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

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

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

WEDNESDAY, JUNE 16, 2004

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2247, Rayburn House Office Building, Hon. Todd Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts and Towns.

Staff present: Mike Hettinger, staff director; Larry Brady and Tabetha Mueller, professional staff members; Amy Laudeman, legislative assistant; Sarah D'Orsie, clerk; Daniel Hazelton and Katherine Edge, interns; Mark Stephenson and Adam Bordes, minority professional staff members; and Teresa Coufal, minority assistant clerk.

Mr. PLATTS. This hearing of the Subcommittee on Government Efficiency and Financial Management will come to order.

This is a continuing effort by the subcommittee to focus on financial management across the Federal Government. Today, we are delighted to have several individuals from the private sector who are with companies that play critically important roles in the Federal Government's effort to get our financial management in good stead.

Because of time constraints and our expectation of the next series of votes, which will last about an hour once they begin, coming up in anywhere from 30 minutes to 1 hour, I am going to submit my opening statement for the record. And I would ask the ranking member and other members who may be arriving to submit their opening statements for the record so we can get right to our witnesses' statements and then to questions.

[The prepared statement of Hon. Todd Russell Platts follows:]

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INDEPENDENT

Opening Statement
Representative Todd R. Platts
June 16, 2004

The Subcommittee has spent the past year and a half looking at financial management across government. Since the passage of the Chief Financial Officers Act of 1990, agencies have made great strides in financial management, as evidenced by the number of agencies that earn clean audit opinions. That being said, clean opinions are only one aspect of establishing sound business practices.

In a number of statutes, Congress has spoken clearly and unequivocally on the need for federal agencies to develop systems that routinely generate timely, accurate, and useful information – information that can be used to make daily management decisions. With such information, government leaders will be better positioned to invest resources wisely, reduce costs, oversee programs, and hold agency managers accountable. Generating this type of information takes more than just balancing the books or getting a clean audit opinion at the end of the fiscal year. This type of financial management involves a shift from data entry to data analysis and a strategic focus that affects all aspects of agency management. As agencies make this important shift in focus, many are hiring private-sector experts for a broad range of financial advice.

Today's hearing will focus on the consulting and systems integration services available to the Federal government and how those services can help agencies achieve sound business practices. This is a follow-up to a hearing the Subcommittee held last year where we heard from leading software vendors. Systems are a large part of the solution, and we gained an important perspective in hearing from software experts about their experience in the federal marketplace.

Today we will talk to the consultants who design and implement those systems. We will discuss best practices and how they can be applied government-wide and hear views on the changes needed in the agency management structure and the challenges unique to the Federal government.

As we know, there are a number of factors that impact the success or failure of a systems implementation. First and foremost, executive management must demonstrate a commitment to the project. User involvement, clear definitions of requirements, proper planning, and realistic expectations are also keys to success. Systems integrators play an

important role in addressing these concerns by coordinating the efforts of agency management and other stakeholders.

We appreciate the efforts and insights offered by our witnesses here today. We are honored to have George Cruser from IBM, David Halstead of the Bradson Corporation, Robin Lineberger representing BearingPoint, and Greg Pellegrino of Deloitte Consulting. Thank you for your participation today.

Mr. PLATTS. Maybe before we do introductions and have your statements, I'd like to ask each of you to rise and be sworn in, as well as any individuals who you may call on as part of your testimony or question and answer efforts today to rise and take the oath. Please rise and raise your right hands.

[Witnesses sworn.]

Mr. PLATTS. The record will reflect that the witnesses answered in the affirmative.

As we begin testimony, because we are somewhat constrained on time, if we can try to keep statements to the 5 minutes and then have as much time as possible for Q&A, that would be great. Typically, we give a little bit of background. But I think today, other than identifying Mr. Cruser as being from IBM, if you would like to begin with your opening statement, and then we will move down from there and save again the time for questions.

So, Mr. Cruser.

STATEMENTS OF GEORGE CRUSER, PARTNER, PUBLIC SECTOR FINANCIAL MANAGEMENT, IBM CORP.; DAVID HALSTEAD, VICE PRESIDENT, BRADSON CORP.; ROBIN LINEBERGER, SENIOR VICE PRESIDENT, BEARINGPOINT; AND GREG PELLEGRINO, PARTNER, PUBLIC SECTOR, DELOITTE CONSULTING

Mr. CRUSER. Mr. Chairman, thank you. I am George Cruser. I am a partner at IBM Business Consulting Services. I am responsible for our public sector financial management practice. IBM provides financial management services to support the needs of the chief financial officer.

Our core services focus on strategy and process transformations needed to improve the budget, finance, accounting operations, and overall agency performance, along with implementations of agency-wide financial systems and other enabling technology.

By transforming and improving business practices, and by using standards based technology, Federal CFOs have been able to start moving from an operation that primarily collected data and reported on results, with little time for analysis, to an operation where having timely, accurate, and comprehensive data is a given, and more of their time is spent in the analysis and interpretation of results. Our implementations focus on the use of standard commercial off-the-shelf, or COTS, products that meet Federal Government requirements and help Federal CFOs move more rapidly toward high quality analytics and approved business practices.

In our experience, IBM has found three noteworthy practices that can be applied Government-wide.

The first is a Federal CFO with the commitment to require timely, accurate, and comprehensive financial reporting, and who accepts nothing less than a strong internal control environment and an unqualified opinion.

The second is a financial CFO who has used enterprise-wide implementation of COTS software as a platform for transformation and substantial operational improvements. Implementing standardized financial software has been a means to improve but is not a best practice in and of itself. The best practice has been the Federal CFO's commitment to a comprehensive review of financial

management processes, transforming these processes to align with the strategic goals of the agency, and then implementing software solutions to automate data collection, validation, and reporting. A new financial system can reduce the time to collect and report data as much as 50 percent, and can allow managers to answer questions directly from the system and make decisions quickly.

The third point is that Federal CFOs have used software upgrades as a platform to make another round of improvements. Agencies who make a commitment to improvement will see a step function increase in the improvement with the initial implementation of COTS. Building continuous improvement into the process will allow for routine incremental improvements. Federal CFOs have found that they can gain another, albeit smaller, step function improvement in operations with each software upgrade. Software upgrades require many of the same steps as the software implementation. Therefore, establishing improvement goals and allowing the changes necessary to achieve these goals during the upgrade can yield dramatic results.

IBM believes the greatest obstacle to Federal agencies implementing financial systems is the magnitude of the change they are willing to undergo. The most significant cost advantage is discipline around standardization. A basic recommendation common to all COTS implementations is standardized processes across the enterprise, allowing all parts of the agency to use compatible or even the same software. This allows agencies to have one set of business practices, allows cross-training and collaboration throughout the agency, and increases the overall knowledge base of the system.

COTS products have been designed to meet all of the basic functions required by Federal agencies. Unfortunately, in lieu of streamlining business processes to take advantage of standard functionality, some agencies have required that the software be configured to conform to pre-existing business processes. This approach can require such massive reconfiguration of the COTS product that it looks more like a custom product than the underlying standard product from which it started. This complicates the initial implementation and all future releases.

Finally, the set of incentives available to the Federal Government versus the private sector is a barrier to success. In the private sector IBM often sees that rising starts in the executive ranks are selected to manage system implementations, and when successful, lead to other promotions and other financial reward. In addition, these implementations are highly visible. A financial system failure will have an effect on a company's stock price—a negative effect. So throughout the implementation the project team has the access and the attention needed from the CFO and other officers of the company. In the Federal Government, providing those who lead the implementation with the incentives to meet and exceed the performance improvement target is often overlooked.

Mr. Chairman, this concludes my prepared statement.

[The prepared statement of Mr. Cruser follows:]

Testimony of
George E. Cruser
IBM Business Consulting Services

before

The Subcommittee on Government Efficiency
and Financial Management
Committee on Government Reform
U.S. House of Representatives

June 16, 2004

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss the role of private sector consultants in implementing financial management systems, including, as you requested:

- An overview of our services and how those services help Federal agencies achieve sound business practices;
- Examples of experience working with Federal agencies, including a discussion of best practices and how they can be applied government-wide;
- Views on changes needed within Federal agency management to facilitate the implementation of financial systems; and
- Views on barriers to success unique to the Federal government when implementing systems that have worked in the private sector.

I am George E. Cruser, a Partner with IBM Business Consulting Services responsible for our Public Sector Financial Management Practice. Our Public Sector Financial Management Practice is a team of approximately 600 consultants providing financial strategy, financial analytics, and financial systems implementation services to the Federal Government, state and local governments, and the education and healthcare industries.

An overview of IBM Business Consulting Services and how they can help Federal Agencies achieve sound business practices

IBM Business Consulting Services provides financial management consulting focused around supporting the needs of the chief financial officer (CFO). Our core services focus on the strategy and process changes needed to

improve budget, finance, and accounting operations and overall agency performance, along with the implementation of agency-wide financial systems, performance management systems, and other technology tools to maintain and enhance these improvements. The goal of all of these services is to support the CFO in achieving and maintaining sound business practices for the agency and in improving the agency's overall performance in meeting and exceeding its strategic goals and objectives.

I will start by highlighting a few of these services. In the areas of strategy planning, better budgeting, and performance management, much of our work has been focused around helping agencies in the implementation of the Government Performance and Results Act (GPRA) of 1993 and the President's Management Agenda. The attention of the federal government to strategic planning and the supply of performance information has increased substantially in the 11 years since passage of GPRA. IBM helps agencies develop a framework for strategic planning, including facilitating Federal managers in applying the strategic planning process and in linking budget development and budget requests to the specific elements of the strategic plan. We help agencies develop and automate measurement systems to monitor performance against both the strategic plan and the budget and then use this data to make ongoing operational improvements.

