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**TESTIMONY BEFORE THE UNITED STATES HOUSE SUBCOMMITTEE ON
GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT**

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**PRIVATE SECTOR CONSULTANTS AND FEDERAL FINANCIAL
MANAGEMENT: MORE THAN BALANCING THE BOOKS**

SYNOPSIS

Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to share some of BearingPoint's views on the implementation of federal financial management systems.

BearingPoint, Inc., is one of the world's leading systems integration and management consulting firms. We employ over 16,000 people worldwide and fulfill the needs of over 2,100 clients. Over three years ago we separated completely from KPMG LLP, the tax and audit firm, and in February of 2001, we became a publicly held corporation. I lead BearingPoint's Federal Services business unit and am responsible for our Department of Defense, Civilian Agency, and Healthcare consulting teams for the United States and Canada.

Today I would like to comment briefly on BearingPoint's experience in assisting our federal clients in implementing new commercial off the shelf (COTS) financial management business systems such as Oracle, PeopleSoft and SAP. We are currently engaged in implementing and deploying these COTS financial systems for the Department of Health and Human Services, the Department of the Interior, the Department of Veterans' Affairs, and the Department of the Navy. These programs are at various stages in their implementation lifecycles and collectively offer many common and unique lessons, no matter which software is being applied. My testimony today will focus on six key areas that represent best practices and/or challenges to the successful deployment of these systems across the federal government. These topics represent some of the most common, high impact focal points for improving the success rate of these projects.

BEARINGPOINT'S SERVICES IN SUPPORT OF THE FEDERAL GOVERNMENT

BearingPoint's services to our clients include the major support areas of planning and business case development, systems integration, process reengineering, and operations and maintenance support. We are currently delivering combinations of one or all of these services to our clients, depending on the maturity and needs of their program(s). Our consultants bring a holistic blend of federal finance, systems integration and change management experience to our engagements which we have found to be crucial to driving success. These complex and risky risk projects also require high levels of systems integration process maturity and repeatability.

TOPIC ONE: USING PROPER METHODOLOGIES AND TECHNIQUES IN COMMERCIAL OFF THE SHELF FINANCIAL SYSTEM IMPLEMENTATION

No discussion of best practices around COTS implementation is complete without looking back at the lessons learned by the commercial world in the early 1990s. During this time, the COTS financial software market accelerated and companies were realizing the potential benefit of large integrated systems that tied financials, human resources and operational systems together. Industry players, COTS financial software vendors, integrators and customers, however, were not prepared for the projects to be effectively delivered. Early efforts at large COTS financial software implementations consistently ran well past scheduled deployment dates and well over budget. Around 1993 or 1994 the integrators and COTS financial software vendors determined that there was a better way to proceed. The independent

analysis of the failures of the past led everyone to the same conclusion - COTS financial software implementations were not just regular old IT projects and differed in the following ways:

- COTS financial software implementation projects required much more functional and business participation and significantly less technical staff participation than the application development projects the organizations were used to providing;
- The define requirements, design, build, and test solution and deploy methodologies that organizations were used to did not work with the iterative nature of COTS financial software implementations;
- Organizational change management became a much larger issue as the customer was forced to change business processes as opposed to changing functional code in an application;
- Testing to requirements as opposed to testing business processes resulted in failure of deployed systems.

What we, the industry, did in response was to create what we now call “best practices”. The practices were built around COTS financial software specific implementation methodologies that were more than just modifications of standard software development processes. The methodologies created a business process centric set of activities, work products, deliverables and milestones that, when followed, greatly increased the likelihood of success.

The second thing we did was to start creating process and configuration templates that customers could standardize around by industry. Major end-to-end business processes were pre-configured in the products in order to decrease the time and cost of full implementation.

What our customers did was as important, if not more so, than the advances the industry made in methodology and standardization. At the highest level of an organization they allowed the implementation of our methodologies and did not force us into phases, milestones, funding scenarios, or activities that were not COTS centric.

