

Chairman Platts, Ranking Member Towns and Members of the Subcommittee, I am Leslie Casson Stevens, Federal Industry Director for SAP Public Services, Inc. I appreciate the opportunity to appear before you today to share SAP's perspective on federal agency financial systems and compliance with the Federal Financial Management Improvement Act of 1996. Sound financial management in the federal government is a goal that all of us, as citizens and taxpayers, support. I am pleased to be able to share with you today how several federal agencies have begun to realize this goal with the support of SAP's world-class products and services.

SAP—the Global Leader in Enterprise Application Software

First, let me tell you who SAP is.

- SAP is the **#1 worldwide market leader** in e-business applications, modernizing business and government operations worldwide to make them more efficient
- SAP is the **3rd largest software company in the world** with annual revenues exceeding \$7 billion. **We have been in business for over 30 years.**
- **SAP employ's approximately 5,000 people**, working out of 18 offices across the U.S. SAP employs more than **29,000 people** worldwide in more than 50 countries.
- Over **18,000 Businesses and Governments worldwide** are customers of SAP– the largest installed base in the e-business software sector. Companies of all sizes, including more than half of the world's top 500 companies, use SAP software to minimize their cost of operation.
- SAP has more than **12 million users in 120+ countries** of our solutions like Enterprise Portals, Financials, Supply Chain Management and Human Resource Management; we have over 64,000 installations, and 1,500 partners.
- SAP is an active partner with the **U.S. government**, which uses SAP software to enhance operations in a number of federal agencies including the Departments of Defense (Army, Navy, DLA), Homeland Security, Treasury, Interior, Energy, NASA, GSA and NCUA.

Our U.S. headquarters are located in Newtown Square, Pennsylvania, and our global headquarters are in Walldorf, Germany, near Heidelberg. SAP has been a public company since 1988. It is listed on several exchanges, including the New York Stock Exchange, under the symbol "SAP."

Five former IBM systems engineers founded SAP in 1972. With 30 years of business software and world-class industry expertise, we are the recognized leader in providing collaborative e-business solutions that create value for businesses in all types of industries in every major market.

The company invests more than 20 percent of its revenue into research and development activities. In the U.S. SAP Labs employs about 1,500 people—our largest lab is in Palo Alto, California. SAP software solutions are based on open standards, which interface to leading third-party software products. The SAP business strategy is based on strong partnerships with other market leaders. For each SAP employee, our partners employ approximately four workers with knowledge and understanding of SAP software.

Furthermore, SAP America has made a long-term commitment to investing in our nation's high schools and universities. Through our University Alliance Program, SAP gives over \$60 million annually in gifts and grants to help improve curriculum in our secondary and postsecondary educational institutions.

SAP is a recognized global company and is committed to invest in the communities in which its employees work and live through an extensive Corporate Social Responsibility Program.

We are a strong believer in the future of the American Market and will continue to invest heavily in our U.S. operations. In fact the majority of future corporate investments will be in the United States.

For more information on SAP, please visit our website: <http://www.sap.com/usa>.

SAP Products for the Federal Government—Comprehensive, Scalable, Secure

SAP is the largest enterprise business application company in the world. SAP has built and sustained this success by providing the most comprehensive family of adaptive business solutions, combining best-of-breed functionality, complete integration, industry-specific capabilities, unlimited scalability, and easy collaboration over the Internet. Our product suite, called the mySAP Business Suite, currently includes:

- **mySAP™ Business Intelligence (mySAP™ BI):** A powerful solution that transforms corporate data into valuable insights by providing accurate, up-to-the-minute measurement, analysis, and reporting.
- **mySAP™ Customer Relationship Management (mySAP™ CRM):** The fully integrated CRM solution that facilitates world-class service across all customer touch points.
- **mySAP™ Enterprise Portal:** The Web-based gateway to all internal and external information and applications. It provides easy access to everything your employees, suppliers, customers, and business partners need to work more productively.
- **mySAP™ ERP:** A bundled ERP solution that includes mySAP™ Human Resources and mySAP™ Financials. With mySAP ERP, you get best-in-class, industry-specific capabilities for your most critical business processes—all in a single, fully integrated package. mySAP ERP, with its Public Sector industry add-on, is a JFMIP-certified core federal financial management solution.
- **mySAP Financials:** The leading solution for operational, analytical, and collaborative financial management.
- **mySAP Human Resources (mySAP™ HR):** The HR resource that helps more than 7,800 organizations worldwide maximize their return on human capital.
- **mySAP™ Product Lifecycle Management (mySAP™ PLM):** The collaborative solution that helps your designers, engineers, and suppliers achieve new levels of innovation.
- **mySAP™ Supplier Relationship Management (mySAP™ SRM):** Covers the full supply cycle – from strategic sourcing to operational procurement and supplier enablement – for lower costs and faster process cycles.

