NATIONAL ASSOCIATION OF STATE AUDITORS,
COMPTROLLERS, AND TREASURERS

2012 FINANCIAL SYSTEM SURVEY

THE CHALLENGE OF CHANGE

MICROSOFT AND NASACT RESEARCH PAPER

MICROSOFT DYNAMICS BUSINESS GROUP

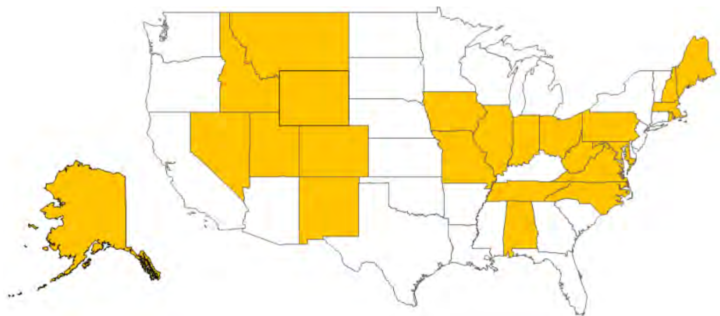
MARCH 2012

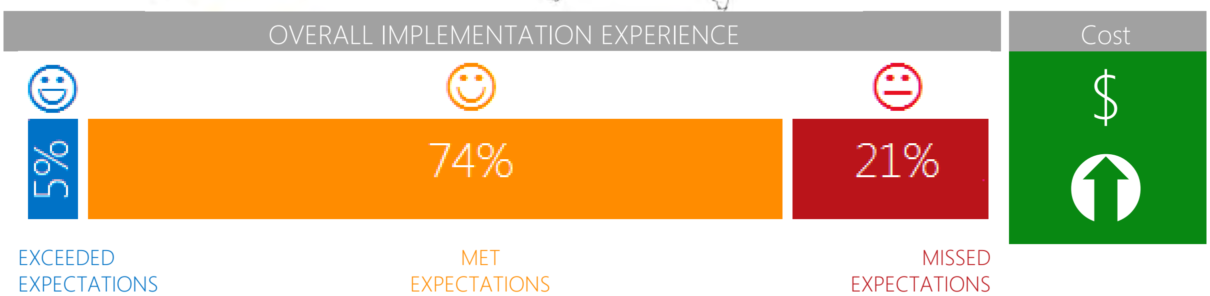
Microsoft Dynamics

Microsoft

SURVEY AT A GLANCE

PARTICIPANTS





About this survey

This survey was conducted by the Microsoft Dynamics Business Group in collaboration with the National Association of State Auditors, Comptrollers, and Treasurers (NASACT). Our goal was to identify the expectations, strategies, and practices that states are using in the implementation of government-wide or statewide financial systems. Our research objectives were to:

- Determine which states have implemented financial systems in the past 10 years.
- Understand the experiences states have had with their financial systems.
- Uncover the expectations of states looking to acquire new financial systems.
- Discover the obstacles states face—and overcome—in replacing older financial systems.
- Share our findings with NASACT, other practitioners, and policymakers.

Contents

OVERVIEW

Expensive, slow to implement, and lacking state-specific features. These are the characteristics of state financial management systems, according to our survey of 25 state financial leaders. If yours is like most states, your enterprise resource planning (ERP) system or financial management system has been a challenge—but you'd rather not change it or revert back to your old system.

As public sector budgets shrink, state leaders look for ways to improve operations and to reduce costs. These days, the comptroller's role is challenging enough without the added burden of lengthy ERP deployments and underperforming systems. Yet our survey shows that many states continue to rely on less-than-ideal financial management and ERP systems. They expect these systems to be costly to replace, fall somewhat short of needs, and require burdensome—and probably expensive—customization.

