

Statement by

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Committee on Government Reform

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Mr. Chairman and members of the Subcommittee, on behalf of American Management Systems (AMS), I would like to thank you for the opportunity to share our insights regarding the modernization of federal financial management.

First, we applaud the Committee for making financial management a priority. The combination of legislative mandates, administrative leadership, and GAO oversight has provided a valuable framework for increasing the quality of federal financial systems in recent years.

During the past decade, federal agencies have progressed from using isolated, custom systems that simply account for federal spending, to reaching the point where a majority of the CFO Act agencies are now receiving clean audits and preparing to implement integrated financial systems based on commercial-off-the-shelf (COTS) technology. But neither clean audits, nor the latest technology can ensure agencies realize the ultimate goal of the Federal Financial Management Improvement Act (FFMIA): to provide timely, accurate information that can be used to facilitate better decision-making. Realizing this goal requires agencies to move beyond integrating their systems to transforming their entire financial operations.

Technology is readily available to enable a revolution in managing the government's business. The Joint Financial Management Improvement Program (JFMIP) has facilitated the development of high-quality software that can meet the unique needs of the government market. However, there are a number of key issues affecting financial management modernization that must be addressed if federal agencies are to meet the expectations of this body, the President and the American people for efficient, effective government.

While modernizing financial management requires effective implementation of new systems, success also depends on transforming the underlying business processes and aligning agency operations. While technology is critical, people and their understanding of how to change relevant business processes and decision-making, ultimately will determine the success of major modernization initiatives. Given the importance of both technology and organizational change, agencies must take into account the big picture when laying plans for new systems, which means developing a vision, a team, and a procurement process that approaches the modernization of a financial system holistically.

AMS's Perspective

AMS has been on the front lines of efforts to improve financial management in the federal government for more than two decades. We have implemented solutions with over 60 agencies, more than any other provider.

As both a software provider and systems integrator, we work with agencies to address both functional and technical needs, and we ensure integration and interoperability with existing agency operations. Based on this unique depth and breadth of experience, we can speak definitively on what works.

We know the importance of not only providing sound, robust software to meet technical requirements, but also of addressing the complex operational and organizational issues that often determine the success or failure of financial systems modernization projects.

The Technology Challenge

Early on, technology was the challenge. A decade ago, agencies asked AMS to build customized financial management systems—each addressing requirements specific to that agency.

It was a substantial undertaking to build customized systems to meet the unique budget reporting and administrative requirements of each individual agency.

Until recently, it was difficult to utilize COTS products in federal agencies for two reasons. First, federal financial management processes and system requirements are significantly different than those in the private sector. Second, the significant differences in reporting and administrative requirements among federal agencies themselves made it difficult to standardize applications and prevented innovations from being shared among agencies.

Today, things are different. Most agencies are now deploying COTS systems based on common standards.

Achieving Common Standards Through JFMIP

The Joint Financial Management Improvement Program (JFMIP) has played a major role in facilitating wider spread use of COTS products by placing an increased emphasis on federal standards.

The JFMIP addresses both of the market barriers mentioned above. The JFMIP-certification process has enabled COTS products to become viable in the federal market by maintaining standards that encourage product vendors to develop software that meets the unique needs of the federal government, while also establishing common requirements across government. So today, more COTS products are available to government; however, it can still be difficult to implement software that is not designed with the unique needs of government in mind.

As one of the first JFMIP-certified solutions providers, I can assure you the qualification test was time consuming and costly. But, the process has served an excellent purpose: to raise the bar on the integrity of the software products available to our nation's government. Standards are critical and we believed the JFMIP process is a fair and reasonable one for companies committed to serving the federal government.

Now, rather than developing custom systems for specific agencies, AMS provides a standard offering—Momentum. We have built federal accounting, budgeting, and acquisition solutions into a single product suite—and embedded integration and workflow technologies to connect to other specialized systems.

And, with better standards in place among agencies, we are able to continually update our products and share innovations among our clients, providing greater value to the federal government and to American taxpayers.

