was a single, 3.5 hours session. The session was focused on the creation of a new future state process from the approval of a CER to the submission of associated invoices to Accounts Payable for payment.

Prior to the creation of a new future state, the team reviewed the two current state maps described above. The purpose of the review was to establish a common base of understanding for the team, from which they can identify improvement opportunities and generate possible solutions.

Following the review and discussion of the current state process, the team generated improvement ideas through a formal Brainstorming exercise. During this exercise, the team members independently generated ideas focused on addressing the current state deficiencies identified earlier. The ideas were shared, discussed, and categorized. Below is the complete list where the tier one bullets (in bold type)

represent the category, and the tier two bullets (open circle) represent a single idea contributed by a team member.

- **Process Ownership**
  - o Need Process Owner
  - o Single Process
  - o 1 Approved CER Form
- **Automation**
  - o Automate where possible, if not completely – starting with approvals
  - o Identify where or what parts can more automated or visible
- **Miscellaneous**
  - o Business Owner create Check Request after the first one is created
  - o Identify Business Owner on CER
  - o Assign all roles owners to the process- identify the overlaps
  - o Accept CER Approvals for Invoice approval
- **Single Invoice**
  - o Single Email address for all invoices
  - o Change "Bill To:" address/receipt method so that its consistent
  - o How does invoice get delivered from AP mailroom to B.O/Procurement (process in place)
  - o Business Owners write PO# on invoice
  - o Ensure no invoices span multiple projects
  - o Business Owner write CER# on invoices
  - o Have Business Owner or designee process invoices- take Procurement out of payment process
  - o One central location for vendors to send invoices (email) and maintained and distributed by one person
- **No REMEDY**
  - o Eliminate Remedy process for P.O.'s etc.
  - o Enter P.O.'s in JDE or Ariba
  - o Eliminate creating Item in Remedy
  - o Doc / PO management solution- No Remedy
  - o Better PO system
- **Signing Authority**
  - o Clear CER signers routing for dollar amounts
  - o Need to clearly ID "who" is approval flow and publish
- **Document Management**
  - o Shared Drive: CER by project Business Owner, this includes recent forms, E-signatures for all forms
  - o Have common database to track CER progress; G: drive?, SharePoint?
  - o One scanned copy of CER to be printed when needed
  - o Person/Department responsible for Check Requests maintain copy of CER

- **A/P Information**
    - Agree to final form and detail that needs to go to A/P
    - All vendors include PO# and CER# with project name on invoices
    - CER #, PO# and Invoice# on every document
    - CER- add G/L codes to line items so when approved by Accounting, they will be correct and all PO Check Requests are correct
    - P.O.s have all line items listed for cc and GL codes to be approved by Business Owner in advance of invoice
- **Ariba**
    - Load "Non-Catalog" easy purchase suppliers in Marketplace
    - Enable on-going suppliers in Ariba
    - Get all vendors in Ariba

Following the brainstorming exercise, the team created a desired future state process map. The map below (Figure 3) shows key changes to the middle and back ends of the overall flow. These changes are designed to help eliminate the need for redundant data entry as well as removing the Procurement group from P.O. and invoicing processes. The new process places ownership and responsibility of the overall process on the Business Owners; the person creating the CER.

In the new process, after the current CER process is followed and the submitted CER is approved, the quotes obtained from the vendors will be used as the Purchase Order for the equipment and services identified. The CER number will be added to the quote and communicated to the vendor that it must be included on the invoice and as part of the subject line when invoices are submitted via email. Vendors will be instructed that submitting invoices via email is the only acceptable form of receipt.

In the new process, the Business Owners are responsible for monitoring the assigned email box for invoices associated with their CER numbers. When an invoice is received, the Business Owner is responsible for reviewing the accuracy of the invoice, creating the Check Request, attaching all required material (copies of the CER with signatures, quotes, and invoices) and submitting it to Accounts Payable for processing, or to the Group V.P./CIO for review and sign-off.