Our survey findings underscore the difficulties states face with their financial system deployments and the states' natural reluctance to relive an experience they expect to be time-consuming and costly. States willingly adapt to prevailing commercial practices to design and implement systems that meet their needs, but the process is painful. Hence, most make do with what they have, even if out-of-date ideas about system implementation may be hampering efforts to improve operations and lower total cost of ownership (TCO). Participants consistently placed the burden of project success squarely on their own shoulders—taking responsibility for every step, from planning to rollout. In fact, only one state suggested that system vendors might be expected to help ease the burden for states by making products more usable for government.

Despite the challenges, states consistently pointed out that their new systems ultimately provided better data that translated into more informed decision-making, greater accuracy in reporting, and ease in meeting compliance requirements. In addition, systems that were built specifically for government got higher marks across the board.

Is there a better way to acquire and deploy these large-scale systems? In this report, the states with modern systems share the lessons they learned from their implementation projects and offer their recommendations. And we give our perspective on the state of the industry and how it can become a better partner for government.

KEY FINDINGS

25

PARTICIPATING STATES

52%

STATES THAT HAVE RECENTLY MODERNIZED

76%

STATES THAT DID OR EXPECT TO CUSTOMIZE NEW SYSTEM

60%

STATES THAT SAID IMPLEMENTATION FELL SHORT OF EXPECTATIONS

2 YEARS

TIME IT TOOK OR WAS EXPECTED TO TAKE FOR ROLLOUT

73%

STATES EXPECTING OR EXPERIENCING PROJECT DELAYS

$35–75 MILLION

WHAT MOST STATES PAID OR EXPECT TO PAY FOR NEW SYSTEMS

Thanks to the 25 state financial leaders who participated in this survey for their time, candid assessments, and insightful responses.

SURVEY DESIGN AND METHODOLOGY

Based on more than 20 years of experience working closely with state and local government, Microsoft conducted this survey with NASACT to poll states about their financial management and ERP systems. We designed this survey to provide an objective view of experiences and expectations so NASACT members can share their lessons and best practices.

An invitation to participate was sent to all NASACT members. The survey was conducted between January and February 2012; 25 state comptrollers or their deputies responded, representing a range of budgets.

Figure 1. Profile of participants, by state budget

<$10 Billion	$10–20 Billion	$20–35 Billion	$35–50 Billion
Alaska	Alabama	Delaware	Illinois
Idaho	Colorado	Maryland	Ohio
Maine	Indiana	Massachusetts	Pennsylvania
Montana	Iowa	North Carolina	
Nevada	Missouri	Virginia	
New Hampshire	Tennessee		
New Mexico	West Virginia		
Rhode Island			
Utah			
Wyoming			

The 25 respondents were split between those who had implemented a government-wide or statewide financial system within the past 10 years and those who had not. (See Figure 2.) The 52-percent majority with modern systems represent 13 states; of those, half implemented a full ERP system—not just a financial management system.

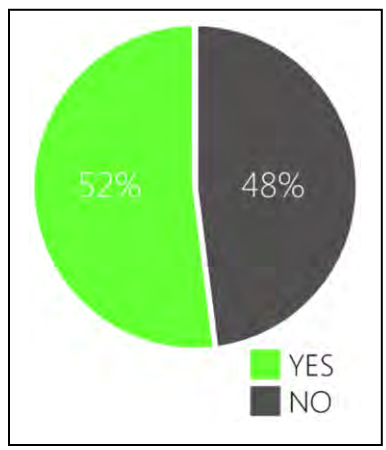


Figure 2. States implementing a new system within past 10 years

Survey framework

The survey included 27 multiple-choice and open-ended questions. They were presented as follows:

- States that had deployed a new system within the past 10 years were asked to rate their level of satisfaction with various aspects of their system and its implementation.
- States operating older systems were asked whether they intended to implement a new system within the next five years.
- For the latter group, states were asked to rate their expectations about the intended new system's cost and benefits.