Additionally they determined that their business processes were not sacrosanct. They would adopt the processes that were pre-built within the templates being offered by the integrators. Finally, they provided the project teams with the best subject matter experts employed in their business units to work hand in hand with the integrator as part of the implementation team.

Within a short period of time project durations became months not years, costs were measured in millions not 10s or 100s of millions, and the percentage of successful implementations rose dramatically.

TOPIC TWO: SETTING REALISTIC EXPECTATIONS FOR COTS FINANCIAL SYSTEM IMPLEMENTATION

When beginning an implementation, the first step is to work with the customer to set realistic expectations around the program. This includes the COTS, new or legacy business processes as well as a determination of what the final successful effort will resemble. Customers commonly believe that implementing a new COTS financial system will enhance all of their financial business processes. The reality is that an “off the shelf” product is not going to enhance everything that is currently optimized

by a legacy system that has been customized to an agency's business over the last 10 to 15 years. What currently may be a one-step process could well be a two-step process in the future.

As a real world example, let me tell you of an issue we have faced in several projects. Current legacy systems have been customized to the specific transaction flow of the agency to allow the correction of financial transactions. The historical string of all document inputs into that transaction is a fairly simple manner. Because there is no standard transaction flow shared by federal customers, current COTS software can't duplicate that functionality as effectively as the legacy systems. The user community identifies the inability of an "out of the box" solution to accomplish this in a single step to be a major problem. This is a large issue in their mind because the legacy system allows numerous errors to be inputted in the first place.

What the user community does not realize is that the error handling, transaction edits and the checks and balances of the current set of COTS systems greatly reduces the number of transactions that will need correction. In the example above even if it takes two more employees to handle errors, the implementation of fully automated matching of invoice, receipt, and purchase order in the payment process will more than cover the additional cost. The challenge here is to look at the system as a whole instead of in its pieces parts.

Another unrealistic expectation is that the system and our business processes are going to execute perfectly from day one. The reality is from the beginning of the implementation effort and all the way through the initial deployment there will be open issues. Best practices dictates that the issues be recognized, prioritized, tracked and resolved over the iterative implementation process. Many issues may remain open for some time as the design and configuration activities progress to the point they can be resolved. The organization must expect to "go live" or launch the system with open issues and be able to identify true "show stoppers" or systemic problems. Perfection is very expensive and ultimately not achievable in everyone's eyes.

TOPIC THREE: BEST PRACTICES IN GOVERNANCE

One of the most important components of a successful financial implementation is a strong executive leadership model and a clear organization of governance bodies.