In the areas of the implementation of agency-wide financial systems, performance management systems, and other related technology tools, much of our work has been focused around helping agencies in the implementation of the Government Management Reform Act and the Federal Financial Improvement Act of 1996. By transforming and improving business practices and processes and by using standards-based technology, Federal CFOs have been able to begin the journey of moving from an operation that primarily collected data and reported on results with little time for analysis to an operation where having a timely, accurate, and comprehensive dataset is a given and more of their time is spent in the analysis and interpretation of the results. Implementation of both agency-wide financial systems and performance management systems has helped Federal CFOs increase the pace of this journey toward high-quality analytics and in turn improved business practices.

IBM currently provides implementation services for four major commercial off-the-shelf (COTS) financial management packages: CGI-AMS, Oracle, PeopleSoft, and SAP. Each of these products has features which have been specifically designed for use by the Federal Government and incorporate the unique financial management requirements of the Federal Government. IBM is a significant business partner with each of these COTS vendors. As we implement these products, IBM continues to work with the underlying vendor to improve performance and to recommend new functionality, for future releases, that the Federal Government needs.

Examples of experience working with Federal agencies, including a discussion of best practices and how they can be applied government-wide

In our experience, IBM has found three noteworthy practices that can be applied government-wide:

1. Federal CFOs who require timely, accurate, and comprehensive financial and performance reporting and who accept nothing less than a strong internal control environment and an unqualified audit opinion.
2. Federal CFOs who have used agency-wide implementations of financial and performance management software as a platform for transformation and substantial operational improvements.
3. Federal CFOs who have used software upgrades as a platform to make another round of improvements to their financial operations.

Accepting nothing less than an unqualified opinion

In working with Federal agencies, IBM has found that Federal CFOs and their teams universally recognize that a timely, accurate, and comprehensive set of financial and performance data is a prerequisite to managing an agency's operations. One measure that an agency has as a sufficient data set is receiving an unqualified opinion along with few, if any, material weaknesses. Once this is achieved, financial and performance management can focus its resources on the analysis and interpretation of this data to achieve sound business practices and to deliver strategic results to the agency.

IBM continues to assist many agencies in developing the financial management processes and procedures to prepare financial statements as part of an agency's commitment to achieve an unqualified opinion and eliminate internal control weaknesses. Many agencies have already achieved unqualified audit opinions and have made significant progress toward eliminating material internal control weaknesses. We continue to work with additional agencies as they work toward "getting to green" on the President's Management Agenda. Achieving an unqualified audit opinion is clearly a sound business practice that should continue to be emphasized until all agencies have met this baseline.

Using software implementations to substantially improve performance

The implementation of agency-wide financial systems has had a significant impact on improving the timeliness and quality of financial and performance data available to Federal agencies. Technology, largely through standardized financial and performance management software, has been a means to improve, but it is not the best practice in and of itself. The best practice has been the Federal CFO's commitment to a comprehensive review of financial management business process and practices, transforming and improving these

processes and practices to align with the strategic goals of the agency, and then implementing software solutions to automate the data collection, data validation, and data reporting so that agency managers can focus on data analysis, data interpretation, and recommendations for improved performance.

In working with our Federal clients, IBM has seen a new financial system that reduced the time to collect and report data as much as 50 percent. At another client, a new system has allowed managers to answer questions directly from the system and to make decisions quickly versus the prior practice of sending these questions to their staff for review, analysis, and recommendations.

Using upgrades as a means to achieve another round of operational improvement

Agencies that make a commitment to improved operations will see a step function improvement when the financial and performance software is initially installed. As part of normal operations that include a focus on continuous improvement, incremental improvement happens routinely. Federal CFOs have found that they can gain another step function increase in operational performance, albeit less than with the initial implementation, with each software upgrade. Software upgrades require many of the same steps as a software implementation; therefore, establishing improvement goals and allowing the changes necessary to achieve these goals during the upgrade process can yield dramatic results. Conversely, using an upgrade solely as a means to incorporate regulatory and compliance changes really amounts to significant work with an improvement opportunity lost.

Views on changes needed within Federal agency management to facilitate the implementation of financial systems

IBM believes that the greatest obstacle to Federal agencies implementing financial systems and gaining significant value from the implementation is the magnitude of change they are willing to undergo. The most significant potential advantage of implementing COTS products is lower operating and maintenance costs. As changes in regulation, policy, and business practices occur, COTS products can be modified and changed and the cost spread across a broad customer base. In a custom environment, similar changes are required but are spread across only one customer.

The second significant cost advantage is discipline around standardization – a basic recommendation common to all COTS implementations is to standardize processes across the enterprise, allowing all parts of the agency to use compatible software, or even the same version of the software. This allows agencies to have one set of business practices, allows cross-training and collaboration throughout the agency, and increases the overall knowledge base of the system.

COTS products have all been designed to meet all of the basic functions required by Federal agencies. Since no standard product can meet every need, each product can be configured to meet unique requirements beyond the basic Federal functions. Unfortunately, in lieu of streamlining business processes and practices to take advantage of the standard functionality of the COTS product, some agencies have required that the software be configured to conform to the preexisting business processes and practices – in essence no process changes, just make the new software do what we have always done. This approach can require such massive reconfiguration that the COTS product looks more like a custom product specific to the agency at hand than the underlying standard product from which it started. This complicates not only the initial implementation, but requires that all future releases of the product be reconfigured to meet the client's needs – changing a product upgrade into a product reinstallation. Such an approach also results in the agency foregoing the benefits which could result from transforming and improving financial management business processes to "take advantage" of the standard COTS functionality.

Our experience shows that implementing a little change is hard and implementing significant change is also hard. The results of a little change are usually a little improvement, while significant change, done well, yields significant improvement. Since all change is painful, we believe that Federal agencies should use both implementations and upgrades as opportunities to evaluate all processes and practices, make the changes necessary to gain significant improvement, and reap the benefits of these improvements.

Views on barriers to success unique to the Federal government when implementing systems that have worked in the private sector

The set of incentives available to the Federal government versus the private sector is a barrier to success. In the private sector, IBM often sees that rising stars in the executive ranks are selected to manage system implementations and when successful, lead to promotions and other financial rewards. In addition, these implementations are highly visible, a financial and performance management system failure will have an affect on a companies stock price, so throughout the implementation, the project team has the access and attention needed from the CFO and other officers of the company. In the Federal government, providing those who lead the implementation with incentives to meet and exceed the performance improvement targets is often overlooked.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to questions

Mr. PLATTS. Thank you, Mr. Cruser. A number of points that you make in your statement are ones that really jumped out as I prepared for this hearing, and I look forward to coming back to you to expand on this.

Next we have Mr. David Halstead, vice president of Bradson Corp.

Mr. Halstead.

Mr. HALSTEAD. Mr. Chairman, on behalf of Bradson Corp., I would like to thank you for the opportunity to discuss the role of private sector consultants in implementing new financial management systems and improvements.

Bradson provides financial management, accounting, and financial systems consulting to Federal Government organizations. The emphasis of our consulting support and solutions over the past 10 years has been on financial modernization and reform, including implementation of the CFO Act, FFMIA, and the President's management agenda, as well as the interpretation and adoption of new standards contained in the FASAB pronouncements, JFMIP systems guidance, and OMB bulletins and circulars.

Bradson has partnered with many Federal agencies to establish and achieve improvement goals, enterprise-wide changes, and program improvements. A few examples of our ongoing support include building effective cross-walks, determining financial system specifications requirements, strengthening internal and management controls, analyzing COTS applications and JFMIP-approved software, and preparing financial statements and audit trails that result in unqualified audit opinions.

Bradson has been able to achieve these and other successes by applying logical and practical project plans and approaches that include assignment of experienced accounting and business professionals, use of automated tools, and specific work steps—steps that contain incremental performance milestones and completion schedules, all focused to deliver the proper levels of energy and expertise so our customer is better able to achieve financial compliance and systems improvements.

The leadership and guidance from the current administration, Congress, and various advisory boards continues to provide the framework for reforms and improvements. in addition to this leadership, as partners with the Government, we witness daily a Federal work force that is dedicated to meeting reform challenges and willing to adopt new concepts and practices needed to strengthen financial accountability. Important concepts and business practices, such as:

Leadership support. Leadership with the authority to make decisions about resource allocation, funding, and technical direction; that is, a single senior executive who is responsible and accountable for planning and execution of the implementation project.

Clear and consistent direction and instructions regarding the expectations for accounting, financial systems performance, and accountability reporting. Effective requirements documents and deployment testing. and program plans to avoid uncertainty and provide specific descriptions of agency-wide responsibilities and time lines.

A campaign plan to broadcast widely the new system or business processes that includes the actions to be taken, explaining the benefits and payoffs of the phased logical approach selected by the agency's implementation team.

Flexibility in the implementation of new systems standards. Acknowledgement that steady progress and incremental improvements are expected and acceptable. Sponsorship of special initiatives and pilot programs to illustrate the effectiveness of selected new systems, operations, and improvement processes, to include adequate time, resources, and training to achieve buy-in from agency employees and users.

Accessibility to and funding for technical expertise, consulting services, and other outside assistance to provide the help agency's need to meet the growing demands for change.