FINDINGS AND ANALYSIS

Given threadbare state budgets, it's no surprise that nearly half of the states in our survey are running their business using the systems they implemented more than a decade ago. States with newer systems are more satisfied with their experience—except when it comes to implementation, customization, and adoption, which seem to be grueling regardless of the level of preparation. However, all agreed: any new system was bound to be an improvement over the old one.

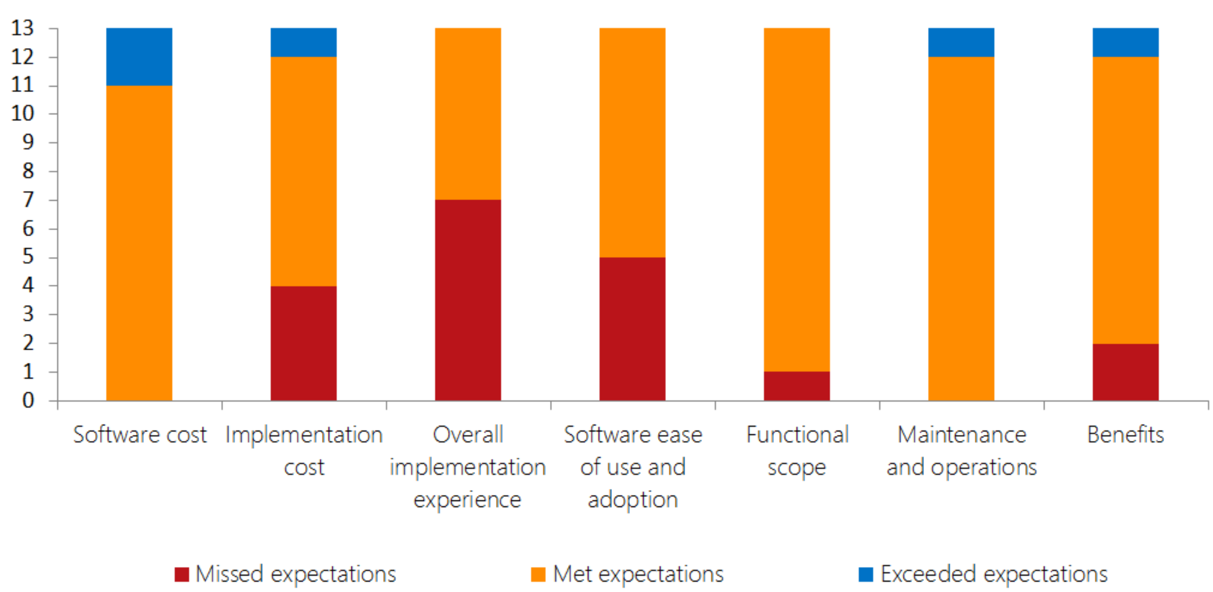
In with the new for 13 states

> "The primary reason software doesn't meet expectations of state initiatives is because the software is written for private sector enterprises."
>
> Deputy Auditor

Thirteen states in our survey deployed new financial systems between 2002 and 2011, most within the past five years. Their expectations about the ERP program were mostly met, except when it came to the overall implementation experience. Customizing systems to meet government requirements proved challenging for all, as did user adoption and ease of use. (See Figure 3.)

The states with the most consistently positive responses used systems built for government. Qualities associated with the greatest positive variance included total cost (software and implementation), overall implementation experience, and user adoption. One state was satisfied with the system they deployed in 2006 for accounts payable, purchasing, and fixed assets, yet their comment was typical: "The time expended to implement was greater than planned for one module."

Figure 3. Level of satisfaction with new system



Harsh reality: No funds for six states

Six states indicated that they are not considering modernizing within the next five years—including two states running software purchased in 1990 and 1997. The reason was simple: lack of funds.