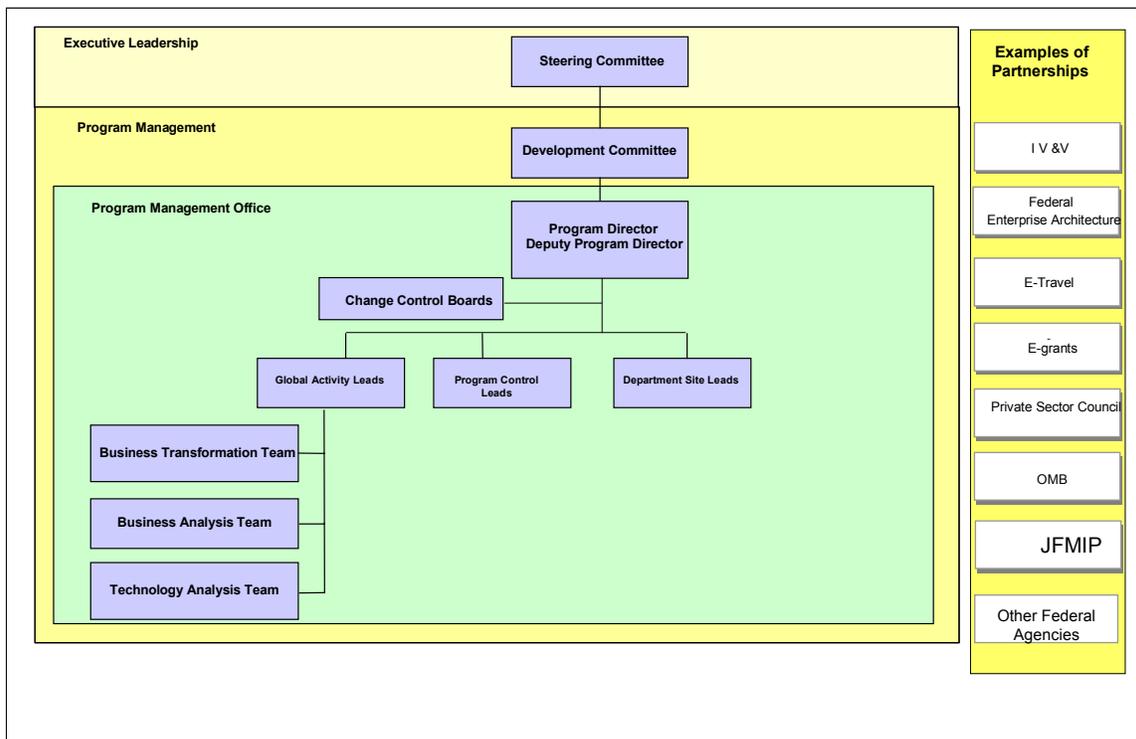
Executive Leadership. There are many models for governance that work quite effectively in driving financial system development projects to success. All of them require strong executive level sponsorship. The most effective and successful governance structures, however, have executives at the top who not only manage and communicate the strategic goals and importance of the programs to their agencies, but who are also actively involved in building support throughout the organization and to external stakeholders. I am happy to share with you today that we are seeing some excellent examples of strong, executive leadership on several of our large implementations. These leaders are having a significant and positive impact on our teams and their ability to get the job done. There are a few very powerful things that we see these federal executives doing which exemplify the kind of leadership needed on these projects. First, these leaders remove barriers in an aggressive manner. They demand the right talent, the needed resources, and garner management and stakeholder support across their organizations through detailed communications planning. They also empower their program managers with the authority and support to lead, execute, and achieve program objectives. These leaders also stay focused on the strategic issues that challenge the programs and leave implementation details to their program managers. Their governance structures are clearly defined with lines of demarcation between strategic management and program management, and their decision-making processes are efficient.

This is the essence of leadership and it is my hope that these examples can be shared with other federal systems implementations projects as they establish their governance models.

Organization. BearingPoint’s experience with governance has revealed that organizations must effectively manage three key elements of a program -- strategic direction, program risks and program performance. Managing these elements requires a governance organization that can elevate issues and decisions to the appropriate levels of management in an efficient and timely manner. Therefore we support a best practice organizational model for governance that provides multiple tiers of management. An Executive Management tier is needed to keep the program aimed at strategic goals and to stay abreast of federal management agendas and its impact on the program. A Planning and Development tier is needed to oversee performance of the program at a more tactical level and to ensure that the business requirements of the system are being met. For financial systems implementations the Planning and Development Committee membership is typically comprised of Chief Financial Officers and Chief Information Officers from operating units across the agency. Finally, a Program Management tier is needed to manage the daily efforts of the program, maintain budget and schedule disciplines and manage the activities of the system integrator and government implementation team.

The figure below provides an example of this type of governance structure. In addition to the elements of governance already mentioned, this figure also portrays the need to establish management partnerships with entities outside of the program, particularly OMB and other federal organizations that drive policy and management of administrative and financial business issues. We also see this as particularly important as more opportunities to collaborate and reuse the lessons of sister agencies that have implemented COTS systems becomes more prevalent.