The results from moving to COTS-based solutions have been significant:

- The implementation of a core financial system, which used to take several years, now takes less than 12 months.
 - As an example, the Office of Personnel Management (OPM) completed an end-to-end implementation of Momentum as their system of record in nine months;
- After implementing Momentum in more than 20 federal agencies, we have found that 90 percent of these customers use our baseline software with zero customization or extensions; and,
- Finally, in 2002, AMS worked with almost 70% of the CFO Act agencies that were using JFMIP-certified systems to help them receive a clean audit. JFMIP-certified software provided the foundation for us to help these agencies secure a clean audit.

- Many federal agencies are now at a point where they can move beyond technology to focus on the more high-value aspects of the FFMIA, those that allow agencies to make better management decisions by shifting their resources and attention from managing financial management system compliance to providing timely, accurate information.

Progress Since the FFMIA

To date, the road to FFMIA compliance has been slow; however, recent efforts to increase standardization among agency processes and move to COTS products show improvement.

Increased standardization has made it possible for agencies to move from having isolated systems and paper-based processes to leveraging the latest integrated web-based systems and enterprise application integration (EAI) methodologies. This allows organizations to:

- enable better integration among systems;
- eliminate slow and duplicative processes by allowing remote locations to connect into central systems in real-time;
- implement business process improvements and share leading practices; and,
- improve the efficiency of processing activities.

While it is important to point out that increased standardization has allowed federal agencies to deploy and leverage commercial technology more efficiently, the true power of commercial technology will not be realized until agencies approach financial management modernization holistically. This means linking current enterprise architecture efforts to financial management modernization, and empowering agency leaders to transform the business processes that support financial management throughout the organization.

Realizing the Vision of FFMIA—Moving Beyond Technology

We are pleased to see recent oversight efforts, including the most recent GAO report on the topic, have focused on the high-value component of FFMIA compliance: providing reliable, useful and timely data to improve decision-making.

With technology becoming more standardized, agencies should focus more attention and resources on developing effective business enterprise architectures and utilizing that information to modernize the business processes associated with new financial systems.

Current initiatives, including the President's Management Agenda (PMA) and the Office of Management and Budget's (OMB) requirement to establish an agency Enterprise Architecture (EA), provide the foundation necessary to utilize financial systems to improve the efficiency and effectiveness of government operations.

Enterprise Architecture provides the description and design for how the process, technology, and human resource assets of the enterprise work together to meet business objectives. Where practical, the goal of EA is to approach solution design from the standpoint of the enterprise, not individual organizations within the enterprise, to eliminate unnecessary redundancy and ensure maximum leverage of each investment, including financial systems modernization.

Developing effective business enterprise architectures provides agencies with an understanding of how their systems and business processes are linked together. This understanding can then be leveraged to integrate the government's *business* activities *across* financial and non-financial operations and systems (e.g. acquisition, medical, transportation, supply, personnel, property management, etc.) to achieve measurable results.

The PMA has focused attention on outcomes and results and empowered agency leadership to focus on the goal of providing usable data to increase performance management. However, transforming organizations is difficult. Modernizing operations often means obtaining support from groups beyond the direct reach of the financial management office. Therefore, success requires:

- sustained leadership from senior executives;
- broader participation in and support for enterprise architecture efforts;
- increased support for training and change management initiatives; and,
- stronger governance and oversight procedures.

When agencies approach financial management holistically, and provide the necessary leadership, the results are impressive. For example:

AMS is supporting the development of DoD's Business Enterprise Architecture (BEA) and working with the Defense Finance and Accounting Service (DFAS) to implement a new financial management system. Support for real transformation goes all the way up to the Secretary of Defense, Donald Rumsfeld, who has stated "...now is the time to change the way [the government] operates. We must accelerate our organizational, operational, business and process reforms."

There are few organizations in the world bigger or more complex than the Defense Department. And, we all know that financial management has been a challenge for DoD. However, the current leadership at DoD has provided a foundation for meaningful change. As a result, we have been able to make significant progress in less than two years. We have identified and mapped more than 2,200 business systems currently being used by the Department, which has never been done before. So, DoD now has a map for shutting down old custom-built systems and utilizing COTS applications to dramatically improve efficiency.

