

Roadmap Agency Advisory Group

9/29/2008 Meeting Materials

Agenda

- Next steps in the plan to modernize the state's core financial systems
 - What is the traditional / best practice approach to sequencing the implementation of the core financial system components?
 - Does the approach differ for ERP and hybrid solutions?
 - What are the reasons for the best practice approach?
 - Are our highest-priority components the same as the components recommended as best to implement first?
 - Are there strategies for implementing our highest priority needs first but still meeting the critical success factors that drive the typical recommended sequence?
 - Would the strategies differ for ERP and hybrid solutions?
 - What are the benefits, challenges and risks of pursuing these strategies?
 - What does research tell us about options for the timeframe for implementing core financial systems?
 - What does research tell us about possible phasing strategies?

Review: A building-block approach to develop the plan to sequence and schedule the modernization of core financial systems

September meeting

- Confirm which systems/processes are in the scope of this plan
- Confirm agreement on which systems/processes have the highest priority for modernization
- Confirm the characteristics of a successful core financial system modernization sequence, schedule and plan

First October meeting

- Review options and best practices related to the implementation sequence for the general ledger and other priority components
- Review the pros and cons of implementing in a sequential fashion over an extended time and full implementation within a shorter period of time
- Confirm components and timing of ERP-related costs
- Confirm any other critical dependencies
- Begin discussion to answer the question, “What modernization sequence makes the most sense give the urgent business priorities and key dependencies?”

Second October meeting

- Review answers to questions from first October meeting
- Decide the modernization sequence and confirm the portion to be conducted next biennium
- Discuss other issues critical to resolving in order to produce a successful plan

November meeting

- Review draft costs of the next-biennium proposal
- Finalize issues and high-level plan components

What is the traditional / best practice approach to sequencing the implementation of the core financial system components?

Recommended or traditional sequence for ERP solutions

1. Implement the base financial modules including:

- **General ledger accounting—including chart of accounts, financial reporting**
- Payables accounting, vendor relationship management
- Accounts receivable/collection management, local fund management
- Asset lifecycle management, capital asset accounting
- Cost accounting, project accounting

Why?

All modules “hang on to” these financial modules

- Maximizes the ERP integration advantage – input once for multiple purposes
- Reduces risks of interface error, complexity, rework or failure
- Allows for simplified integration if other instances of the ERP are implemented within the enterprise
- Supports availability of enterprise data at the outset

2. Subsequent modules are added for other core financial activities as needed, including:

- Human resource management tools
- Revenue management/distribution
- Budget tools

3. Next modules are added for other business support activities

What is the traditional / best practice approach to sequencing the implementation of the core financial system components?

Recommended approach for hybrid solutions *(what we've learned so far)*

1. Design the structure of the GL and chart of accounts first.

Why?

- Similar to reasons listed for ERP
- Data coding structure would be standardized for better integration other components with the General Ledger
- Reduces risks of interface error, complexity, rework or failure