- **mySAP™ Supply Chain Management (mySAP™ SCM):** The world's number one SCM solution. It gives you the power to dramatically improve your planning, responsiveness, and execution.

mySAP Business Suite solutions are modular in design to fit varied businesses and budgets. And because they use open, scalable technologies, agencies can start small and expand easily as business needs evolve. In addition, each solution is designed for rapid implementation to help earn a faster return on your technology investment.

mySAP Business Suite is built on SAP NetWeaver, the integration and application platform from SAP. Based on Web services and other open technologies, SAP NetWeaver makes integrative operation a fundamental property of each mySAP Business Suite solution to ensure seamless interaction with all SAP solutions—and virtually any non-SAP solution.

This combination of advanced business applications and open integration technologies protects agency investments today and in the future while providing them with unprecedented visibility into their entire value chains. mySAP Business Suite also incorporates SAP's patented portal technology, which provides users with easy access to the specific information and applications they need. As a result, mySAP Business Suite solutions allow agencies to unify and align people, information, and business processes across technologies and organizations.

Thanks to our unified technology platform, all SAP solutions share common values, including:

- **Seamless integration:** Removes the barriers that stand between people, systems, and information
- **Scalability:** Accommodates virtually unlimited growth
- **Adaptability:** Allows easy customization of features and functions – and helps you cope with constant change
- **Ease of implementation:** Helps you get up and running sooner
- **Lower total cost of ownership:** Helps minimize long-term costs
- **Industry expertise:** Supports the real-world processes you employ every day

These advantages add up to a faster and greater return on investment.

When agencies choose mySAP Business Suite, their investment in the future is protected by our global SAP® Customer Services Network. From locations around the world, SAP Customer Services Network provides a single point of access to all support services—from strategic planning to implementation and optimization.

In addition, SAP partners with hundreds of the world's leading providers of consulting, application, implementation, and service, ensuring that our customers receive ongoing support of the highest quality.

The JFMIP Financial Management Systems Certification Process—Value at a Price

The Joint Financial Management Improvement Program (JFMIP) financial management system certification process aims to ensure that the financial management COTS products available to federal agencies fully meet the Core Financial Management System Requirements published by JFMIP. SAP has participated in this process since its inception. We believe this process has many benefits to both the government and industry.

Benefits to the government include:

- Vendors invest in software development to meet unique federal financial management requirements up front.
- Vendors continually enhance their certified software to keep pace with new financial management requirements at no cost to the government.
- When selecting a COTS product for a core financial system, agencies have a prequalified group of products to evaluate, and can focus their evaluation on agency-specific requirements and product “look and feel,” instead of having to validate basic functionality.

Benefits to software vendors include:

- The JFMIP core requirements documents provide vendors an efficient means of determining government-wide functionality needs when setting priorities for software development.
- Through the testing process, vendors have been able to work directly with the US Department of the Treasury to develop and test interfaces to Treasury systems.

While these benefits are compelling, the JFMIP certification process does have limitations. Vendors invest significant sums preparing for and taking the JFMIP certification test. Under JFMIP policy, if vendors do not pass 90 percent of the test cases on the first try, they are excluded from retesting for a year. Given the possibility of being excluded from the federal financial systems market for in excess of a year, SAP sets perfection as the standard for test preparation. We are proud to tell you that we passed 100 percent of the 2003 JFMIP certification test on the first try. Perfection, however, comes at a high cost. Resources invested in test preparation and execution are resources we would otherwise invest in enhancing our products and serving our customers.

Vendors hope that their investments in qualifying their products through the JFMIP process will result in more efficient and less costly procurement cycles when selling financial systems to federal agencies. We have not found this to be the case. Most agencies procuring financial systems require vendors to execute rigorous scripted demonstrations to prove that the software can process transactions properly. We believe this occurs because JFMIP’s evaluation focuses on *if* the software works; agencies also want to evaluate *how* the software works. The consequence to vendors serving this market is a very high cost of sales compared to other industries.