And finally, to facilitate the Government's implementation of improved financial systems and processes, there needs to be a mechanism for acknowledging and rewarding unique accomplishments.

In other words, Mr. Chairman, agencies require direction on where to go with improvements but need flexibility and resources to plan and support how to get there.

Despite these positive actions that will facilitate improvements, challenges and obstacles lie ahead. The Federal Government is a very large, complex, and geographically dispersed group of entities, composed of many missions that serve our Nation and its citizens. Therefore, it is not a simple task to get consensus on a new system's integration and functionality requirements, information architecture schemes, and/or deployment plans. In addition to the sheer size and complexity, there is so much change occurring in some agencies that it is very difficult to focus on what end state the new agency-wide COTS system will support.

Second, when implementing a new financial system there is a tendency to focus on the procurement of the software package rather than on the total business process—the total process that requires important improvements in business operations. Procurement of the selected JFMIP approved application is a significant step but there should also be adequate resources and technical emphasis placed on changing the associated business tasks required for successful implementation and sustainment. In most instances, the more complex work begins rather than ends following the purchase of the COTS application.

And finally, our Federal Government agencies are undergoing extensive reform in areas other than financial systems modernization, placing extra burden on agency manpower and resources. The CFO Act, GPRA, Clinger-Cohen Act, and GISRA are a few of the far-reaching requirements that agencies continue to implement. In fact, nearly all agencies are placing a very high premium on the success of several challenging reforms, including physical and systems security, the ability to achieve and sustain unqualified audit opinions, implementation of enterprise-wide IT capabilities, and integration of disciplined planning, budgeting, and reporting, as called for in the President's management agenda.

Although the modernization road ahead contains challenges, it also presents opportunities for success. The combination of clear and effective guidance and resources from the administration and

Congress, the hard work and steady progress toward improvement and dedication of the Federal work force, and the technical assistance and solutions provided by consulting firms, like Bradson, will continue to result in modernized financial practices and systems.

Mr. Chairman, I thank you for inviting Bradson to speak about this subject. Bradson looks forward to continuing its partnership with Federal agencies to provide valuable advice and consulting services. We hope this testimony will help you in your efforts to lead and facilitate Government reform.

[The prepared statement of Mr. Halstead follows:]

BRADSON
CORPORATION

Testimony of
David Halstead
Vice President
BRADSON CORPORATION

Before

The Subcommittee on Government Efficiency
and Financial Management

Committee on Government Reform
U.S. House of Representatives

June 16, 2004

Mr. Chairman and Members of the Subcommittee, on behalf of *BRADSON CORPORATION*, I would like to thank you for the opportunity to discuss the role of private sector consultants in implementing new financial management systems and financial improvements.

Overview of *BRADSON* Services and Examples of Experience

BRADSON provides financial management, accounting, and financial systems consulting services to federal government organizations. The emphasis of our consulting support and solutions over the past 10 years has been on financial modernization and reform, including implementation of the Chief Financial Officer's (CFO) Act, Federal Financial Management Improvement Act (FFMIA), and President's Management Agenda, as well as interpretation and adoption of new standards contained in Federal Accounting Standards Advisory Board (FASAB) pronouncements, Joint Financial Management Improvement Program (JFMIP) systems guidance, and in Office of Management and Budget (OMB) bulletins and circulars pertaining to financial systems compliance, financial statements, and data reliability.

By capitalizing on our experience and technical expertise related to federal and proprietary accounting, financial systems, internal controls, and business process improvements, *BRADSON* services have provided customer agencies with the strategies, tools, and capabilities to successfully accomplish mounting day-to-day work requirements and meet the growing demands for more accurate and timely financial and cost information.

BRADSON has partnered with many federal agencies – including the Departments of Agriculture, Defense, Homeland Security, HUD, the Interior, Labor, and the Treasury and component organizations – to establish and achieve improvement goals; enterprise-

wide changes and business and program improvements. A few examples of our ongoing support include:

- building effective crosswalks from legacy systems to the US Standard General Ledger (USSGL) and other modern systems;
- determining financial systems performance and specifications requirements, as well as conducting independent analysis of systems and modules to ensure conformity with laws and standards;
- strengthening internal and management controls;
- implementing and analyzing Commercial Off-The-Shelf (COTS) applications and JFMIP-approved software; and
- preparing financial statements and producing audit trails that result in unqualified audit opinions.

We have also assisted agencies with implementing and integrating a broad range of program and financial processes and procedures to improve efficiencies and produce reliable, timely, and accurate financial information for agency managers, oversight officials, Congress, and the Public.

BRADSON has been able to achieve these and other successes by applying cost-effective, logical, and practical project plans and approaches that include assignment of experienced accounting, systems, and business professionals, use of automated tools and technologies, and specific work steps – steps that contain incremental performance milestones and completion schedules – all focused to deliver the proper levels of technical expertise and business tools so our federal agency customer is better able to achieve financial management compliance and financial systems improvements.

Facilitate The Implementation of Financial Systems

The leadership and guidance from the current Administration, Congress, and various councils and advisory boards continue to provide the structure and framework for financial reforms and financial systems improvements. In addition to this leadership, as improvement partners with the government, we witness daily a federal workforce that is dedicated to meeting reform challenges and is willing to adopt new concepts and business practices to strengthen financial accountability and reporting. In fact, the following important actions and best practices are being used and refined by the government and its private industry consultants as part of the efforts to broaden the success of implementing

new financial systems and other compliance and reform initiatives – important concepts and best practices such as:

- **Leadership support; leadership with the authority to make decisions about resource allocation, funding, and technical direction** – that is, a single senior executive who is responsible and accountable for the planning and execution of the implementation project.

- **Clear and consistent direction and instructions** regarding the expectations for accounting, financial systems, performance, and accountability reporting – to include what the compliance and performance requirements are so the agency can institutionalize them.

- **Effective requirements documents and deployment, testing, and operational plans and communications vehicles** to avoid uncertainty and provide specific descriptions of agency-wide roles, responsibilities, and timelines – with interim and long-term milestones and performance objectives.

- **A campaign plan to broadcast widely the new system or business processes** that include the "what", "why", "when", and "how", of the actions to be taken, explaining the benefits and payoffs of the phased, logical approach selected by the agency's implementation team.

- **Flexibility in the implementation of new systems standards and initiatives** to allow agencies to capitalize on existing in-house capabilities and technologies during transition and data migration periods.

- **Acknowledgement that steady progress and incremental improvements are expected and acceptable** - even in private companies, migration to a new financial system is undertaken only within a methodical and deliberate process.

- Federal agencies also continue to need **sponsorship of special initiatives and pilot programs to test and illustrate the effectiveness of selected new systems, operations, and improvement processes** – to include adequate time, resources/ funding, and training to complete pilot programs, institutionalize the successful systems' components and processes, and achieve buy-in for the implementation from agency employees and users.

- **Accessibility to and funding for technical expertise, consulting services, and other outside assistance** that provides the help agencies need. An example of this accessibility is the procurement process managed by the General Services Administration (GSA) whereby JFMIP-approved financial systems software and expert financial and accounting support services are available to agencies relatively quickly and easily, and at a competitive price.

- And finally, to facilitate the government's implementation of improved financial management systems and processes, there needs to be **a mechanism for acknowledging and rewarding unique achievements and accomplishments**.

In other words Mr. Chairman, agencies require direction on "where to go" with improvements and financial systems implementation, but need flexibility and resources to plan and support "how to get there," due to the widely diverse and unique missions, cultures, and infrastructures within our government agencies. Agencies must also be able to continue to rely on a fast and streamlined process to get uniquely-qualified and dedicated manpower and technical assistance, and, agency executives and managers must have assurance that their hard work, focus, and success as well as the work of their supporting staff, will be recognized and rewarded.

Barriers To Success Unique To The Federal Government

Despite these positive actions that will facilitate improvements, challenges and obstacles lie ahead. For instance:

The federal government is a very large, complex, diverse, and geographically-dispersed group of entities – composed of many missions that serve our Nation and its citizens and sometimes competing priorities, interests, and appropriations. Therefore, it is **not a simple task to collect and get consensus on a new system's integration and functionality requirements, information architecture schemes, and/or deployment options**. In addition to the government's shear size and complexity, there is so much change occurring in some government agencies that it is very difficult to focus on what end-state the new agency-wide COTS system should support.

Second, when implementing a new, integrated financial system, **there is a tendency to focus on the procurement of the software package, rather than on the "total business process"** – the process that includes important improvements in other related operational areas. Procurement of the selected JFMIP-approved application is a significant step, but there should also be adequate planning, resources, and technical emphasis placed on associated business and organizational tasks required for successful systems implementation and sustainment. In most instances, the most complex work begins rather than ends following the purchase of the COTS application.

And finally, our **federal government agencies are undergoing extensive reform in areas other than financial systems modernization**, which places extra burden on agency manpower and resources. The CFO Act, Government Performance and Results Act (GPRA), Clinger-Cohen Act, and Government Information Systems Reform Act (GIRSA) are but a few of the far-reaching requirements that government agencies must

continue to implement. In fact, nearly all agencies today are placing a very high premium on the implementation success of several very challenging, comprehensive reform initiatives, including: 1) physical and systems security; 2) the ability to achieve and sustain unqualified audit opinions; 3) implementation of enterprise-wide information technology (IT) capabilities; and 4) the integration of disciplined planning, budgeting, and reporting as called for in the President's Management Agenda and GPRA. This situation of overlapping reform might seem to the federal employee to be overwhelming at times, and set the stage for management oversight "fatigue" within government organizations.