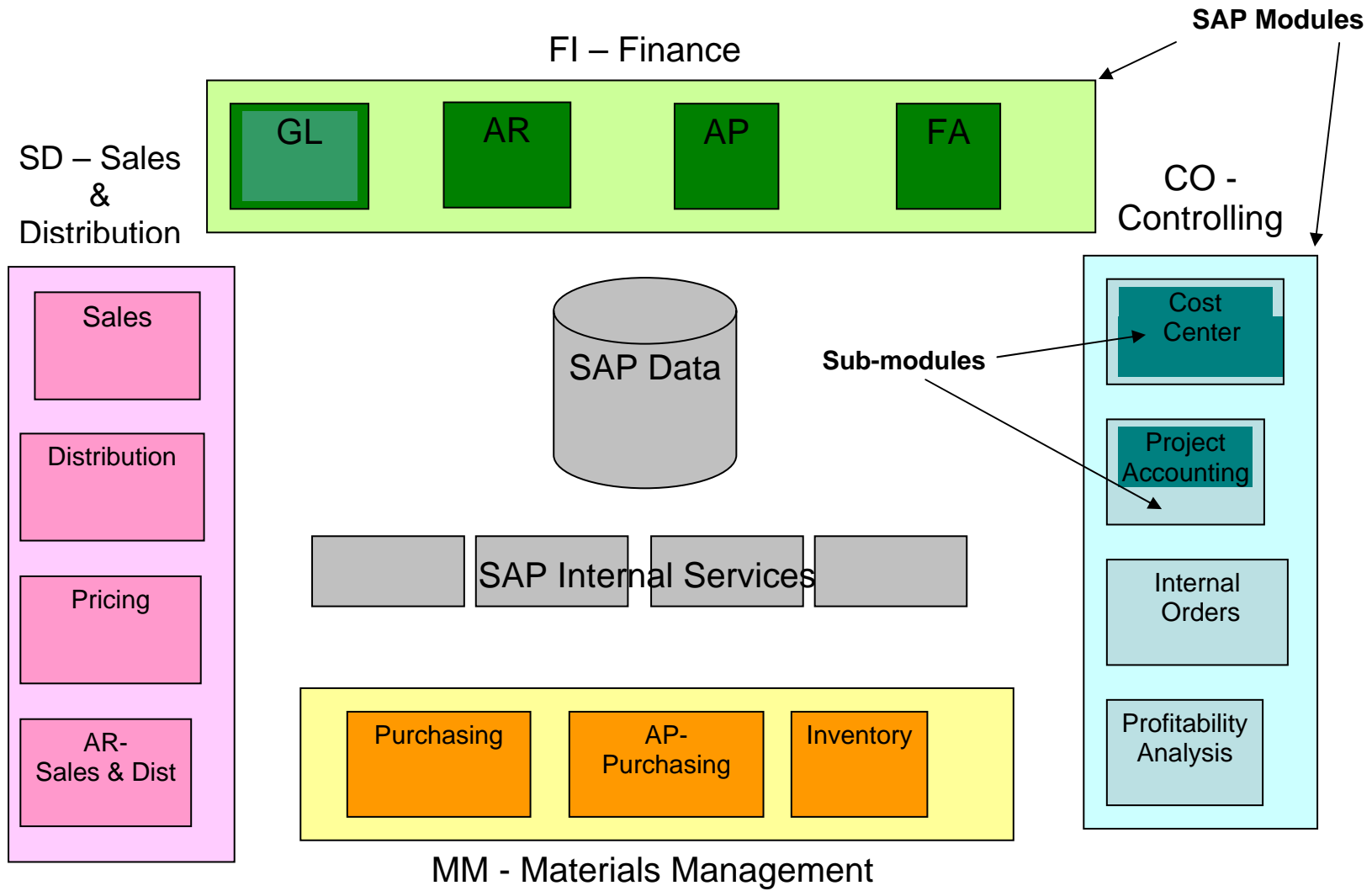
2. Sequence the implementation other components based on business needs and other dependencies

Are our highest-priority components the same as the components recommended as best to implement first?

	State of Washington – Business Need Priorities	Recommended implementation sequence - SAP	Recommended implementation sequence - Hybrid approach
1	<ul style="list-style-type: none"> • Payroll enhancements • Time, Leave and Labor Distribution • Benefits Management • Position Management 	<ul style="list-style-type: none"> • General Ledger accounting—including chart of accounts, Financial reporting • Payables accounting, vendor relationship management • Accts Receivable/collection, local fund mgmt • Cost & project accounting • Asset management 	<ul style="list-style-type: none"> • General Ledger structure—including chart of accounts
2	<ul style="list-style-type: none"> • Accounts Receivable (includes collection mgmt) 	<ul style="list-style-type: none"> • Human Resource management • Revenue mgmt and distribution • Budget Tools 	<ul style="list-style-type: none"> • Other top priority needs
3	<ul style="list-style-type: none"> • Procure to Pay process (vendor solicitation, vendor relationship, orders mgmt, payables accounting) • Asset management (consumable inventory mgmt, asset lifecycle mgmt, capital asset accounting) • Revenue management (including revenue distribution) 	<ul style="list-style-type: none"> • Other business support needs 	<ul style="list-style-type: none"> • Next priority needs
4	<ul style="list-style-type: none"> • Performance Management capability – cost accounting, performance measurement 		

So . . . are there strategies for implementing our highest priority needs first but still meeting the critical success factors that drive the typical recommended sequence?