Federal SAP Implementations—Ensuring Success

SAP works diligently to form true, collaborative partnerships with federal agencies to make projects an indisputable success for agency leadership, the end user, and our company. SAP makes this commitment to all of its customers because of our unqualified confidence in the superior capabilities of our solution, our team, and implementation methodology. The final measure of success is whether or not the customer realizes returns and gains at the end of the day. For several federal agencies, SAP has achieved just that. For example:

- The Navy's Space and Naval Warfare Systems Command (SPAWAR) was the first customer to go live on SAP's federal financials product. They have reduced their financial cycle time by 50 percent, and reduced the time required to balance their financial system from 6 days to 4 hours. SPAWAR has also reduced the cost of their business system support from \$8.5 million annually to \$3.7 million.
- The Army Materiel Command (AMC) has reduced order processing cycle time from 5 days to 1 day.
- The Bureau of Customs and Border Protection at the Department of Homeland Security decreased the time required to reconcile their monthly rent bill from GSA from 8 days to 10 minutes. Since the Department of Homeland Security's Bureau of Customs and Border Protection completed the first two phases of their SAP implementation, they have realized many efficiencies in their day-to-day operations. The time required to reconcile their monthly GSA rent bill has been cut in half. Managers now query the system directly to answer their questions instead of relying on support staff to gather data. The new paperless environment allows end users to create requisitions electronically, giving procurement specialists more time to focus on their core responsibilities. System administrators now maintain one system to do the work that formerly required six systems.
- At NASA, SAP recently implemented its enterprise resource planning solution to meet the JFMIP core financial accounting requirements. NASA is able to achieve three important functions: First, on-line real time integration of US Government Standard General Ledger (USSGL) accounting as prescribed in Treasury's Financial Manual (TFM) for all financial transactions for the Agency at the document line item level of detail. Second, on-line real time integration of the procurement business process for complex long-term contracts that are incrementally funded from multiple appropriations with the Office of Management and Budget's (OMB) requirements for budget execution across fiscal years. And lastly, integration through periodic allocations of the Federal Accounting Standards Advisory Board's (FASAB) full cost accounting requirements for all indirect costs of the Agency with NASA's current budget formulation structure which does not explicitly budget all indirect costs.

SAP takes great pride in the fact that our federal customers have been completely successful in their SAP implementations. Most have taken advantage of the best practices inherent in the software, and have been able to replace significant numbers of legacy applications with our integrated application software. Benefits realized through integrated software include elimination of time-consuming reconciliation tasks, increased productivity by recording data once instead of many times, timely access to up-to-date financial information, and improved decision support for management.

The successful implementation of SAP software in federal agencies requires that numerous key factors be in place.

First and foremost, the project implementation team must be a true team of government and contractor personnel with shared goals, objectives and clearly defined roles and responsibilities. The team must be viewed as *one* team by the agency. Second, execution of proven implementation methodologies is critical. And third, investment in risk mitigation and planning at the beginning of the project is essential.

A proven implementation methodology must be used in implementing SAP's software. Our methodology is called AcceleratedSAP (ASAP). ASAP is a proven, transferable project management methodology that results in rapid, effective deployment of SAP solutions. It facilitates the implementation of the SAP software in phases, with each successive phase building on the previous phase.

This methodology has allowed SAP to implement successful projects at several federal agencies. For example, at SPAWAR, the financial management processes of the Navy's working capital fund were enabled with SAP in Phase 1. Building on this, advanced workload management and procurement components will be added as part of Phase 2. NASA successfully rolled out core federal financials to its 10 centers over a 10-month period in Phase 1 of its systems modernization plan. Functionality for integrated asset management, procurement, and human resources will be implemented in subsequent phases. The US Army Material Command (AMC) has implemented a large scope of functionality including financials, budgeting, demand planning, supply planning, materials requirements planning, procurement, order processing, inventory management, and logistics execution. Success of the project critically relies on maintaining the program management and methodology discipline.

To maximize efficiency and success, SAP invests in effective risk mitigation and planning before beginning a project. Our experience has shown that proactively identifying potential issues saves the customer time and money. We, of course, understand that one cannot anticipate all potential problems. However, a proactive approach of identifying potential issues allows us to build contingency plans into the overall project plan.

In addition to the three factors above, we have listed suggested short action items that can help federal agencies successfully implement SAP software. These include:

- Focus on integrated business processes (end-to-end) and having clear ownership and Key Performance Indicators in place.
- Build solid foundations (organization alignment, process reengineering, clear expectations, data standards, etc.) before designing the "to be" business processes.
- Form a Program Management Office made up of IT and business process owners that reports to an Executive Steering Committee. In other words, consider designing and enforcing IT/Business governance.
- Develop a core competency center to leverage skills and best practices within the agency with a goal of taking on greater responsibility of future SAP initiatives which can result in the reduction of costs and dependency on outside consultants.