Conclusion

Although the modernization road ahead contains challenges, it also presents opportunities for widespread success and achievement. The combination of: 1) clear and effective policy, guidance, and resources from the Administration and Congress; 2) the hard work, skills, steady progress toward improvement, and dedication of our federal workforce; and 3) the technical assistance and business solutions provided by consulting firms like *BRADSON* will continue to result in effective, modernized financial practices and the implementation of new, integrated financial management systems.

Mr. Chairman and Members of the Subcommittee, I thank you for inviting *BRADSON* to speak about this subject. *BRADSON* looks forward to continuing its partnership with federal agencies to provide valuable advice, expertise, and consulting services, and hopes that this testimony is helpful to you in your continued efforts to reform government.

I welcome any questions you might have on this topic or testimony.

Mr. PLATTS. Thank you, Mr. Halstead. Again, we will come back with questions once we have all the opening statements.

Next we have Mr. Lineberger, senior vice president with BearingPoint.

Mr. Lineberger, the floor is yours.

Mr. LINEBERGER. Good afternoon, Mr. Chairman, Mr. Towns. On behalf of BearingPoint, one of the world's leading system integration and management consulting firms, I want to thank you for the opportunity to share some of our views on systems implementation of Federal financial systems. I am the senior vice president responsible for the services that we provide to the Federal Government and our healthcare clients, responsible for nearly $1 billion worth of services. I have over 23 years of experience in implementing technology in government, having begun my career in the U.S. Air Force where I was responsible for software quality assurance and development. Since that time, I have supported nearly all of the cabinet level agencies in their technology efforts.

Today I would like to comment briefly on BearingPoint's experience in assisting our Federal clients in implementing new commercial off the shelf software, or COTS, such as Oracle, PeopleSoft, and SAP. We are currently engaged in implementing, leading the implementation of agencies that include the Department of Health and Human Services, the Department of Interior, the Department of Veterans' Affairs, and the Department of the Navy. These programs are at various stages in their implementation lifecycles and collectively as well as individually offer valuable lessons learned. I would like to share with you.

The testimony today will focus on six key areas I think that best represent the practices and/or challenges for successful deployment of systems across the Federal Government. These six topics represent some of the most common high impact focal points for improving the success rate of these projects.

The first, using proper methodologies and techniques in commercial off the shelf software implementation. Traditionally, our clients have been using a custom development systems development lifecycle. They need to adjust and take a look at the new methods necessary that implements pre-existing software from a configuration perspective, not a software development perspective.

Second, setting realistic expectations for COTS financial systems implementation. At the beginning, the client leadership needs to set the expectation that the business processes will change, to adopt those business practices as they exist in the software and, as one of my colleagues pointed out, not try to drastically recode or reconfigure the software as it comes out of the box.

Establish and utilize best practices in governance. It must establish strong executive leadership and sponsorship for the program. It is necessary to have a dedicated, focused, and committed leader who can help drive them through some of the barriers such as cultural, resistance within the organization.

Best practices in team-building and development need to combine three things to effectively lead the organization. You have to have good, skilled professionals from the systems integrator combined with top-notch functional experts within the organization built into

a collaborative team to address the implementation and configuration efforts.

Change management. You have to adequately prepare the work force to receive and effectively operate the new system. You need vision and leadership, work force preparation which requires work force restructuring, role redescription, and training. Most importantly, training must be mandated.

And finally, a broader observation of how to attain better value from the financial systems implementation. It must utilize the fully integrated system. Try to use as much of that single branded software as you can to prevent deconstruction of the software in the development of interfaces which cause both short-term implementation challenges as well as long-term lifecycle costs.

Mr. Chairman, thank you again for this opportunity. I look forward to answering any questions you have on my testimony.

[The prepared statement of Mr. Lineberger follows:]

MR. ROBIN LINEBERGER

SENIOR VICE PRESIDENT

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

JUNE 16, 2004

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 COMMERICIAL 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.

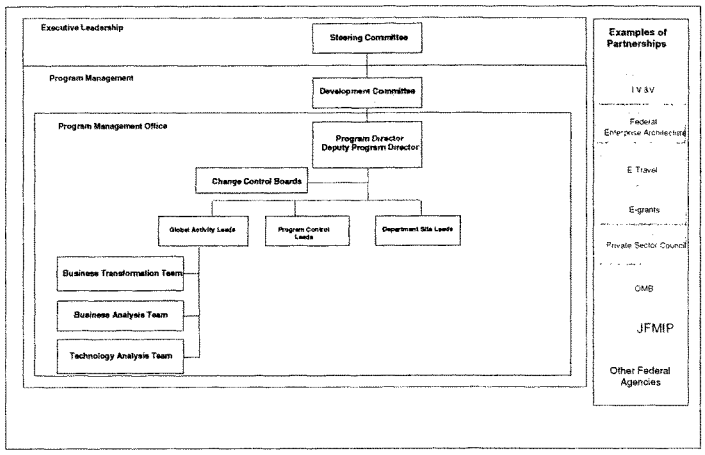
Executive Leadership. There are many models for governance that work quite effectively in driving financial system development projects to success. All of them require strong executive level sponsorship. The most effective and successful governance structures, however, have executives at the top who 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 receives 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.

Mr. PLATTS. Mr. Lineberger, thanks for your testimony and also thanks for your service as a member of the U.S. Air Force in the past.

Next we have Mr. Greg Pellegrino, a partner with Deloitte Consulting and director of Deloitte's public sector practice.

Mr. PELLEGRINO. Thank you, Mr. Chairman. Good afternoon. I am Greg Pellegrino. I am the global managing director of Deloitte's public sector practice and work with leading governments all over the world. I also have the unique role of being directly responsible for our efforts to serve the U.S. Department of Homeland Security here in Washington. I appreciate the invitation to appear before you and to provide these brief remarks. I will also refer to my written testimony that we have submitted.

We know that Government leaders want to import the best practices from private sector experiences into public sector operations here in Washington. In fact, I believe that in the not too distant future Government here can, and should, establish new standards that will be recognized as best practices themselves.

But we also know that Government is different than the private sector. I think the key question, though, for this committee is: How different can the U.S. Government afford to be in implementing financial management systems? Does different need to mean costlier and less efficient in achieving the goals of implementing these systems? Customization is expensive. The more unique that unique agency needs are defined precisely but are also kept to a minimum, the more departments and agencies will be able to use broadly accepted procedures from the private sector and other leading governments and capitalize on best practices. And I should point out that there is growing recognition of this among Federal leaders. For example, the U.S. Postal Service chose commercial software to support its massive financial transformation initiative and then re-engineered their processes to support their commercial best practice implementations. And rather than ask that software be custom-written to map to older processes, they took this approach and achieved their objectives on time and on budget. The Postal Service took this approach despite the fact that there are very few software packages that are intended to support a $67 billion organization of its size, and worked very closely in a partnership with the vendors to ensure that those products could scale adequately to their needs.

We need to ask: How different can Government be in focusing on the process rather than the result? Often the emphasis on projects tends to evolve into designing specifications and then trying to meet them, rather than developing solutions and seeking to achieve them. Yet, more often than not, key success factors that should be addressed, including stakeholder communication, change management, knowledge transfer, rather than just simply technical specifications, need to become the focus. And incentives must be provided to encourage managers to focus on the solution as a whole.

The Office of Management and Budget and the Office of Personnel Management recently took an encouraging step. They worked together to put out an open request for information seeking the private sector's best ideas on Government-wide solutions to financial management processes, people management, and grants management. And so what they are saying is that anyone who has a prov-

en solution that can be adopted for Government-wide use, to bring it forward.

And even recognizing that Government is different, we need to ask the question: Can Government afford to balkanize authority and still expect to obtain results in these large initiatives? Department officials are often given responsibility but not necessarily the authority they need to fulfill that responsibility in these programs, leaving no one single executive or manager with department-wide authority to pursue these strategic objectives. If an initiative is important to a department, clear ownership and the authority to achieve the results must be maintained at the department level.

We know that Government must address the differences inherent in its unique nature. In some respects Government timeframes can be warped by election cycles and sometimes seemingly arbitrary funding rules. Democracy tends to be that way and we all elect to live with it. But it does tend to leave management challenges and it disconnects revenue and cost-savings from appropriations and budgeting, with little incentive to capture efficiency gains and realign those resources. Budgets have no direction to go but up, as a result. Managers can be given broader incentives to pursue savings and clearer authority to achieve these business goals.

And so, what we urge is a much stronger role for the chief financial officer, the chief information officer, together, in these types of programs as well as other major transformations.

We agree that the Federal Government has many unique needs. We look forward to answering your questions, and we appreciate the opportunity to spend time with you today.

[The prepared statement of Mr. Pellegrino follows:]

House Government Reform Subcommittee on Efficiency and Financial Management

Written Testimony by Greg Pellegrino
June 16, 2004

Good afternoon. My name is Greg Pellegrino. I am the Global Managing Director of Deloitte's Public Sector practice. I am also directly responsible for our work across the Department of Homeland Security.

Deloitte is one of the world's largest professional services firms, with more than 120,000 employees in nearly 150 countries. Deloitte is an association of member firms, each of which is owned by its partners, with more than 5,000 partners worldwide.

In the United States, we have 2,600 partners and 27,000 employees working from 90 U.S. cities. Deloitte provides audit, tax, financial advisory and consulting services to more than one-half of the world's largest companies, as well as national governments, state and local governments, and educational and not-for-profit institutions.