> “We don't foresee enough funding becoming available during the next five years based on the revenue projections and the economic forecast.”
>
> Deputy State Comptroller

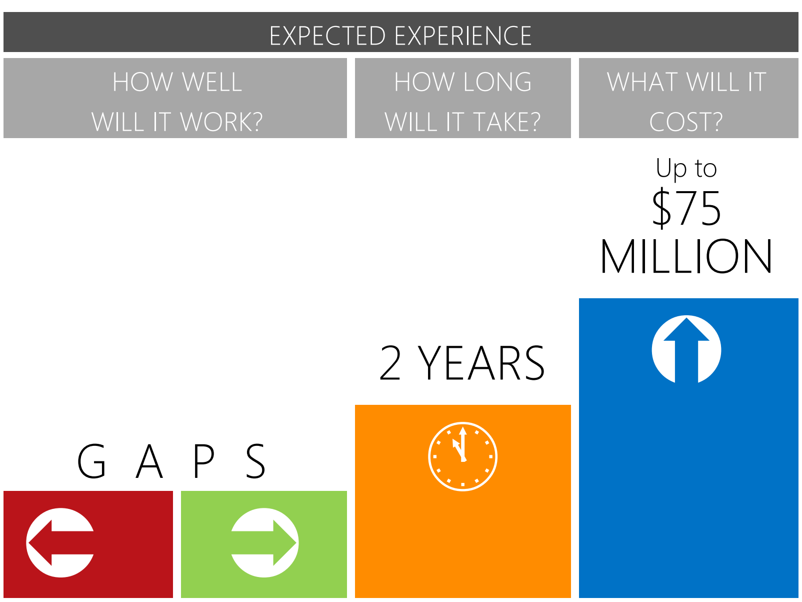
Even though the code base for these vintage systems is becoming obsolete, they were originally built for government. As the financial leaders of these states pointed out, the systems may be old, but they still do what they were designed to do.

A future of low expectations for six states

Some states are motoring into the future using the systems they implemented more than a decade ago—or even two decades ago. Of the 12 states running legacy systems, six plan to modernize within the next five years, but expectations for the new systems are tempered by the assumption that implementation will be challenging on multiple fronts.

> “To reduce initial risk and cost, the functionality planned for the statewide rollout has been limited to that functionality required to retire the legacy statewide financial management system.”
>
> State Comptroller

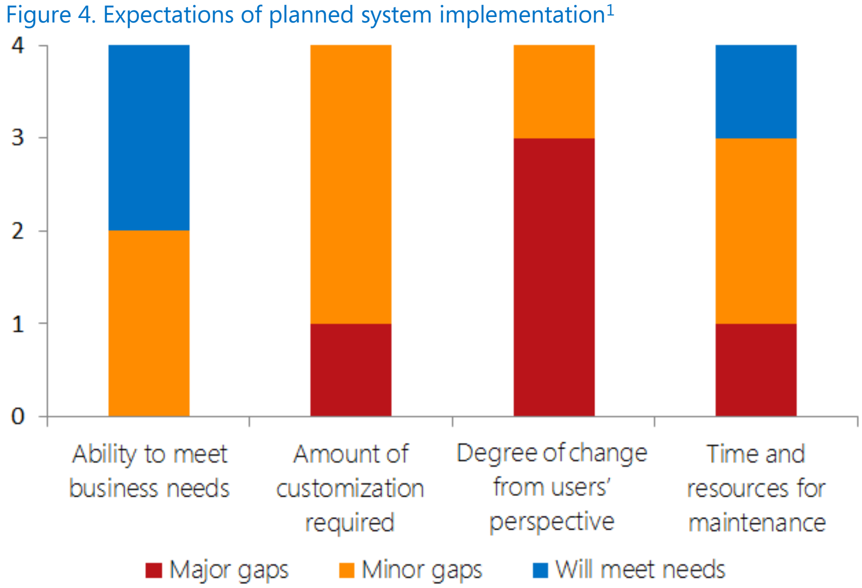
Most anticipate getting improvements—for example, improved accuracy, less duplication, better decision-making, and ease in meeting compliance requirements. Yet the majority think it is realistic to expect great expense, project delays, and functionality gaps that only customization can fill. (See Figure 4.)