Figure 1 – Best Practice Governance Organization Example



TOPIC FOUR: BEST PRACTICES IN IMPLEMENTATION, TEAM BUILDING AND DEVELOPMENT

One of the most important management decisions made in implementing these systems is the human resources placed on the development teams and how their work is managed. Industry systems integrators like BearingPoint must continue to present their most qualified consultants who bring relevant and recent experiences in implementing COTS financial systems. Similarly, the government must provide their most talented federal professionals who possess deep knowledge about their current financial business practices. These are critical ingredients.

Our experience has shown that while industry continues to build this expertise as more federal systems are being completed, the government is finding it increasingly difficult to find and dedicate its best talent to these projects. I think we all understand the human capital management problems that the federal government faces today. These large, complex and lengthy system implementations add to the challenge of scarce federal employees, many of which are facing retirement now and in the near future. Planning for and funding these federal resources are the key drivers of success for these projects.

The second key challenge is building the right team dynamics across the joint federal and system integrator teams. Today, a best practice in developing these teams requires that we create partnering relationships to maximize the success of COTS financial system implementations. This is in stark contrast to the traditional client and servant relationships that we have experienced in custom software development. Earlier in my testimony I shared that system development methodologies for implementing COTS software are much different than the methods traditionally used when developing custom software. When the government buys commercial off the shelf software, it buys business processes that are embedded into the design of the software as well. When custom systems are built, we define requirements based on business needs and use those requirements to design a system. Those requirements use the system design to drive the software programming efforts of a systems integration team. These steps, although connected and integrated, lend themselves to a government and system integrator relationship that assigns responsibility to the integrator for designing and programming a system to meet requirements that have been primarily defined by the government. This development lifecycle can be successfully executed with interactions between the government and system integrator that are transactional in nature. The government provides a set of requirements to the integrator that ultimately results in the integrator responding with a system design and eventually a financial system.

This paradigm is out of step with what's needed for implementing today's modern commercial off the shelf systems and does not maximize team performance. The team dynamic needed in commercial off the shelf implementations is highly dependent on collaborative working relationships between the government and the system integrator throughout the process. The nature of COTS financial software is that it integrates business processes and software processing throughout the system. Therefore the knowledge of how the commercial off the shelf software operates and how the business operates must be combined throughout the entire system implementation process. Tailoring of the COTS software for a federal organization is done by changing flexible settings within the software that determine how business processes are executed. This requires very close collaboration between the business experts (government) and software experts (system integrator) to determine how these settings or configurations must be completed and documented. As we select and build our joint teams we must build this culture of shared responsibility and partnership for a truly effective implementation.

TOPIC FIVE: BEST PRACTICES IN CHANGE MANAGEMENT

Successful implementations are also contingent upon preparing federal employees for the business changes they will face as modern systems are deployed. In BearingPoint's experience, there are three items that ensure the federal workforce is prepared for the changes brought about by these system implementations. They are: vision and leadership; workforce preparation; and training.

Vision and Leadership. As mentioned earlier, a strong, committed and visible leadership is critical to the success of these implementations. Federal executives must begin each of these implementation journeys by creating a concise, clear message on the vision and objectives for the project and the benefits that the organization seeks from the deployment of the system. Once this is done, it is important that a communications plan be developed that will carry this message throughout the organization using methods that are appropriate for the various stakeholders and audiences that must be reached. Our experience has been that driving this vision throughout the organization will initially take weeks and it must then be reiterated throughout the remainder of the project. With this foundation, the project leadership team can then focus their energy on the detailed work of communicating with and preparing the workforce for ensuing change.