This abbreviated list provides a glimpse of the range of work we do and the types of organizations we serve. I'll add that serving the U.S. government is clearly one of the most significant strategic initiatives for Deloitte. It is a priority that extends all the way up to our CEO and Board of Directors.

We are proud to be working alongside leaders from civilian and defense agencies including the Department of Homeland Security, the U.S. Postal Service, the Department of Defense, FDIC, HUD, and Health and Human Services, to name a few. For these federal agencies and others, we are supporting strategic initiatives including human capital, financial transformation, technology integration, auditability, risk management, and the transformation to eGovernment.

Mr. Chairman, we appreciate the invitation to appear before you and share our perspectives with the committee.

How different can the U.S. government afford to be?

We know that federal government leaders want to import the best practices from private sector experience into public sector operations. We also know that government is different than the private sector. There are differences between pursuing citizen value and shareholder value. And, within the broader public sector, the federal government has unique program needs.

The question we believe the committee needs to address is this: How *different* can the U.S. government afford to be?

Does *different* have to mean *costlier*? Does *different* have to mean *less efficient*? To what extent must the federal government be willing to accept higher costs and greater complexity as the price of its unique needs?

Across the private sector, there are numerous examples of financial transformation initiatives – supported by new technology systems – that have been executed relatively smoothly and economically. However, when similar initiatives are introduced to the public sector, they frequently fall prey to what might be called a "government gap"– the somewhat unique constraints that make it difficult for government institutions to achieve their goals at a level of cost and efficiency comparable to commercial entities.

It is almost as though government is engaged in a match in which it is always playing on someone else's home turf. It's time to look at what can be done to mitigate differences in approach between the public and private sectors, reduce their impact on cost and efficiency, and even identify potential advantages that can flow from the federal government's unique circumstances. It is time for the federal government to create a home-field advantage.

Best Practices

As I described, Deloitte has considerable experience working for departments and agencies across the federal government. We have found that a number of approaches that have worked well for our clients in the private sector shape a set of best practices that build on sound business strategies but apply to government's specific needs. These best practices include:

- **Looking beyond the Beltway:** A commitment to draw upon national and global resources to address clients' issues. It is necessary to look at client

needs and assess them against each capability in the firm. In dealing with federal agencies, it is crucial to go "beyond the Beltway" as necessary to assemble the expertise that best fits the issues at hand. Rather than be restricted to an enclave here in Washington, D.C., as one of the largest buyers of professional services in the world, the federal government is entitled to access the best talent that their professional services firms can provide.

- **Reaching across the firm**: Teams that are well-resourced and integrated across disciplines, functions, and industries provide the wide range of experience and expertise that is essential to managing a project from beginning to end. For example, having the financial acumen resident in the firm can help ensure built-in auditability, while functional expertise in risk management can support enhanced data security. This is especially important in addressing the needs of large organizations with complex requirements. As a large client, the federal government should expect no less from the firms they hire.

- **Involving top managers**: A client service culture that provides incentives for the firm's leadership to participate in direct service delivery, rather than distancing senior executives from the actual day-to-day process of project management and problem-solving. Again, the complex needs of federal government departments and agencies frequently require ongoing attention from senior executives with a depth of experience shaping solutions to unique problems.

These practices have proven to be productive when applied to government in general, and federal government departments and agencies in particular. However, by themselves they cannot bridge all of the gaps between public and private sector organizations. The differences in rationale, structure, and culture play themselves out in a number of ways.

Barriers to Success

How can we bridge the "government gap"? Or, to put the question more precisely: How can we put federal government on an equal – or in some respects even superior – footing to the private sector when it comes to efficiently implementing financial transformation initiatives and the supporting technology systems?

Before discussing some potential solutions, I would like to describe some of the specific challenges.

Uniqueness Has a Cost

First, government must consider the question: How different can we *afford* to be? Most of the systems and solutions that firms like ours bring to federal government departments are designed on the basis of global best practices. Sometimes the response by officials to global best practices is, "you don't understand – our agency's needs are unique." The result? We have agencies deviating from best practices and from the investments made by world-class consulting firms and technology manufacturers to support those best practices.

Unquestionably, the federal government does indeed have many unique needs. After all, as I mentioned, it has a unique mandate.

I doubt that I have ever met a client that does not have unique needs. The question is: How much is one prepared to pay for uniqueness? What is the impact on cost and efficiency – and how much of a difference is the federal government prepared to have the taxpayer bear? Customization is costly. Truly unique agency needs must be defined precisely and kept to a minimum, so that federal government departments and agencies can use broadly accepted procedures from the private sector and capitalize on best practices.

I should point out that there is a growing recognition of the importance of this within the ranks of federal managers. For example, the U.S. Postal Service understood that was the choice they had to make when undertaking a major financial system transformation. They made the decision to choose commercial software, and re-engineered their processes to map to commercial best practices – despite the fact that few software packages are intended to support a $67 billion organization.

Adding to Timelines: Lengthy Procurement Processes

Second, there is a wide gap between timelines in the federal government and those in the private sector. Consider a project that takes 18 months in a commercial operation. In the federal government, procurement alone can take six to 12 months, or more – adding considerably to the overall project time, with the corresponding rise in costs for government as well as for private-sector consultants and vendors alike. Needless to say, that also creates pressure to

reduce costs, resulting in valuable resources being shifted away. In the information technology world, 18 months is the span of an entire generation of technology; often, the product may be obsolete by the time federal procurement decisions are made.

Responsibility Demands Authority

Third, federal departments seek enterprise solutions – but find it difficult to overcome a federated approach to achieving them.

Department officials are often given responsibility, but not the authority they need to fulfill it. Frequently, an initiative is identified as being important to an entire federal department, but nonetheless the functions necessary to its success are farmed out to the outer reaches of its agencies. This leaves no one single manager with department-wide authority to pursue strategic objectives, establish organization-wide priorities, or promote organization-wide support and participation. There is a gap between the task they are given and the authority they need to actually get it done.

Quite simply, one cannot expect managers to achieve global objectives with bureaucratically Balkanized authority. It's hard to achieve success if the person responsible for the program does not have the authority necessary to manage it.

Looking at the Trees Rather Than the Forest

Fourth, perhaps as a consequence of its unique mandate and nature, the focus within government too often tends to be on the process rather than the result. Missing the forest for the trees is an occupational hazard in both public and private sectors, but the impact in government agencies can be especially debilitating. The emphasis on project management tends to evolve into designing specifications and meeting them, rather than developing solutions and achieving them. Yet more often than not the key success factors that should be addressed include stakeholder communication, change management and knowledge transfer, rather than technical specifications. It is too easy to forget that the technology and the systems are only part of the overall solution, not the solution itself.

This contributes to higher costs, as developing separate pieces of a solution discourages overall efficiencies and adds to the length of time for project

completion. In turn, the longer the time horizons, the greater the likelihood that program goals and scope will be redefined before they're met.

Little Incentive for Efficiencies

Fifth, the democratic process does not necessarily lead government to the most efficient business approach in every instance. In some ways, government can run on time frames that can be warped by election cycles and sometimes seemingly arbitrary funding rules. Democracy tends to be like that – and we all elect to live with it. Certainly, government agencies have little choice but to live by a different calendar than other organizations.

However, this creates several management challenges. For one thing, it disconnects agency revenue and cost savings from appropriations and budgeting. Unlike commercial entities, public agencies do not generally get to retain the financial benefits they generate. With little incentive to capture efficiency gains and realign resources, budgets have no direction to go except up.

Despite these challenges, business practices can be better aligned with government's unique needs – such as more flexible funding rules for complex projects. We also need to utilize the incentives that prove so powerful in private enterprise: When agencies achieve savings, for example, they should have the opportunity to share more substantially in those.

Bridges to Success

Mr. Chairman, I promised a few moments ago that, in addition to the problems, I would get to some solutions. Let me spend some time now on a few ideas as to how federal departments can facilitate the implementation of financial transformation initiatives and the accompanying systems that make them work.

- **Align to Strategic Objectives**: To begin with, it is essential to align resources with objectives. Strategic objectives must be clearly identified, and linked to the federal government's overall priorities. That must include expanding the use of common solutions within the federal government. As I've noted, uniqueness has a cost, and when federal departments wish to mandate approaches that differ from globally-recognized best practices, it is important to carefully balance that cost against strategic objectives that have been identified. The question is not whether an agency's requirements are unique. The question is, how great

a cost does that uniqueness truly justify? To ensure the question is consistently addressed, it is necessary to clearly establish executive priorities first, providing a rational basis for allocating resources.

- **Focus on Outcomes**: In addition to aligning efforts to objectives, the focus must be on outcomes. Incentives must be provided to encourage managers to focus not on part of a solution – such as certain technologies or systems – but on the solution as a whole. For example, the Office of Management and Budget and the Office of Personnel Management recently took an encouraging step. They worked together to put out an open Request for Information seeking the private sector's best ideas on government-wide solutions to financial management, people management and grants management. It's refreshing: They're saying – 'anyone who has a proven solution that can be adapted for government-wide adoption, bring it forward.'

- **Wanted – Big-Picture CFOs and CIOs**: It is time for the federal government to join the private sector in further raising and broadening the roles of the Chief Financial Officer and the Chief Information Officer. It may be easy to focus these highly qualified executives on specific technology or compliance efforts, and lose sight of the overall goal – delivering tangible results to the organization and ultimately the public. CFOs and CIOs can enable and sustain the transformational efforts of the departments and agencies they serve by developing a vision for financial and technology management that is aligned with mission-critical objectives, and government-wide initiatives such as the President's Management Agenda. The role of CFOs and CIOs should be transformed from systems managers, financial scorekeepers or czars of compliance to "trusted advisors" who leverage their perspective across a department's people, processes, technology and mission objectives to improve financial and program performance and ultimately to drive performance standards.