Why the low expectations? The uniqueness of government requirements is a big factor. Experience has taught states that their complex contingencies cannot easily be met by off-the-shelf systems; customization will always be required—as will some degree of vendor hand-holding. Managing user expectations is another pain point. No one likes change. The states in this group anticipate that it will take time to get comfortable with a new system. Nonetheless, they eventually hope to see an improvement over the business functionality of their current environment. (See Figure 5.)

> "We spent 20 years customizing our previous software. It is unlikely that the industry standards built in [new] software will align well with the business processes we have developed and built into the existing software."
>
> State Comptroller

Figure 4. Expectations of planned system implementation[1]



Moving forward: What do states think is realistic?

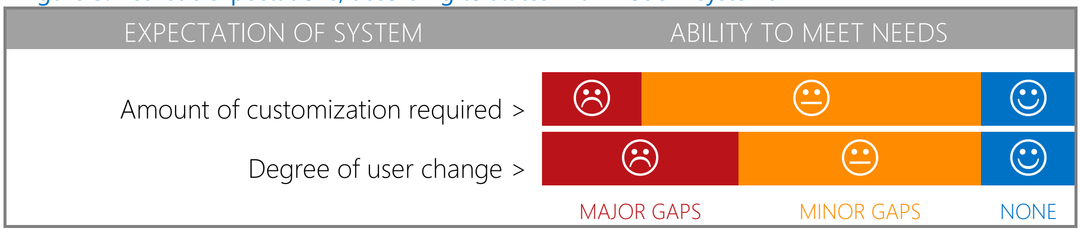
> "We, as a state, did not understand that it takes years to get comfortable with an ERP system. However, since the original implementation, we have focused on all of the initial deficiencies and are comfortable with the product today."
>
> Chief Operating Officer

According to the states that have implemented new financial management or ERP software in the past 10 years, it's realistic to expect change orders and feature gaps. These types of systems take a long time to implement, they say, and the desired benefits will come only after some time—as much as four or five years. Change management typically causes months-long project delays, according to 73 percent of states, and all too often, users are reluctant to embrace the new systems, with 82 percent of states experiencing mild to major dissatisfaction in this area.

[1] Although six states plan to modernize, only four answered the detailed questions about expectations.