Workforce Preparation. Workforce preparation is the work that the project team and leadership must perform to ensure proper expectations are set for what this business change will portend for the various role players in the organization. These modern COTS systems blend best business practices with state of the art web based technology. The new applications present a stark contrast to the legacy applications that much of the federal workforce has used over the past few decades. This type of business transformation presents major cultural, business and technological hurdles for federal workers. In earlier testimony I shared the need for multi-tiered governance as a strategy for effective management. The issues discussed here for workforce preparation and change management should be on the earliest agendas of the governance bodies. The best practices that we have encountered in creating workforce transition plans requires collaboration among federal human resource managers, union leadership, executive and middle management, as well as the project team. We have also seen a trend towards establishing Functional or Customer Advocacy Councils on projects to ensure that business users in the workforce are properly informed and represented as requirements, new business practices and system capabilities evolve throughout the project lifecycle. Such councils act as another communications venue to guarantee that the business units and their employees are kept abreast of the benefits and changes that the system will provide to their daily work experiences.

Training. The final step in preparing the workforce for use of these new systems is training. This is also a topic of many facets with obvious importance to the successful rollout of new financial processes and systems. Although training should be tailored for the specific needs and audiences of the federal agency, we believe there are three key lessons that must be adhered to for most implementation efforts.

- **Mandate training.** The federal project teams must communicate and enforce the requirement that training on the new system is a mandatory requirement for anyone who will use the system. It is not adequate to simply make training available to the workforce. We have experience to show that the latter approach leaves open the possibility that pockets of the workforce will not receive adequate training and therefore either misuse key functions of the system or bypass its use altogether. The training plans should provide for role based training as well as training that must be completed by all users, regardless of role.

- **Train just in time.** The modern systems that we now expose the federal workforce to present dramatic shifts in the business practices and technology look and feel that most employees have used. Therefore training should be received in close proximity to the time that the employees will actually use the new system. This is particularly important in situations where many federal agencies choose to deploy at very busy and challenging times for the employees. The typical scenario we witness is that federal agencies launch a system at the beginning of a new federal fiscal year, requiring that training be conducted during the year-end close process. This type of schedule encourages training weeks or months before the year-end “crunch” and consequently dilutes its impact on the employees.
- **Blend the training approach.** Today’s training technologies provide a multitude of options for delivery of effective learning solutions. BearingPoint supports blended training approaches that combine several methods of training delivery to meet the unique needs of each organization. These include classroom training, distance learning, on-line learning management, learning laboratories and other techniques. It is important for federal implementation and human resource teams to recognize that we must be prepared for the varied learning styles of the workforce. Inadequate training preparation leads to user confusion, frustration, and potentially project failure.

TOPIC SIX: VALUE PROPOSITIONS FOR FINANCIAL SYSTEMS IMPLEMENTATION

I would like to conclude this testimony by sharing a few thoughts on how we can get greater value from these modern financial systems implementations. By following the best practices identified during this testimony, federal agencies can achieve cleaner, quicker, less costly implementation of a financial system. But much more can be accomplished if leaders begin to think of financial system implementations in the larger context of federal administration. Mr. Chairman, we have a great opportunity with these systems to streamline and integrate much more of the federal administrative business processes than just financials. Think of the benefits the federal workforce would receive if it could go to one system, login and receive access to most of the needed administrative functions. Such a system could provide a foundation for delivering cross-functional information and reporting with greater standardization and common definitions of key administrative business measures. This type of capability could reduce learning curves and simplify the ability of our people to work across functions. These modern, web based systems have the capability to do this across functions such as finance, budget, asset management and procurement.

This leveraged, integrated approach is based on best practices that we have experienced in implementing these systems for years in the commercial sector. Adoption of these systems would avoid multiple system integration projects and the associated costs of modernizing administrative systems and processes separately. Additionally, this would also provide the government with many other opportunities for business benefit, value enhancement and even reporting effectiveness.

This recommendation requires federal planners and industry partners to focus on this during planning and business case development. It also clearly requires collaboration and teamwork within the agencies by the managers of the various administrative business areas. Some agencies are adopting this approach while others focus their financial system projects on core financials only. Both approaches provide great benefit but experience has shown that the integrated approach provides a better leverage of limited fiscal and federal human resources.

Mr. Chairman, Members of the Subcommittee, thank you again for this opportunity to discuss best practices in financial management. I would be happy to answer any questions you have about this important matter.