- **Incentives and Authority to Pursue Savings**: While we cannot change the election cycle – nor do we intend to repeal democracy or set James Madison spinning in his grave – there are things that can be done to span the cycles of government, and achieve decision-making consistency and cost efficiencies. Managers can be given broader incentives to pursue savings and clearer authority to achieve business goals across budget and election cycles.

- **Continued Momentum – 100 Day Results Cycle:** When efforts grow beyond an 18-month time frame, an initiative runs the risk of collapsing under its own weight. In government as everywhere – nothing succeeds like success. It is necessary to foster clear, visible successes to support continuing implementation, and more importantly, to provide a continuing focus on larger objectives. We believe in pursuing what we call a "100-day-results cycle" – targeting short-term results that are achievable, regular, frequent, and build to the ultimate goal – while maintaining a keen focus on how such results ultimately fit into the overall vision. Similarly, expectations must be managed throughout the process, so that the roadblocks one is bound to encounter do not become insurmountable, simply due a loss of confidence among stakeholders.

- **Providing Clear Authority:** It is crucial to align the level of authority for a program with the degree of its importance. If an initiative is important to a department, clear ownership and the authority to achieve results must be maintained at the department level – rather than being negotiated among a broad range of its agency components that are not broadly familiar with the department's overall needs or accountable for overall results.

- **Accessing Specialized Talent**: Budget flexibility would help the federal government to obtain the specialized skills many of its projects demand. Differences in rate schedules and expenses can too easily disadvantage government in comparison to commercial clients. I've heard federal government leaders comment that they often feel frustrated by the inability to get their professional services firms to provide the "A" team – with either relevant commercial or government expertise – to work on critical initiatives. The federal government would be well-advised to more broadly allow for specialist categories where more highly priced capabilities may be in order. With this type of change, the federal government can encourage its contractors to tap deep into their talent pool, and ultimately realize efficiency and effectiveness gains far in excess of the added cost.

- **Share the Rewards**: If the public sector is to enjoy the benefits of applying private sector best practices, it needs to imitate the kind of innovation in compensation that spurs private sector performance. There are innovative ways to provide incentives for the use of private sector talent – by encouraging the use of performance-based contracts, under which the level of contractor compensation is contingent on meeting well-defined

performance criteria set out by the federal government. By setting up payment arrangements that reward contractors based on specified results, this approach provides them with an incentive to utilize the level of talent necessary to achieve the results desired by government.

- **Provide Necessary Resources**: The federal government must also address its tendency to provide fewer of its own people working with project contractors than the private sector would on a comparable project. The standard commercial ratio is one for one. In federal government projects, the ratio can often be one government employee to 15 consultants. This clearly becomes an issue when addressing two pivotal areas that are essential to the success of any financial transformation initiative: change management and knowledge transfer.

Mr. Chairman, as I said at the outset, the federal government has many unique needs. Meeting them in the most efficient manner is a major challenge. While we do not pretend to have a pocketful of easy answers, we appreciate the opportunity to participate in this process and advance the discussion.

These are challenges that cannot be met just by tearing a page out of the private-sector playbook. But the way of dealing with that is not to throw out the book, but rather to determine how the plays can be adapted to government's own playing field. Taking established best practices from the private sector, and adapting them to the objectives and requirements of public sector performance – that is the approach that can help build for the federal government a true home field advantage.

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Mr. PLATTS. Thank you, Mr. Pellegrino.

I was remiss in not recognizing the ranking member of the committee, Mr. Towns from New York. Thanks for joining us, Ed.

We are going to jump right into questions and try to get as many subject areas as possible before the votes call us over to the floor.

I want to start with, Mr. Cruser, in your written statement, and you touched on it in your oral statement here today, you capture what our subcommittee has been after when we look at financial management across the Federal Government, which is, in your words, "Begin the journey of moving from an operation that primarily collected data and reported on results, with little time for analysis, to an operation where having a timely, accurate, and comprehensive data set is a given and more of their time is spent in the analysis and interpretation of the results." That is exactly what we are seeking to do as an oversight committee is help that goal be achieved across the Federal Government in all agencies. And each of you and your companies play a critical role in that goal being achieved, working with the agencies themselves, the software companies, and having a partnership to allow us to get the most efficient operation out there and truly where we get to a financial management system that gives that timely reliable data that can then be relied on in the management of the agency and its programs.

One of the things that was touched on in all of your written testimonies and again here today was the issue of COTS software and agencies' ability to accept that commercial off the shelf versus customizing. I would be interested if each of you would be interested in commenting on your experience of how common is it that an agency refuses to accept that off the shelf and wants to customize and basically keep their business practices as are instead of adjusting internally to what is much more readily available. And then two followup parts to that. Where there is an agency that wants to customize and not use a COTS system, what type of discussions go on between your companies and others with the agency in question to try to weigh the pros and cons, including the cost, as well as the impact of upgrades that will also have to be customized. If you could each give me your opinion of how common it is, and then those discussions that do or do not go on. We will just start and go across.

Mr. CRUSER. Sure. Happy to, Mr. Chairman. I would argue it is very common to see resistance to change. And I do not know that is actually limited to the Federal Government. We see it in our commercial clients not wanting to change. I think it is somewhat unique in the Federal Government in that typically managers in the Federal arena are so accustomed to working with exceptions, the rules and regulations by which they live. The field handles all of the normal daily processing, so all they get to see really is exception after exception after exception. So they begin to live in a world where they think of themselves as being unique because they really only see the unique aspects as opposed to the 90 percent of transactions that are "normal" transactions. So I think there is a lot of resistance to changing their processes. But I think there is just a lot of resistance to change.

In my written remarks, I noted, regardless if you do not like to change, a little change yields a little improvement, a lot of change yields a lot of improvement. That is really the discussions we have when they want to customize. We try and explain to them that whatever you think you are saving in pain now, you are going to have that pain at the next upgrade and the following upgrade and the following upgrade, not being able to do what you want. So I think we spend a lot of time trying to convince people to customize as little as possible, because ultimately, at least at IBM, we want the client to get as much value as possible because that is how we get our next good piece of work is because of the results we had with client A to take to client B.

Mr. PLATTS. Thank you. Mr. Halstead.

Mr. HALSTEAD. Sir, I would say there is resistance to change, but I would say there is resistance to change anyplace you implement an integrated agency-wide financial system, whether it be the House of Representatives or the Department of Homeland Security or a private industry company. It brings on new processes, new procedures, people have to sit in training, it slows down their work processes, and now they are faced with meeting their day to day reporting requirements and incorporating all the new things that the new system brings along. You also have the program manager of the COTS implementation that is concerned about time lines that he has been given. Where the COTS system may require a change in this business process X, if he goes out and changes that business process X, he is going to slow down his implementation, it is going to cost more, it is going to take more manpower.

So when you are planning a COTS implementation, the milestones, everything looks very rosy, and then you start and it can quickly balloon into something that you do not want it to. So there is resistance just from the classic human nature of resistance, and then there is resistance because you know what it can evolve into if you allow it to.

Mr. PLATTS. Thank you. Mr. Lineberger.

Mr. LINEBERGER. Mr. Chairman, we see resistance almost 100 percent in terms of across the agencies. But where we see it is middle to lower management. The leadership I think is beginning to understand the peril of not accepting practice out of the box. In fact, the governance model that we discussed in our testimony provides a construct to prevent that bottoms-up "That is not the way we do it today," or "The way we do it today is the way we ought to continue to do it." Provide some constructs for filtering that out of both the requirements and the configuration process through a good governance model. A change control board, a change management process will help filter through what actually has to be changed to support the business versus what is being proffered up as "We need to continue to do business the old way."

To the second part of your question, the dialog we have about custom software development in the financial arena, we will not do it. We do not enter into the dialog because it is bad for the Government to try to build a bottoms-up custom financial system.

Mr. PLATTS. OK. Mr. Pellegrino.

Mr. PELLEGRINO. Mr. Chairman, it is important to recognize the timing of a hearing like this on this subject because we are in a

transition that calls for something new in order to be successful with the implementation of commercial off the shelf tools as important as these enterprise systems are for achieving the objectives of Government. We have a generation, and generations, of managers in the Government who have had experience with custom software development systems that have been built uniquely to meet the very specialized needs of Government and we are in a period of time where those are being replaced and a new generation of leaders are emerging with expertise in this new way of doing business. So, in the future I would expect the Government to be again setting a standard and helping to shape best practices rather than seeking to implement those of others.

But in the meantime, I think it is very critical for us to not only respect and appreciate the uniqueness that Government has, but also look at ways for Government leaders to justify and make sure that the investments that they are making in dealing with that uniqueness is something that returns value to the citizen. I think from that perspective, we encourage a much more I think accelerated approach to teaching the best practices, focusing on resource deployment and change management, so that the leaders here in these agencies feel that they have the budget and the support to take on the transformation of their agencies that needs to be done in order to be successful.

As far as the discussion, absolutely, this is a dialog. We are moving from projects that have been about software and that today it is not about the software, it is about the people and the organization. And this is a journey that these agencies are on where there are many turns and there are many chances to do the wrong thing or the right thing, and helping navigate through that is something that our firm and the leaders that we have who have had experience in successful implementations are very focused on.