- Adopt the implementation approach to align with the most strategic initiatives around scope interdependencies, timeline and resource availability.
- Use the standard software solutions and focus on enabling business processes, not creating islands of software functionality.
- Communicate early and often within the organization to facilitate change management in the future.
- Collaborate as much as possible with customers, suppliers and SAP when redesigning processes within the agency.
- Leverage SAP resources effectively and perform detailed planning to better manage the risk of an aggressive and concurrent implementation. The SAP resources should be tapped for in-depth product knowledge, especially in new technology areas, and play an active role in the PMO. Ensure agency project leadership has a direct relationship with SAP, not solely an indirect relationship through the systems integrator.
- Conduct quarterly meetings with SAP software experts to realign objectives and resolve critical issues.

These practices and methodologies have proven to be effective for SAP and have benefited its customers in the private industry. We recognize that private companies afford more flexibility than federal agencies and are able to invest resources to maintain a competitive edge. However, we strongly believe that adopting these principles will result in increased efficiency and higher returns on investment for the federal agency.

FFMIA Compliance and its challenges

Implementing financial systems is a difficult undertaking in any industry. The Government Accounting Office (GAO), in its September 2003 report titled, “Sustained Efforts Needed to Achieve FFMIA Accountability,” reported that private-sector success in systems implementations has improved significantly, and identified a number of factors that are key to project success. We agree whole-heartedly with these key success factors, and believe they are equally relevant for federal government organizations as for the private sector.

In our view, there are some unique characteristics of the federal environment that make successful financial systems implementations more challenging than in the private sector.

- **Federal financial systems are not viewed as strategic management systems**—In the private sector, finance has evolved from a back-office function to a key strategic player in corporate strategy and management. This evolution necessitated a new approach to financial management systems. To be effective, they had to be integrated with the fundamental business processes of the organization to produce real-time, accurate, relevant information for decision-making. It is our experience that this evolution has yet to fully occur in many federal agencies and there is a need for a more active role by agency management. As a result, some financial systems still do not support the needs of agency management for day-to-day decision making, a key FFMIA goal. Viewing these systems as “back office” or “administrative” also makes them less competitive when competing for funding and other resources.

- **Federal financial systems must serve many masters**—In private-sector organizations, financial management systems support the company’s management in executing the business of the organization, and provide the financial information required for external reporting to stakeholders. Federal agency financial systems, on the other hand, must meet the needs of agency management, support reporting required by Treasury and OMB, and respond to Congressional stakeholders, as well as support federal financial statement preparation. Accommodating these multi-dimensional data classification schemes in financial systems creates complexity not found in commercial organizations. The average end user trying to select the proper codes to record on transactions is prone to error. Federal financial staff often devote a high percentage of their time to correcting errors. As a result, timely data produced may not be accurate; and accurate data may not be timely.
- **Federal financial management requirements are increasingly complex**—Federal accounting and financial management requirements are complex and becoming increasingly so. Finer and finer accounting distinctions are being required. These rules make the accounting logic required in federal financial systems significantly more complex than in private sector organizations, and create a burden on financial staff to understand and apply these rules correctly. A good example is the accounting for adjustments to prior year obligations. Agencies struggle to account for these transactions properly, yet, this data appears to have no relevance to agency management in carrying out its mission. While these very fine accounting distinctions may provide more detailed information on financial activity in federal agencies, the cost of collecting this information should be measured against its usefulness in supporting critical management decisions. Simplification of financial management requirements would improve agencies’ success in compliance.
- **Federal agencies’ existing IT architectures are nonintegrated and complex**—In our experience, the existing information technology systems architecture in federal agencies are more complex and interrelated compared to the average American company. This makes the implementation of new systems even more challenging. We’ve found that federal agencies have a vast array of information systems that rely on numerous complex interfaces to exchange data. Multiple systems are commonly involved in completing a single business process. For example, the financial management business process requirements include budget formulation, financial execution, and payment of invoices. Each requirement could have its own unique system. Each requires data from the other to complete its respective business process. Further, the financial execution system could require data feeds from the payroll, purchasing, travel, inventory management, and maintenance/production control systems to complete the core process/functions. If these complex relationships are not considered nor recognized, it can increase the cost and schedule of any project implementation and marginalize business benefits. SAP understands that to achieve efficiency, any financial systems implementation must take into consideration and provide for all of these data feeds.