Also as part of the new process, when the Business Owners receive the signed CER, it is their responsibility to scan the entire CER packet and upload it to a shared folder. This shared drive folder will be the main electronic repository of IT CERs.

The new process represents an overall process step reduction ranging from 13% to 19%. The improvement range is dependent on the complexity of the CER, and the number of steps required. According to the old/current process, a CER could have quotes from vendors for equipment listed in the Ariba system, as well as equipment not listed. In this case, two P.O. and invoicing paths would be followed. In the new process, only the manual process using vendor quotes as P.O.s will be followed. This simplifies the overall process, and significantly reduces the time and effort involved.
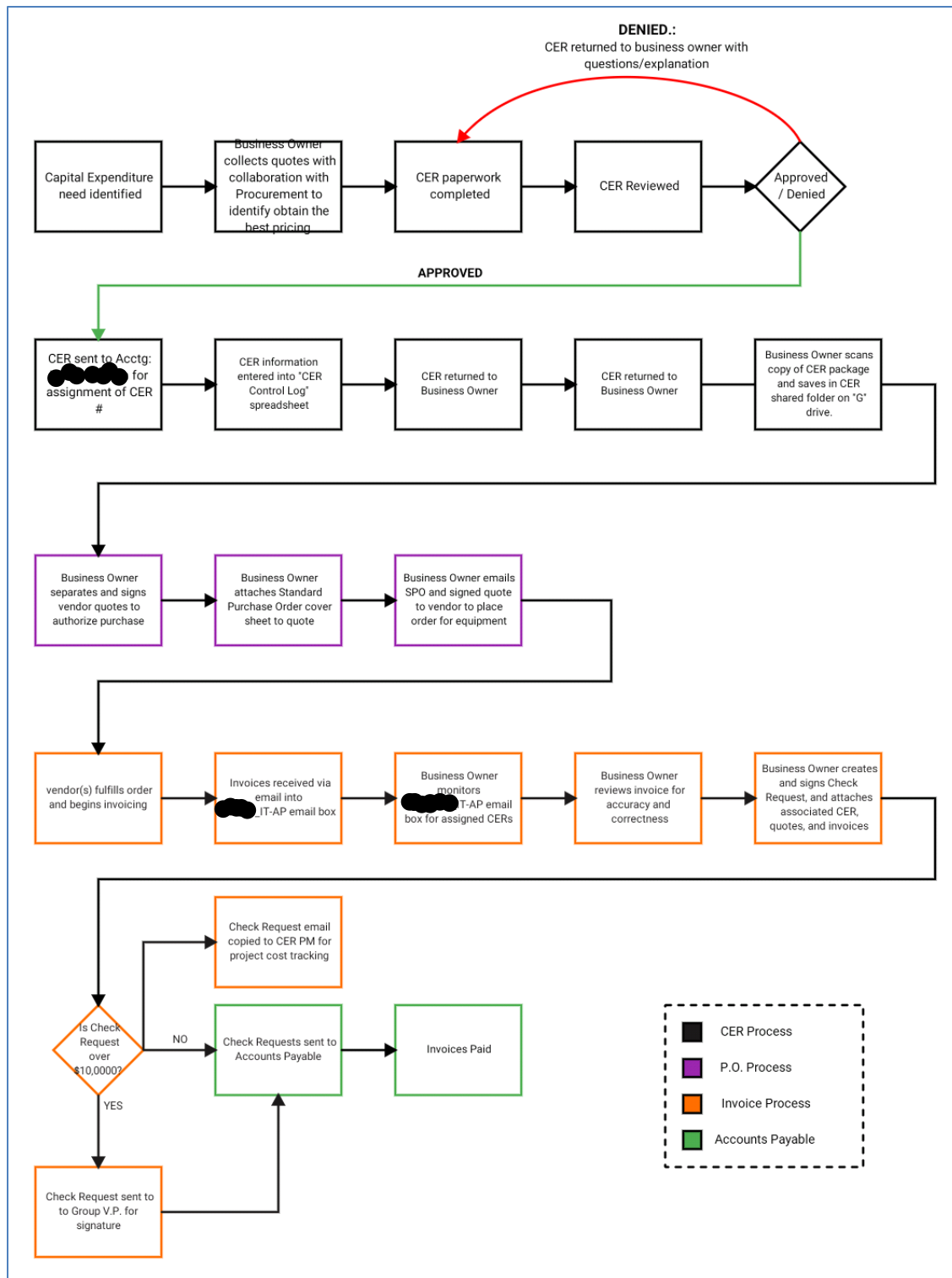
Figure 3: Company XYZ IT Procurement- CER to Payment Process- New Future State- New