Mr. PLATTS. Thank you. I have some followup questions, but I want to yield to the ranking member, Mr. Towns from New York. Ed, apparently we expect votes pretty soon. And then figuring that first vote is going to be open 20–25 minutes, my guess is we have 25 minutes or so here.

Mr. TOWNS. OK. Thank you, Mr. Chairman. I also thank you for holding this hearing as well.

Let me just sort of pick up on something that you said, Mr. Pellegrino, and I would like for you to expound on it. You made the comment that Government is different from private sector. Could you expound on that. Are you talking about red tape or the bureaucracy? What are you really talking about?

Mr. PELLEGRINO. Sure. The objectives of the Government and the way that it manages its operations and its objectives are very different in the sense of a focus on creating value for its citizens as opposed to the private sector motivation of creating shareholder value. That suggests something that I think is very fundamental to these projects; and that is, these projects and the efficiency of Government in meeting citizen needs is primarily focused on how to meet the needs for equity, how to meet the needs for performance and delivery, how to meet the needs of the Government workers themselves in a way that addresses those unique roles that Government plays in our country and around the world. I think

from that standpoint, this is not about differences that should be a disabler or should prevent Government from seeking world class operations, but rather should be something that should be reflected in its approach to implementing a business case that strives to meet those objectives of delivering value to the citizens for the taxpayer dollars.

So there is a fundamental difference but it is not a barrier that should be preventing Government from achieving objectives in these types of programs.

Mr. TOWNS. Thank you very much. Let me just throw this out to all of you, and we will just go right down the line, starting with you, Mr. Cruser, is the Government dedicating enough resources to address the needs of agencies seeking to implement secure and efficient financial management systems? Enough resources there?

Mr. CRUSER. In my experience, while the total count of resources might be enough, I do not think that they have pulled enough of the right talent off of the line and dedicated them to the implementation of a financial system. So, unlike in a commercial enterprise where ten people will be taken and told they no longer have your old job, all you have to do is implement systems, we find in the Federal Government we have access to 20 people but they have a day job doing all the things they always did and around that day job they need to do the financial implementation. So in the end, you do not have enough focused resources typically to be successful in the financial implementation.

Mr. TOWNS. Thank you. Mr. Halstead.

Mr. HALSTEAD. Sir, to dovetail on that, I would say that the resources are probably there, the resources and the technical expertise that needs to be there, though need to focus on things like project management capabilities, earned value management capabilities, specific technical and functionality capabilities. Many times a budget director is taken off their normal job and they are put in charge of the implementation, or at least a component of the implementation. So without knowing what the numbers are for resources, I would say they probably are sufficient but they probably need to be realigned a little bit to focus on, for instance, front-end analysis long before the purchase is made, and then post-implementation testing and sustainment after the implementation is made. So there could be some realignment that I think would help.

Mr. TOWNS. Thank you very much. Mr. Lineberger.

Mr. LINEBERGER. I believe that overall the number of dollars and head count—the dollar amounts are adequate, there is enough dollars, the human capital is the shortage and I do not see enough of available resources. Our clients are typically one deep in a lot of these critical functions. They are making day to day tradeoffs between pulling someone off the line and letting a day to day type activity languish versus dedicating their one deep person to a particular functional area.

Second, within the programs, I do not see enough resources, whether dollar or human capital, allocated to the change management function. Across the board, I think we are not spending enough time and energy in the preparation of the work force and the training of the work force in advance of the deployment.

Mr. TOWNS. Thank you. Mr. Pellegrino.

Mr. PELLEGRINO. Mr. Congressman, we do not see that adequate level of resources typically on these types of complex engagements and programs. We see in commercial implementations that are similar to these in complexity as much as a one-to-one match of the Government resources with the private sector resources in order to help support the knowledge transfer to the workers from the private sector experts in order to provide for change management, provide for the business process change that needs to occur, and it is really done in a collaboration together. We do not see that type of level of commitment of resources. We do not see those resources being simply available, let alone the fact that if they were available there are many other things that are also a priority in these agencies. And so this is an area where the business model and the approach to implementing these complex programs needs to match the resources available and that there needs to be a clear agreement in terms of the approach to procurement, the approach to the partnership with the private sector partner who is assisting the agency that is consistent with his level of resource issues that are quite common.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Towns. Mr. Pellegrino, I think it was you, in talking about the customizing issue, I think you said a "justification for uniqueness," that maybe there should be some threshold that is established. Were you envisioning something at the CFO/CIO level of saying that we are going to spend X dollars on customizing instead of using a COTS system in presenting that to the secretary or head of the agency, or is it something lower level where that justification should be made to the CFO/CIO?

Mr. PELLEGRINO. I think you can take the approach of both looking at this at the overall program level, at the COTS level, and you can also take the approach of looking at it all the way down to a specific business process within the agency. And what I encourage is that the leadership involved with these programs that are responsible for achieving the business objectives treat this as a portfolio and that they manage that portfolio based on ultimately getting to the agency objectives that they are expected to meet while also justifying where they are going to deviate from either Government accepted standard processes or tools or industry best practices. And that justification should be treated as a business case, that deviating from that is for a purpose and it is a purpose that meets either a unique agency role, or a need of a citizen, or other part of the Government.

Mr. PLATTS. Thank you. Across all of your testimonies is the importance of leadership and setting the tone in that culture of an agency, department with the senior leaders. What would be your opinions on the level of involvement and interaction between CFOs and CIOs in deciding what this new financial management system is going to look like, what programs are going to be used, and whether it is going to be customized or not, what business practices, what significant changes. How close is that dialog in your opinion between CFOs and CIOs?

Mr. LINEBERGER. Mr. Chairman, in every case that we are implementing, there is a great amount of dialog and it generally shapes up around enterprise architecture and the technology base as a

purview of the CIO, both dealing with the early implementation, supporting the development, supporting the deployment, and ultimately the role of the CIO in sustainment. So they are sort of owning the architecture and then being involved to assure that the network connectivity and throughput of the infrastructure beneath the application is adequate to support the deployment. And what we try to do actually, is get—I believe those are a deputy secretary for administration, budget, and finance—the Deputy of Administration to become the program sponsor to which in many organizations both the CIO and the CFO reports. So that we have a single champion there to become an arbiter if ever necessary. But then collectively giving the CFO the purview of what we call the applications layer. Then the business practices associated with the business of finance, have him take the business approach, defining which practices will or will not be implemented, and really having the CFO or his proxies push back on the customization and configuration in favor of the business practice and substantiate it.

Mr. PLATTS. You touched on a followup that I was going to have as part of the interaction between CFOs and CIOs. Who is your main contact person within an agency or department that you are working with? You seem to try to identify the deputy secretary or project person that kind of leads the charge.

Others that would like to comment?

Mr. HALSTEAD. I would say we are finding much the same thing. The CFO/CIO are working together. There still probably could be some improvement related to a single senior executive that takes the fall if the system implementation is not successful.

Mr. PLATTS. The accountability, that this is your responsibility and there is no passing the buck or shading the responsibility?

Mr. HALSTEAD. A lot of the questions and answers have been related to the difference between private industry and public sector. I would say one of the greatest differences, certainly, is that in the private industry there is a single person that will lose their job if the implementation is not successful. I am not sure the same can be said for the public sector. So although the CFO and the CIO work together very well in terms of funneling up the requirements on the CIO side and handling the finance side, the functionality on the CFO, down the road sometimes that synergy loses some momentum.

Mr. PLATTS. That accountability example, I believe it was DoD where they had spent $100 million on a new system and 7 years in realized that this was not going to work. In the private sector, if a corporation spent $100 million and in 7 years, someone would be out the door. We just say, well, start over and try again. Big difference.

I want to try to touch on a couple of other topics, if we could. Mr. Towns, do you have other questions?

Mr. TOWNS. Yes, I do, but I will defer.

Mr. PLATTS. Let me touch on one other one here. Mr. Halstead, in your statement you talked about one of the challenges in the agencies is that they purchase a system and think they are done as opposed to thinking that is just the beginning of a long process. That highlights a question I was going to touch on, which is, with the systems being used being certified under the Joint Financial

Management Improvement Program and that they have been tested and meet the requirements of that, it seems that we still have agencies that put in these new systems and then cannot do what that certification is supposed to make sure they do. A specific example would be NASA in their implementing a new system and yet cannot prepare financial reports as the system is supposed to be able to do. Any thoughts on how that happens, not necessarily specific to NASA, but in a broad sense?

Mr. HALSTEAD. I would say, in general, two things. First of all, there is a lot of energy behind identifying which of the COTS systems they are going to purchase, and there are not that many options. Then the system is implemented. It is being overlaid in a series of legacy manual and integrated processes, some are not integrated, and it is being overlaid with a number of feeder systems that some are not interfacing properly. So you have the issue of a new application being installed in an old environment, and you have the instance of a new application being installed in an old business process environment. So even if you come on board with a new ERP, you have still got many of those same issues. I do not know specifically what happened at NASA, but I know from helping other Federal agencies that is what we encounter more often than not.

Mr. PLATTS. And to some degree it is that unrealistic expectations of we do this system and, boom, we get immediate results versus the added commitment of implementation that is really going to be required.

Mr. HALSTEAD. Well, it is high level architecture type of incompatibility as well as small frustrating things like my requisition has ten digits and this new COTS application has nine and so I cannot process my documents. That can slow down the process for successful implementation. So we do see it at the higher level, the frustrations, as well as the worker staff member who cannot just get their work done and transition to the new system as quickly as they would like.