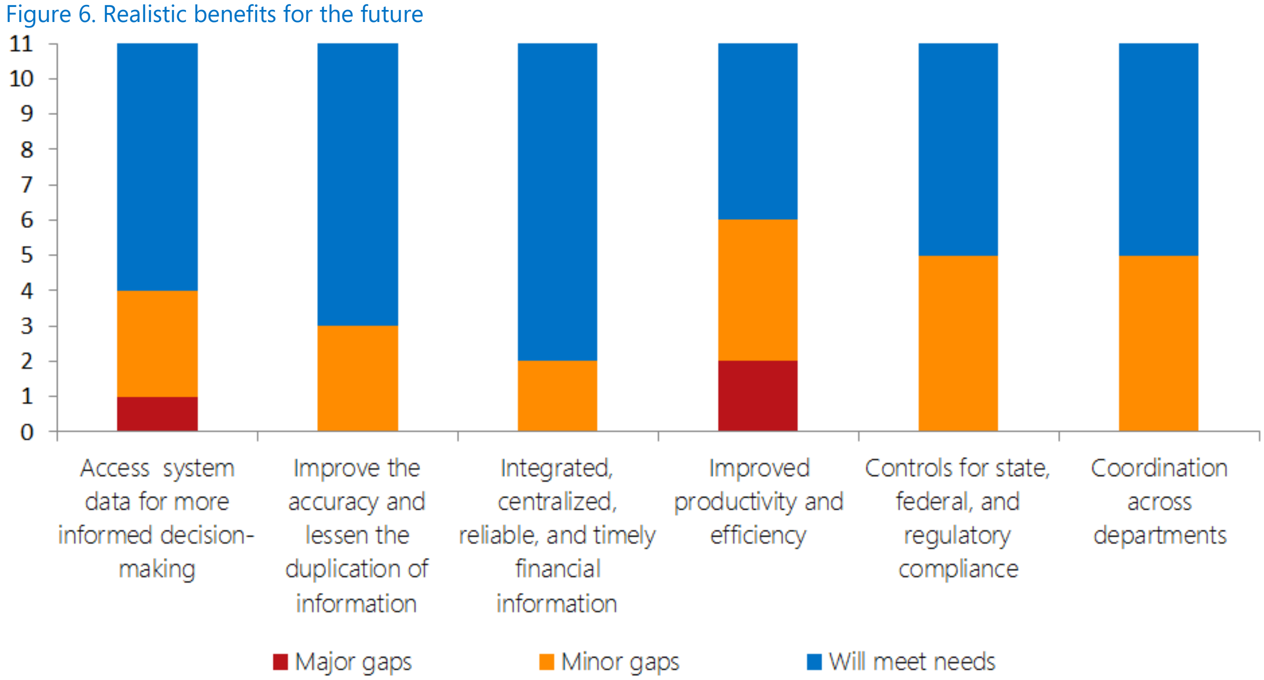
In other words, don't expect to see rapid improvements, even though change is needed more than ever during this time of unprecedented challenges. (See Figure 6.)

Figure 5. Realistic expectations, according to states with modern systems



Just as the states running legacy systems anticipate the advantages they will get from a new system someday, the states with modern implementations report many benefits. Even though there were minor gaps in implemented features, the states report that their new systems mostly meet their needs. (See Figure 7.)

Figure 6. Realistic benefits for the future



Reasons for success

When states with modern systems explored the reasons why their financial management or ERP implementations were successful, they cited a number of beneficial factors:

> "The system implementation met our expectations because we anticipated significant customization to deal with state requirements."
>
> State Comptroller

- Cost expectations. States that knew what to expect to pay for software and services were more satisfied overall.
- Lessons learned. Satisfied states applied best practices from other large-scale software implementations.
- Taking a conservative approach. Some states prioritized risk-abatement and limited their rollouts to select groups. Others were willing to change business practices to match the capabilities of the systems they installed. "Costs can be lowered by changing business practices to meet software functionality instead of implementing customizations," noted one state with a built-for-government system.
- Training. Satisfied states trained users well and developed internal expertise with system operations.

Reasons for concern

When newly implemented systems fell short of expectations, states felt responsible and sought remediation. Could they have managed the project or vendor better? Could they have stemmed change requests or managed communications better? Reasons for dissatisfaction ran the gamut from legislative obstacles to licensing fees, but two areas stood out:

> "Change management and training were far more difficult than expected, resulting in implementation delays. Benefits fell short because we were too liberal in enabling noncompliance/adoption."
>
> State Comptroller

- Change management and user adoption. When expectations for the new system were not communicated effectively, states reported less satisfaction with their implementation. Some states had difficulty embracing a new system. Many states reported that training users was more complicated than expected, either because people were reluctant to learn something new, employees were dissatisfied with the training program, or users couldn't easily learn the complex system.
- Customization to suit business processes. System modifications were costly, and all the states reported the need to customize systems to suit government specific business processes. Most reported change orders costing anywhere from 5 to 20 percent of the original contract value. One state commented, "Our implementation vendor promised much more than they could deliver, which led to delays, higher costs, and dissatisfaction with the implementation experience." Another cautioned that implementation professionals did not always have sufficient experience with government accounting and operation, despite their promises.

