

# **Enterprise Resource Planning for Small Government Agencies**

A product of  
Massachusetts Developmental Disabilities Council  
DD Suite National Collaboration

## Executive Summary

Since 1993, all government agencies receiving federal funds must report performance measures to the federal government, in addition to performing the tasks needed to achieve their mandates or fulfill their state plan goals, all with a progressively shrinking budget. Directors of agencies receiving federal funding are faced with a growing problem – how to fulfill their obligations to the federal government, state auditors, and the public, while providing for accountability, transparency and efficiency. The solution is an integrated project management or Enterprise Resource Planning (ERP) application, but a custom ERP application can cost millions to develop and requires a significant commitment of staff resources for an extended period of time. For larger agencies, this can be a viable solution, but for many agencies this isn't even a consideration, as their resources are already stretched to their limits. This paper explores one way to solve the problem without stretching resources beyond their limits, and by minimizing duplication of effort.

## Background

### Federal Performance Measures

In 1993, Congress passed the Government Performance and Results Act, or GPRA, for the purpose of improving confidence in the Federal government by holding Federal agencies accountable; initiating program performance reform by setting program goals, measuring performance against those goals, and reporting publicly on their progress; improving effectiveness and accountability by promoting a new focus on results, service quality, and customer satisfaction; helping Federal managers improve service delivery by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality; improving congressional decision making by providing more objective information on achieving statutory objectives, and on the relative effectiveness and efficiency of Federal programs; and by improving the internal management of the Federal government.<sup>1</sup>

This was not the first effort by the Federal government to measure and improve performance, nor is it the most recent, but it is the system that has produced the most noticeable impact on Federal agencies and grantees. The first performance management initiative was introduced in 1966, by the Johnson administration. Called the Planning, Programming, and Budgeting System, it was introduced to the government by Charles J. Hitch, a collaborator with then Secretary of Defense Robert McNamara. The Department of Defense still uses a system similar to this one.<sup>2</sup> Subsequent administrations, including those of Nixon, Carter, and Clinton, introduced various efforts designed to improve performance, improve efficiency, and reduce waste.<sup>3</sup> The most recent effort to measure and improve performance comes from the current administration. Known as PART, the Program Assessment Rating Tool, the initiative was introduced in the FY 2004 Budget, and continues to be used in conjunction with GPRA.<sup>4</sup>

GPRA and PART have two mechanisms by which they squeeze already strained state agencies: the initiatives impose additional reporting requirements on agencies, diverting staff resources from strategic goals, and by requiring ever greater results and efficiency from a workforce and budget that are not growing, in most instances. In theory, the focus on performance measures would allow directors of state agencies to focus their efforts better, resulting in improved performance and efficiency, but the implementation of the initiatives precludes that. GPRA requires that state agencies receiving Federal funding submit a program performance report at least once, annually. PART is a survey that is also completed once, annually. Neither of these initiatives provides targets for the states to achieve, nor do they provide states with the data they need to improve their processes. An annual report may be useful in making decisions about continuing to fund a program's budget, but it does little to address day to day decisions about where a manager or director should be utilizing resources. The time frame for decision making at each level is entirely different. A manager or director needs to make decisions on a monthly, or even daily basis, while the Office of Management and Budget makes decisions yearly.

This leaves the director in the position of having the performance measures be a burden on his or her organization, rather than an asset. Properly designed performance metrics can be a great asset to a government organization when developing a strategic plan, deciding where to allocate resources, or assessing the efficacy of individual projects, but without consistent, timely feedback, performance measures can't be used to improve performance at the state level, and the collection of the performance measures is simply an additional burden placed onto already strained agencies.

**Required Federal Reporting**

Required Federal reporting is not limited to performance measurement, of course. From State Plans and application packages to SF-269s and SF-424s, the breadth of required Federal reporting can be overwhelming. When agencies distribute funds to sub-grantees, the requirements become even more staggering. To make matters worse, the required forms are constantly changing and evolving, forcing staff to relearn their reporting tasks.

The documentation required under federal grant management rules can account for as much as 20% of staff resources on a given project, according to anecdotal sources, when the total burden of collecting and maintaining data, tabulating data, and preparing the forms for submission is tallied. In a small agency, staff resources are often stretched thin, and could be used to much better effect in areas other than ensuring federal grant paperwork compliance. Unfortunately, despite the Federal Paperwork Reduction Act, there is no sign that paperwork burdens are likely to be reduced much further in the near future.

Standardization of forms across Federal grantors has improved efficiency, but most of those efficiencies have been seen on the grantor's side. The change in reporting has created difficulties for grantee staff responsible for collecting and maintaining data and preparing forms.

**Rising Costs, Level Funding**

Since 2000, costs have risen approximately 25%, according to the Bureau of Labor Statistic's Consumer Price Index. However, budgets for many agencies have remained level funded, or have risen more slowly than the rate of inflation. This decrease in operating revenue forces directors to make difficult choices about how to allocate staff and resources. Unfortunately, without good data, knowing where to cut and where to reallocate can be extraordinarily difficult.