The next map (Figure 4) represents the new process information connections or hand-offs flows. The old/current process had a possible 34 information connections. The new process reduces redundancy and eliminates other connections, and results in a total of only 18 possible information connections of

hand-off, which is a 47% overall reduction in the connections or hand-offs required, even for the most complex CER.
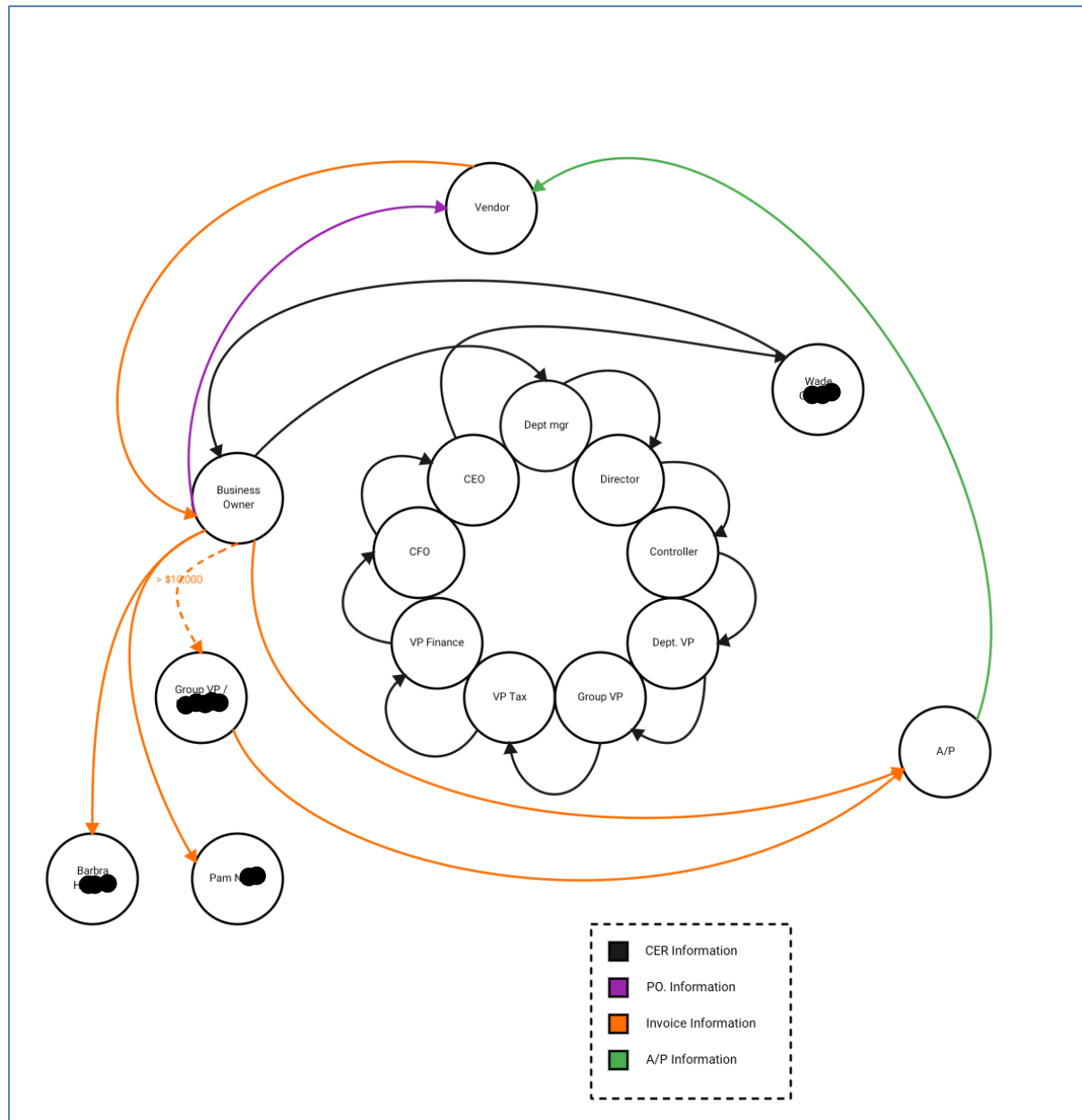