> "I expected the [built-for government product] to be much easier to use than it was. For example, our state had to customize some of the screens to help with data entry and reviewing. Some of those enhancements have now been baselined by [the vendor]. I would still like the system to be easier to use."
>
> Finance Director

STATE RECOMMENDATIONS

Collected from survey comments, the candid feedback from state financial leaders provides an interesting reflection of their experiences in planning and implementing a financial system replacement or upgrade.

> "I think it is possible to [improve the experience], but it takes cooperation among the groups involved. We were able to accomplish our goals during implementation by maintaining our focus on our priorities."
>
> Deputy Auditor

The states with the greatest satisfaction in their software felt they had gotten a system built for government. They had worked closely with their vendors—either to customize the system or to influence the product direction. Consider some of their best practices:

- Think partnership. As the contract and project proceed, make sure to view your vendor as a business equal—after all, in this partnership, the vendor also bears accountability for a successful outcome. Partner across departments, too. Create a virtual team that includes representatives from all the groups who will be using the system so they have a say in its implementation and functionality.
- Get buy-in. Get the full backing of the comptrollers, executives, and oversight agencies, and work toward cross-agency collaboration. Also get buy-in from key stakeholders and users early, and set their expectations from the start.
- Don't rush. Think through requirements carefully with appropriate analysis and vetting. Let your vendor help you frame system requirements, but never forget that you—not the vendor—are the expert in your state's business, accounting, and operating practices.
- Think long-term. Consider that your project may last longer than the current state comptroller's tenure. Stay aware of the effects of organizational change at all levels, and make sure the right people know how to keep the project rolling no matter what happens at the top. Secure multi-year funding if you can.
- Consider staffing. Can you backfill positions if key operational staff members are assigned to the implementation project? Consider keeping project team members assigned to the existing system while implementing the new so that day-to-day operations remain as seamless as possible. Or use both employees and vendor personnel in a cooperative blending of development and implementation resources.
- Stay flexible. Avoid expensive software customization by changing your business practices, if you can, to accommodate the functionality of a new system.
- Communicate, communicate, communicate. Don't necessarily baby the old guard, who will probably grumble about any new system. But do make sure your users know what's coming. Engage them early, encourage openness, and anticipate training needs.

MICROSOFT POINT OF VIEW

The pragmatism of state financial leaders shows in our survey results. To them, it is realistic to expect to pay tens of millions of dollars for systems that take upwards of two years to implement. To put it bluntly, we think states should expect better.

It's no wonder that the states in our survey are cautious when it comes to large-scale software implementation projects. Considering the time, effort, and resources states expend in an effort to implement their financial management and ERP systems, we think they deserve to spend more time enjoying the benefits. Instead, more than 80 percent of the states with new systems reported gaps in the expectations of users, and their comments made it clear that it can take *years* to become comfortable with the new systems. Moreover, the pain and cost of implementation lowers their expectations for the future.

The survey comments also make it clear to us that states have done more than their share of self-inquiry in their desire to learn from the past and to develop best practices for the future. However, in our view, the states cannot and should not solely shoulder the responsibility for system gaps and deployment difficulties. Today, state leaders take a limited view of system capabilities based on their experiences. Instead, we think the vendor community should step forward with innovations that bring greater value to government workers. Then, when funding becomes available, states can select from the best of the crop, move forward with IT modernization efforts, and rapidly reap the benefits that ERP was intended to provide.

THINK OUTSIDE THE BOX

After hearing about the states' experiences, we saw a common theme of state accountability. States took responsibility for the challenges they faced in acquiring, implementing, adopting, and operating these large-scale financial management and ERP systems.

We wonder if there's another way to look at the situation. For example, one bold state leader called the vendor community to task:

"I believe that it is feasible to lower acquisition and implementation costs, improve the user experience, and achieve desired business benefits. These should be goals of all software companies. I believe making systems easier to install and upgrade, easier to maintain, and easier to configure (by nonprogrammers) will be keys to success in the future for software vendors."