Ideally, administrative and overhead costs are the first to be cut, as these items do not directly serve the mandate of the agency. However, relocating staff to a new office, reducing energy costs, laying off administrative personnel and other cost cutting measures are quite drastic and often have prohibitively large costs of their own up front. Smaller measures usually are implemented more quickly, such as a restriction on travel or hiring or benefit freezes. These measures have their own costs, as well, usually on productivity and staff morale.

**Data Driven Decisions**

Directors need data to make effective decisions about how to allocate their resources. While the data needed to make those decisions exist, they are often not easily accessible to decision makers. Software packages designed to collect and analyze these data are often not used in agencies with budgets of less than \$10 million. This leaves out a large number of agencies which receive Federal funding, but that lack the capacity to make decisions based on accurate and timely data.

The most common approach to providing those data and analyses are enterprise resource planning applications (ERP). Applications such as these provide hard facts to decision makers and their employees to better understand their business processes, find inefficiencies, and improve their responsiveness to citizens. The major drawback to many of these systems is that they are expensive and time-consuming. Even smaller enterprise systems can cost upwards of \$10 million, costs for larger systems can run to the tens of

millions, with costs for implementation (consulting fees added on after the fact to train users, migrate data, upgrade hardware, etc.) adding additional millions to the total cost, sometimes in excess of 450% of initial estimates.<sup>5</sup> A survey of firms conducted in 2000, found that small firms, those with revenues of less than \$50 million, spent an average of 13.65% of their gross revenues on implementation costs, and that the time to implement the systems typically took one to two years, with some spanning half a decade.<sup>6</sup>

Despite these costs, evidence suggests that the return on investment is significant.<sup>7</sup> While a 2003 study by Hunton et al. found that four key measures of performance, i.e., return on investment, return on sales, return on assets, and asset turnover, did not increase at firms which adopted ERP systems over the three year period of the study, they did not decrease, as the key measures of firms that did not adopt ERP systems did.

However, most government agencies, regardless of their size, can benefit from ERP systems. A properly designed and implemented ERP system can decrease the administrative costs associated with managing grants, distributing funds, and other tasks, while simultaneously improving access to data for decision makers, and improving transparency to the public. The main factor preventing the implementation of these systems is the perception that the cost of implementation will be prohibitive.

**Collaborating to reduce cost**

However, ERP systems do not have to be cost-prohibitive. As noted above, much of the cost – nearly 85% - is incurred in implementation of the system. This implementation cost is not as great for smaller agencies, as they have fewer employees, fewer computer systems to integrate, and less data to migrate to a new system. Smaller agencies are more nimble, and can cut the cost and time associated with implementing a new ERP system by a significant amount. Commercial ERP software, such as BusinessOne™ from SAP or PeopleSoft Enterprise™ from Oracle, can cost several hundred thousand dollars, an expense that is likely far out of reach for most small agencies. Custom ERP software, as opposed to customizable commercial ERP software, can be even more expensive.

One innovative method to reducing these costs has been the DD Suite National Collaboration. The Collaboration is made up of 36 State Councils on Developmental Disabilities who banded together to produce an ERP application to manage their grant reporting, track expenses, time and effort, and prepare their Federal reporting documents, along with creating numerous other reports and documents required by their individual state regulations. The members of the collaboration reasoned that each member would be required by their mandate to collect and maintain very similar data, and that they could share the cost of developing and implementing a custom ERP application. The DD Suite, the product of that collaboration, is a web-based application designed to manage grantees, track time and effort, record expenses and automate the process of preparing required reporting forms. The Collaboration estimates that, had each of its members implemented a similar system, they would have expended over \$4 million. Instead, they have expended slightly less than \$100,000, a savings of nearly \$3.9 million.

The DD Suite National Collaboration is a unique entity in government, but it need not be. Dozens of small agencies in state government are subject to the same Federal reporting requirements as the State Councils on Developmental Disabilities, such as the Low Income Heating Assistance Program, the Rehabilitative Service Agencies, and many programs housed within state departments of education, energy, and transportation. While parochialism often prevails in government, there is much to be gained by working in concert with others. Implementation of ERP software will certainly yield many benefits, but implementing ERP software designed in collaboration with other agencies will yield benefits an order of magnitude higher.

The DD Suite National Collaboration found that, not only had they saved nearly \$4 million, they had also gained a new vehicle by which they could collaborate with one another, share ideas and best practices, and replicate successful programs. This was all in addition to the benefits usually realized with ERP applications, such as improved staff retention, improved data quality, reduced administrative costs, and reduced overhead.

While many obstacles to a successful ERP implementation still exist, and those obstacles can be compounded by collaborating with other agencies, the DD Suite National Collaboration is proof that it can work, and that it can save taxpayers money and improve the efficiency of organizations, even on a small scale.

## References

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- <sup>4</sup> Ibid.
- <sup>5</sup> Enterprise Resource Planning: Common Myths Versus Evolving Reality. Mabert, Vincent A. Soni, Ashok Venkataramanan, M.A., *Business Horizons*; May/Jun2001, Vol. 44 Issue 3, p69. <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=4462023&site=ehost-live>
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