A conceptual view of SAP architecture



Are there strategies for implementing our highest priority needs first but still meeting the critical success factors that drive the typical recommended sequence?

A strategy suggested by SAP:

- As a first step, conduct a financial object mapping exercise:
 - High-level business requirements and scenario documentation--??—*Need to confirm what this is exactly*
 - Business organizational structure
 - Documented business process requirements--??—*Need to confirm what this is exactly*
 - Object Mapping Structure for the following modules and sub-modules
 - GL-General Ledger
 - CO-Controlling-- Controlling. Includes cost center accounting, product cost planning, product costing, profitability analysis, profit center accounting, activity based costing, enterprise controlling. Includes revenue and expenditure accounting, no balance sheet.
 - FM-Funds Management
 - PS- Project Systems. Includes support planning, control and monitoring of long term highly complex projects with defined goals.
 - Interface Design Process
- Then implement modules and sub-modules necessary to support the highest priority business functionality first.
 - Would include “stub” implementations of some modules, like the general ledger, to ensure business transactions are completed properly within SAP for that business process.
 - In a stub implementation of the general ledger, the SAP general ledger need not be used for all general ledger activity.

- **Key Objectives**

- Establish statewide general ledger and chart of accounts structure that will be used for the SAP components of the financial system
- To accomplish, in a different approach, the key success factor that drives the traditional sequence
- Allows you to then implement financial components without a wholesale move to the SAP general ledger

- **Has this actually been done before?**

- We understand yes, but need to follow up with more research

- **Key Challenges and Risks (we've identified so far)**

- Mapping exercise is most successful when done with a real implementation in mind
 - A wholly theoretical design of the chart of accounts will miss things
- Increases the number and type of interfaces to manage—with two general ledger coding structures in use—NOT TRIVIAL
- Risk of having to redesign the chart of accounts structure, with much rework, if it is not done well initially
- Need an effective integration infrastructure in place

SAP--Initial Notes on Implementation in Business Priority Order – Work-in-Progress

1. Time and Labor Distribution	2. Accounts Receivable	3. General Ledger and Accounts Payables
<ul style="list-style-type: none"> • Quick win for the State • The majority of structures are present in the HCM environment • Limit rollout to a few agencies • Financial Object Mapping is critical to maintain Core Financial foundation • Would require risk compliance of processes to be implemented • Training and Change Management is critical to the success of this effort • Would require involvement from DOP and possible rollout of ESS/MSS. • Leverage existing Business Objects Infrastructure framework for Enterprise Reporting 	<ul style="list-style-type: none"> • Complicated design for the state • Several agencies have unique requirements. • Vision phase should identify whether Public Sector Collections and Disbursement is required for statewide receivables • Limit initial rollout to a few agencies • Financial Object Mapping is critical to maintain Core Financial foundation • Would require risk compliance processes to be implemented • Training and Change Management is critical to the success of this effort 	<ul style="list-style-type: none"> • Core Financials rollout for the state • Core objects defined in mapping step • Can be rolled out expeditiously because OFM has concentrated controls • Interface management and SOA design is crucial in this phase. • Would require risk compliance processes to be implemented • Training and Change • Management is critical to the success of this engagement

What are the options assuming a hybrid approach for implementing components in business priority order?

Still researching

What does research tell us about options for the timeframe for implementing core financial systems?

Still researching

What does research tell us about possible phasing strategies?

Assuming that a “big bang” implementation where all modules are implemented at the same time for all agencies is not possible, we will explore different phasing strategies.

- Phasing by system component
- Phasing by groups of agencies
- Phasing by both

What are we learning about other key tasks and task dependencies?

Will report next meeting.