Finance Director

Question expectations

Should past experiences with earlier, monolithic architectures predict future experiences? Comparing the financial management systems of the past to the state of the art in deployment and usability of today's ERP systems is a bit like comparing a dial-up modem to high-speed Internet service. They both work, but which do you want to use?

Our key takeaways:

- Built-for-government matters. No global software vendor can match all the unique requirements of states. However, systems *built for government* met state expectations with the fewest gaps.

- Ease of use matters. Systems built for government did not alleviate the pain of user adoption. In our view, public sector organizations should enable all stakeholders—from employees to vendors to citizens—to *easily* gain access to the data and resources appropriate for their role. We also think that states should *expect* their systems to work in a familiar manner, like other desktop tools that employees know and use. That way, users get up to speed and productive quickly, which can help reduce training costs and can lessen user frustration and resistance to the new.
- Question assumptions. Why should it take four years to really get comfortable and realize the benefits of a new financial management system? Shouldn't states and local governments expect to gain value within a year, if not sooner, for something that costs so much? Why should upgrades be so cumbersome that some states don't bother? Shouldn't each software release offer immediate improvements that go beyond simply staying current?

So what should you do?

If your state is using legacy software, the time will come when you must modernize. Take the time to learn from other states and to get clear on your requirements. Then look for a system that you can:

- Install, maintain, and configure quickly and easily so you can gain value faster.
- Rely on external contractors for implementation only as needed.
- Work with out-of-the-box components that integrate with existing systems to help bring down the total cost of ownership.
- Use with ease, without the need for extensive, expensive training. Not only does ease of use increase user satisfaction and adoption rates, but also it promotes self-sufficiency.

If your state implemented a financial management or ERP system within the past 5 or 10 years, you can look for ways to make the most of your investment:

- Make sure your employees are proficient with the system. The power of productivity starts with them.
- Investigate the cost of maintenance and operations, and look for ways to streamline. Should you really be paying that much to manage a system that delivers only adequate experiences?
- Ensure that the vendor-proposed requirements will fit as promised.
- Work with your vendor to better understand the future so you can be ready for change. After all, if you're paying a hefty maintenance fee, you deserve a system that not only works today but also delivers on the promise of the next-generation ERP advances built for government.

In our view, these requirements, capabilities, and demands are the bare minimum you should expect any ERP vendor to meet with their solution. Just as today's citizens have higher expectations for the services they receive from you, so should you from your vendor. Work closely with your vendor to maximize the benefits of your new system. Your government and its citizens deserve nothing less.

ABOUT NASACT

The National Association of State Auditors, Comptrollers and Treasurers (NASACT) is an organization for state officials who deal with the financial management of state government. NASACT's membership is comprised of officials who have been elected or appointed to the office of state auditor, comptroller, or treasurer in each of the 50 states, the District of Columbia, and U.S. Territories. For more information about NASACT or its affiliate organizations, the National State Auditors Association (NSAA) and the National Association of State Comptrollers (NASC), call (859) 276-1147 or visit www.nasact.org.

ABOUT MICROSOFT

Founded in 1975, Microsoft (Nasdaq "MSFT") is the worldwide leader in software, services, and solutions that help people and businesses realize their full potential. Microsoft helps governments transform information into insight, and public workers into knowledge workers, giving them the edge they need to stay ahead of the technology tidal wave. Microsoft is committed to continually providing powerful, agile, easy-to-use solutions that deliver value to government now and in the future.

Microsoft Dynamics helps government organizations overcome the challenges of outdated technology infrastructure, legacy systems, and disconnected, disparate applications that lack the power and flexibility to meet the demands of today's connected citizenry, hampering agencies' efforts to improve efficiency and accountability. Microsoft Dynamics AX 2012 helps governments execute on imperatives with a powerful ERP solution purposely built for the business of government.

Learn more at microsoft.com/GovAX