Figure 4: Company XYZ IT Procurement- CER to Payment Information Flow- New

Action Items

To facilitate the implementation of the proposed process, the following actions have been identified and champions assigned from the Kaizen team:

1. Create shared ("G:/" drive) CER file folder.
   - ✓ Champion: Bryan L.

2. Identify and give IT CER Business Owners access to Company XYZ_IT-AP. Company XYZ.com email account.
   - ✓ Champion: Ken F.
3. Train Business Owners (and PMs or other Business Owner designees) regarding how create Check Requests.
   - ✓ Champion: Linda E.
4. Notify vendors of email address and format requirements.
   - ✓ Champion: Bryan L. / Ken F.
5. Create Standard Purchase Order (SPO) Cover Sheet.
   - ✓ Champion: TBD
6. Scan and upload current CERs to new shared drive CER fold.
   - ✓ Champions: Bryan L. / Ken F.

Appendix A

COMPANY XYZ IT CER TO PAYMENT PROCESS DOCUMENTATION

Description:

The following process describes the steps to be taken when an IT CER is originated and approved. The purpose of this process is to ensure the timely acquisition and payment of Capital Expenditure items

Roles and Responsibilities:

Business Owners: Business Owners are those individuals responsible for the creation and overall management of IT Capital Expenditure Requests. They are the overall owners of the process described below. All changes to process described in this document, must be reviewed and approved by the Business Owners. IT Business Owners are: Bryan L., Ken F., Jamie L.

Business Owner Designate: Business Owners my designate a Project Manager or other assistant to help with the oversight and management of a CER associated with a project. The Business Owner is responsible for ensuring their Designate has the proper training, authority, and access to fulfill process steps.

Accounting and Finance: Accounting and Finance roles are not changed in this process. Accounting will assign CER numbers and track the monthly spend against them, as is currently the practice (as of 9/1/2015). It is Accounts Payable (A/P) responsibility to pay vendor invoices when signed Check Requests including signed CER and invoices are received.

 Project Managers: It is the responsibility of the assigned Project Managers to collect, track, and report project costs.

Procurement: It is the responsibility of Procurement to assist the Business Owners in identifying and obtaining the best prices available.

Process Description:

1. **CER**
   a. Capital Expenditure need is identified
   b. Quote Collection
      i. The Business Owner identifies suppliers and collects quotes. Depending on the nature of the project, the availability of known suppliers, and the cost of the equipment, the Business Owner will work with the Procurement department to secure the best prices either through established prices, quotes from vendors, or an RFP.
   c. CER Paperwork Completion
      i. After the all quotes are established through one of the above methods, the Business Owner collects the associated quotes, business case summary, and other support documentation.

    ii. The Capital Expenditure Request form is completed, and all support documentation attached.

    iii. The completed CER is submitted for approval and sign-off according to the "Company XYZ Inc. Standard Operating Procedures: Capital Expenditure Request (CER)."

    iv. Upon CER "approval," the completed CER is submitted to Accounting (Wade Graham) for assignment of a CER number (CER#).

    v. The CER information is recorded in the "CER Control Log."

    vi. A copy of the signed CER is returned to the Business Owner. The CER with original signatures is kept in Accounting.