We have found other challenges in working with federal agencies that may relate more to the federal government’s relative inexperience in implementing COTS software, and particularly ERP, than to any characteristics unique to federal entities.

Barriers that can hinder the success of the projects

As mentioned earlier, it is essential for federal agencies to invest time in the project evaluation phase to effectively scope the project. Part of this evaluation needs to include identifying as many core business processes that need to be integrated within the system as possible. For example, recognizing during the evaluation phase that ERP non-financial business process transactions drive financial data is important so that it can be incorporated into the implementation plan.

Second, implementation projects by federal agencies focus solely on the "replacement" of systems. The problem with this focus is that it is short-sighted and leads to implementation of the old way of doing things, only using newer technology.

Going back to the ERP example, the federal agencies should focus on reengineering the organization's existing business processes to drive increased business value. For example, by enabling financial transactions in ERP to be recorded through the execution of a non-financial business process transaction, the purchasing of goods or services will result in a financial benefit to the organization. This strategy is forward-looking and has short- and long-term benefits. Some benefits are: increased business value, lower inventory levels, increased order fill rates, lower cost of maintenance events, increased asset utilization, and lower purchasing costs, to name a few.

Third, many projects are delayed due to the inability of the project implementation teams to secure a decision due to multiple "owners" of the financial processes and systems/data. This can lead to schedule extensions and marginalized design decisions. Each agency has multiple financial leads depending on the types of goods and services being procured, and the organization from which the funds are being spent. For example, within the Department of Defense, the Defense Finance and Accounting Service (DFAS) is responsible for paying all of the invoices. Ideally, one lead financial officer who bears this responsibility should also be given the authority to make decisions regarding financial systems and data. Currently, the person responsible for getting the bills paid is not the same person making the decision on which system to implement. This disconnect between the user and the procurement decision maker can cause a disconnect in delivery of service.

Another leading barrier that causes delay is the fact that existing master data is sometimes old and inaccurate. The existing financial legacy systems in federal agencies tend to support single business processes within the agency/department. These "stove pipe" systems did not rely on passing accurate master data to support an integrated business process. There are many cases where duplicate master data exists in the legacy systems because data validation routines were not considered critical. This results in a significant data cleansing effort and requires an organization to address their strategy for data archiving. How many years and the volume of data will have a significant impact on the implementation. The need for data accuracy is fundamental for a successful ERP implementation in order to leverage the integration capabilities of the new business processes. Data accuracy is a cornerstone for the exchange of data between the new ERP system and the remaining legacy systems to ensure complete end-to-end processes are executed.

We recommend that there be one dedicated team to support data conversion and cleansing effort. This team should be comprised of individuals who have knowledge of the legacy systems and data conversion best practices. The data conversion effort should be practiced multiple times to identify and correct errors in the process. The amount of legacy data converted should include two years or less of history in order to manage the data volume effectively. Moreover, the federal agency should consider data validation prior to implementing information systems.

Another common problem that we have experienced when implementing SAP within federal agencies is that the agency is sometimes unable to attract its best and brightest employees to join the project implementation team. Unlike private businesses, federal agencies are unable to provide financial incentives to its employees to motivate them to join this team. To overcome this barrier, following is a list of suggested strategies used by private industry:

- Project bonuses and/or salary adjustments for civil servants who accept assignments on COTS financial system implementations.
- Creation of temporary positions that will allow civil servants from agencies that have implemented a COTS financial system to be “loaned” to another federal agency implementing the same system. This could include federal employees from central financial management agencies who are knowledgeable and have experience in the financial management requirements of federal agencies. These individuals could be personnel from the OMB, Treasury, and GAO.

In conclusion, SAP has been highly successful in implementing systems within federal agencies. These successes have helped agencies reduce costs, run more efficiently and, as a result, helped our citizens, who we consider the ultimate customer. As with any of our customers in the public or private industry, there are challenges, obstacles and problems in this process. However, SAP’s vast experience has allowed us to come to the table with valuable insights and solutions that result in efficiency and a win-win situation for us and our customers. We hope that our testimony has been helpful to you, Mr. Chairman, the Members of the Subcommittee and the federal agencies. Finally, I would like to stress that SAP is committed to continuing to serve federal agencies to the best of our ability. We look forward to expanding our services and serving as a trusted advisor to the entire federal government. Thank you.