Mr. PLATTS. Thank you. Mr. Towns.

Mr. TOWNS. We talked about change is difficult and you indicated the resistance of that middle management and below. Why do you think that has occurred? And I agree with you that change is difficult. I have noticed that in my own office. [Laughter.]

Why do you think that occurs?

Mr. CRUSER. I think one of the pieces is a middle manager understands today what they do and how they can be successful. And I think oftentimes in communicating what this change will be it is very hard for that individual. We have not done a good job at explaining to that individual here is what the new world is going to look like, here is how you are going to be successful in it, and today you have the skills you need to be successful in it or you are missing this skill and we are going to get you that skill before you need it so you will be successful in this new world. We do not paint a very good picture for what it is going to look like tomorrow. So if you do a good job today and you know how to do it, you are fearful of maybe I will not be able to do a good job tomorrow because no one has really told me what tomorrow is. So I think it is a long

term better communicating of what the future is like and what your pathway is to get to that future.

Mr. TOWNS. Thank you. Do you want to add something?

Mr. PELLEGRINO. Yes. I would add, Mr. Congressman, the challenge here is that so often these things are built based on the processes that have worked before and what these managers have grown up with in their careers. And these now, with new expectations, with new processes that these systems help enable, these become people projects. These become projects that are not just about technology, they become projects where the difficult process of leading people to achieve a new set of objectives, to achieve new goals is one that is just quite hard and it needs to be acknowledged in the approach to these programs that type of change for a work force this large is quite a difficult undertaking. And so, we would like these leaders to think that the project really starts when those systems are implemented rather than thinking of this as being a whole new world when they come in with the a new system implemented yesterday and that everything is going to be easy. It is quite a difficult process. And the people change aspect is the hardest thing that these managers will face in their careers in programs like this.

Mr. TOWNS. Thank you. Thank you, Mr. Chairman.

Mr. LINEBERGER. Mr. Towns, may I comment?

Mr. TOWNS. Yes.

Mr. LINEBERGER. I think also if we look upstream in the program justification process, the business cases, the business case that the secretaries have to bring forward to get funding generally is justified around cost-savings, cost take-out. And so what you begin with is a process by which people become fearful—if this becomes implemented, where are they going to get the cost-savings, where are they going to get the efficiencies. That translates into personal risk around their job. So that to look for ways to justify or to be able to implement these programs and sell them on quality, cost avoidance, and better data, as one of my colleagues talked about, looking for ways to justify and move the programs through on those bases rather than pure it costs this today, we can go to shared services and have this many fewer people, and that is something at the beginning that is setting a tone of resistance out of personal fear, in my opinion.

Mr. TOWNS. Thank you very much.

Mr. PLATTS. Thank you, Mr. Towns. I am going to just skip the first vote. So if you want to——

Mr. TOWNS. I think I need to go.

Mr. PLATTS. I am going to let you run. Thank you for your participation.

I am going to try to get in two more questions here before running. We have a couple others I will not get to, not many, but if we present to you a few, would you mind submitting answers just in writing back to us for the record, that would be great.

One other one I wanted to touch on. Earlier I asked how common it is about customizing versus just taking the COTS system. How common do you find it with programs that you have been involved with that at some point there is a major change in direction once you get into it, and how would you classify the cost of that, wheth-

er it be in dollar terms or time and delay? How common are those type of delays, and does it relate to just not enough leg work being done up front by the agency of what they really were looking for from the system that you are helping them to implement?

Mr. CRUSER. I would start by saying the desire to make a significant change happens daily and much of the work we do is to convince people not to. I think what I am seeing over the course of the last several years is more people are understanding that every change they make—I almost use a house renovation example for people, of every time you make a change, the builder makes a lot more money. So you have to really want this change because it is going to delay things, and it is going to cost more money, and it limits the surety of our success. So, you know, we want to be successful in phase I, phase II, phase III. So I think we convince them more often than not, not to change. And when it is a change, it is typically something that they cannot get around—some policy change or regulatory change has forced some change. We have to make that change, you integrate that successfully in the program and move forward.

Mr. PLATTS. Great. Mr. Halstead.

Mr. HALSTEAD. Sir, I would say that much of the change is generated by organizational—if the front end requirements analysis is done methodically and properly, and I believe that in most cases it is, the organization is still evolving. We can take Homeland Security and the Department of Defense over the last 3 years. That organization today is still getting new organizational charts nearly weekly. So what end state will this COTS application support, who will do the reporting, who will do the imputing, who will do the different levels of treasury reporting, those questions spawn changes, unfortunately, required to the overall core application or the feeder systems that are going to be implemented. So if the agency has set itself up for hitting the bull's eye rather than just the target, which is sometimes a problem, and then those changes start coming in, there is an expensive customization process that is required.

Mr. PLATTS. Thank you. Yes?

Mr. LINEBERGER. Mr. Chairman, if you would set a threshold somewhat, let us just say 10 percent of program cost or schedule, as qualifying as major, I do not see in the programs we are working any single customization or individual requirements change at this point having driven that kind of a change. What I do see at that level of impact is inclusion of new scope. An example would be budget formulation versus execution. Most of the COTS packages have evolved with a pretty good budget execution capability organically built in; however, they are all generally weak on budget formulation. So that as they begin then to say let us bring budget formulation into this, you do rebaseline, it gets really more aggregating or bringing in new scope rather than, say, one single process change or change order. So I do not see major, in terms of at least setting that as a standard, individual changes or reconfigurations causing that.

Mr. PLATTS. OK. Mr. Pellegrino.

Mr. PELLEGRINO. I just would like to bring a slightly different perspective on change, in that the more that these programs are focused on enabling new business models, greater efficiency, trans-

formation of agency operations, there needs to be an environment where change, even major change and course corrections and adjustments to business processes, the strategies that departments are executing themselves, then they need to be enabled. The specification orientation around procurement, the length of the procurement, the lack of a partnership between the private sector team and the agency in achieving objectives versus meeting specifications, is one that there can be a lot of resistance to changing the spec while at the same time the mission is changing right underneath the project itself. That creates a departure. The business leadership in the Government is going to continue to stay focused on meeting constituent needs and the mission while it is evolving while at the same time the degree to which these things have been defined precisely have the project teams kind of going along as if nothing has occurred for fear that it will raise cost, for fear that they will be held accountable for missing their budget and their milestones and so forth. So there needs to be an environment where, while minimizing customization, change is enabled to make sure that objectives are met and that the leadership on both sides are held accountable for meeting those targets amidst a rapidly changing environment here in Washington.

Mr. PLATTS. So we keep the focus on what is the ultimate goal we are after and do whatever is necessary, including sometimes change, so we achieve that ultimate goal.

I am going to close with, one, an observation, and you have touched on it in your statements and in your written testimony as well, and that is the importance of the public sector following the example of private sector in raising the level of importance or focus and prioritization to the CFO position and the role the CFOs play. That is certainly something that this subcommittee agrees with. As with DHS, we are trying to raise the standard at DHS of the CFO and the priority given to that position and that office.

My final question is, is there something and I will say hard to do, but any one thing in particular you think this subcommittee really should be looking at, be aware of as we follow some of the major implementations that are ongoing in various agencies for our oversight responsibilities? Is it that interaction between CFOs and CIOs? Is it the regard the CFOs have at the senior level, the secretary level? Is there any one thing that we should really look for or be mindful of? How about we just go down the line.

Mr. CRUSER. I guess the top item that would come to mind for me would be to really make sure that as it is being reported to you, you understand here is the ultimate goal that we are trying to get to and here is the progress that we are making to that goal. Because I think all too often it is much easier to give a status report that at the end of the day you do not have any idea if they are close to that goal or not close to the goal as they tell you about all kinds of other things that got done as opposed to how effective they were toward meeting the end goal.

Mr. PLATTS. So advancing down the path, not just being busy along the path.

Mr. CRUSER. Right.

Mr. PLATTS. OK.

Mr. HALSTEAD. And I think that starts with establishing what standards this COTS off the shelf solution must meet, but then allowing for flexibility in how the specific agency will use those standards to meet its reporting requirements. And then the third component would be the accountability of each individual person for their role and responsibility.

Mr. PLATTS. OK. Thank you. And this is a vote where I am going to have to run here shortly.

Mr. LINEBERGER. I would look for evidence of a strong governance model that includes configuration management and change management, and participation in each of the operating divisions in the resolution whether or not they are adopting those requirements, changes, those configuration changes in the program.

Mr. PLATTS. So that management team from top to bottom is truly there and it would fulfill its assigned mission.

Last word, Mr. Pellegrino.

Mr. PELLEGRINO. When these efforts fail to achieve objectives it is usually no surprise. The leadership, the teams involved knew well in advance that things were not going along as planned. And we should be looking at what those indicators are where resources are not being committed adequately, where changes are being made on an unnecessary frequency, where dates are being missed, and where things are not being accepted as specified. Those are all attributes that need to be looked at by leadership that are accountable for achieving these objectives and taken seriously so that course corrections and adjustments can ensure value for the dollar being spent.

Mr. PLATTS. Great. Thank you. And I again thank each of you for your written testimony and your appearance here today. I apologize for the time crunch but I do not think you want to sit here for an hour while we are over there voting. So I appreciate your letting us run through this. We will keep the record open for 2 weeks to followup with just a couple of written questions for you and look forward to those responses.

This hearing stands adjourned.

[Whereupon, at 3 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

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