2. PURCHASE ORDERS

    a. Purchase Order Creation

        i. Upon receipt of the signed CER copy, the Business Owner creates an electronic version of the complete CER package by scanning and saving it in the CER shared drive ("G:\\CER Shared Drive File Folder Name": TBD).

        ii. The Business Owner separates the included vendor quotes from the CER package.

        iii. For each vendor quote, a Standard Purchase Order (SPO) cover sheet is created. The SPO provides the vendor with the authorization to begin shipping equipment per the attached quote provided by them. The SPO also provides the vendor with the P.O. number to be used, and instructions regarding where to send their invoices and the information to be included.

            1. **P.O. Numbers**: For the process described in this document, for the purposes of the IT CERs, the standard P.O. number format is: the Business Owners three initials – CER#-01…99. Example: KRF-CER802015-01, where KRF is for Ken F., and where 01 through 99 is an indication of the number of vendors for the CER. Therefore if there are three vendors as part of the CER, then the corresponding P.O. numbers would be: XXX-CER######-01, XXX-CER######-02, and XXX-CER######-03.

            2. **Invoice submission**: The SPO will instruct the vendor to send all invoices electronically to the Company XYZ IT AP email box (Company XYZ_IT-AP@Company XYZ.com). Only invoices received through this email box will be paid.

            3. **Email format**: The SPO will instruct the vendor to include the P.O. number in the subject line AND be included on all invoices.

    b. Purchase Order Distribution

        i. The Business Owner signs (physically or electronically) the vendor quote, attaches a SPO Cover Sheet and sends all sheets via email to the vendor.

        ii. Copies of each SPO and quote are uploaded to the CER shared drive file folder.

3. **INVOICES**
    a. It is the responsibility of the Business Owners (or their designate) to monitor the Company XYZ_IT-AP email box for invoices associated with their CERs.
    b. When an invoice is received, the Business Owner reviews it for correctness and accuracy.
    c. The Business Owner signs the invoice to indicate it is correct and accurate.
    d. The Business Owner creates and completes a Check Request form.
    e. The Business Owner combines the Check Request form, the signed invoice, and a copy of the associated CER.
        i. For invoices $10,000 or less, the Business Owner sends the Check Request and attachments to Accounts Payable (A/P) for payment of the invoice(s).
        ii. For invoices above $10,000, the Business Owner sends the Check Request and attachments to Lee C. (Group VP) for review.
        iii. After review and approval sign off, Lee C. sends the Check Request and attachments to Accounts Payable (A/P) for payment of the invoice(s).
    f. The Business Owner includes the Project Manager (cc's) as a recipient of the email to A/P for project cost tracking.

Appendix B

Standard Purchase Order Cover Sheet

Below is a proposed draft sample Standard Purchase Order Cover Sheet memo to be included with all CER P.O.s

To: [Vendor]

From: [Business Owner name]

               {Business Owner Title} **Ext:** ###.###.####

CC: [names if required]

Date: **February 24, 2011**

Re: **Company XYZ Capital Expenditure Authorization and Purchase Order for CER #: XXX-CER#####-##**

Thank you for your recent quote. We are please to inform you that we have been authorized to proceed with the purchase of the equipment and/or services described on the accompanying quote previously submitted.

INVOICING INSTRUCTIONS:

Please include the following information on ALL invoices and communications associated with this purchase order.

Your P.O. number for this order is: XXX-CER######-##

Please email ALL associated invoices to: Company XYZ_IT-AP@Company XYZ.com with the above P.O. number in the subject line.

Failure to include the P.O. number will result in process and payment delays.

If you have any questions regarding this P.O. order, please contact {Business Owner name] at [Business Owner phone number].