While focusing on the long-term, we have been able to produce short-term results as well. For example, we worked with DFAS to modernize their timekeeping system. As a result, DFAS was able to migrate 16,000 users onto a single, web-based system and shorten their processes by more than 50 percent to save millions of dollars. However, the results involve more than just savings. The increased quality and timeliness of the information is enabling better-informed management decision-making and higher-quality customer service.

Our approach at DFAS of implementing an end-to-end enterprise business solution built on a core of CFO Act-compliant software provides standardization and flexibility. Our current COTS offering typically provides out-of-the-box alignment with enterprise architecture and agency business, operational, systems and technical requirements well above 95 percent, while still being able to handle unique requirements *without customization*. This shortens completion time and enables the COTS implementation to help *drive* business transformation with strong executive sponsorship, and most importantly, allows the government to *shift* its resources to support business transformation.

When we shift these resources and expertise to improve communication, education, reporting and other organizational transition support efforts, the intended results are truly derived from the people working in each organization. The result is an end-to-end enterprise business solution around a CFO Act-compliant core. This provides a variety of benefits, such as:

- end-to-end cost collection and visibility;

- traceable transactions;
- performance-based budgeting support;
- elimination of the need for reconciliation;
- appropriate outsourcing of key activities; and,
- high-quality, timely management information.

In another example, AMS has provided on-going support for the Environmental Protection Agency's (EPA) financial administration and reporting over the last 25 years. They have an excellent accounting and budget team and we work side by side—in a true partnership—with them to meet their business goals. The CFO has provided clear vision and strong leadership. Through this combination of strong leadership and deep functional expertise our teams were able work together to demonstrate to OMB that their financial systems meet all federal and accounting requirements, they could provide accurate and timely financial information, had integrated financial and performance management systems, and they had received unqualified audits with no material weaknesses. As a result, EPA was found to be substantially compliant with FFMIA requirements in 2002. Additionally, OMB awarded the EPA a Green rating for Financial Management on the Executive Management Scorecard.

One note of caution. In most cases where federal agencies have successfully launched and are executing financial management modernization efforts, they are under-investing in the efforts to train people and provide the tools necessary to realize the benefits of the new business environment.

Recommendations

In closing, buying and integrating a new system does not inherently add value or solve financial management problems. The next step for our customers is to modernize their financial management *processes* so they can use today's technology to its fullest.

We urge the Committee to ensure that adequate resources are allocated to address business process transformation, and to look for opportunities to address the following:

- Support the continued leadership of the JFMIP to standardize system requirements and guide the system development process so that agencies can focus their resources on modernizing their financial management processes.

- Ensure that business enterprise architecture plans are effectively integrated into the development and implementation of new financial systems.
- Current initiatives including the President's Management Agenda and OMB's requirement to establish an agency Enterprise Architecture provide the foundation that is necessary to use financial systems to actually improve the efficiency and effectiveness of government operations. But, they can only make a difference if they are linked to the development of new systems.
- Ensure that a higher percentage of implementation resources are allocated to address business process transformation efforts associated with new financial systems.
- Ensure that agencies have the necessary leadership and governance framework in place to drive substantive transformation initiatives within their organizations.
- Require agencies to establish an acquisition strategy that encourages an *integrated* financial management solution by evaluating software, business process knowledge, and implementation expertise holistically.

We also believe industry has a substantive role to play in the development of new standards. Current federal procedures rely on government staff to establish new JFMIP software requirements and standards. COTS vendors should be permitted to participate in the development of requirements, in addition to being able to comment on these changes.

We urge the Committee to encourage regulatory bodies to facilitate a more robust dialogue with the JFMIP-certified vendors as part of the establishment of new requirements. This would leverage the expertise of government vendors while also ensuring that new techniques and technologies being employed in the private sector are considered.

Closing

Again, I thank you for this opportunity. AMS holds the work of this Subcommittee in the highest regard and we are committed to supporting the continued evolution of this most critical aspect of government reform.