**ERP INSIGHTS**

# A New Standard: Developing a Concise, Yet Comprehensive, Statement of Work

BY MIKE MUCHA

Consider this hypothetical scenario. You accept a job with a new local government that has been struggling with an enterprise resource planning (ERP) project. The project is delayed. Staff aren't confident with the new system. You are confused as to why there are so many issues with features you assumed would be standard with modern technology—user-friendly reporting, pre-built interfaces, automated business processes, and public-sector-focused applications to manage new Governmental Accounting Standard Board standards and recognized best practices. You start asking staff how the organization got into this situation and find there isn't a simple answer. You do learn, though, that despite the challenges, your government has signed multiple change orders, increasing the price of the project. This leads you to look at the contract and statement of work (SOW) that was signed with the ERP vendor, hoping to get some clarity. Unfortunately, it is no help. It's full of buzzwords, technical jargon, sales messages, and the description of a generic implementation methodology. There is nothing specific that holds the vendor accountable for outcomes, or a clear definition of what is included in the scope of services for the project.

That hypothetical scenario is likely anything but. Unfortunately, it describes reality for many local governments that run into challenges with their ERP project. Not only do new staff brought in mid-project lack a place to go for answers, but staff who were around for the procurement process feel like they've been sold false promises, and none of the staff or consultants working on the project have a plan to align efforts or hold each other accountable—leading to the inevitable finger-pointing. In many cases, it's not that a statement of work doesn't exist. It's that the statement of work that should have been created to outline intended outcomes, clearly

define scope, set roles and responsibilities for key stakeholders, describe work products, identify how performance will be measured, and dictate compensation does very little of that.

Understanding how this happens requires an understanding of the challenges that many local governments face when starting an ERP project. Most finance professionals (or other administrative staff in a government) are not experienced in leading ERP projects. Most local governments take on a project at most once a decade, so there is little opportunity to learn from past mistakes. In addition, the statement of work development often occurs at the end of a lengthy and stressful process to select a vendor, and the only thing standing in the way of getting started with implementation is a negotiated contract.

In a situation like this, it's easy to see why governments trust their vendor and are willing to use a vendor's terms, templates, and standard practices as a starting point. Unfortunately, even when the government decides to push back, it often faces an uphill battle. Many vendors can be extremely dismissive and assume that if there's a conflict between their standard practices and those of the government, the vendor's should apply, because they are the ERP "experts." And for vendors that hold this line, it often means the SOW becomes a tool for helping the vendor gain leverage for change orders instead of something that adheres to recommendations from public procurement advocates like GFOA, NIGP: The Institute for Public Procurement, or the National Contract Management Association.

## SOW Basics

Why does a statement of work have to give preference to the industry norms of large ERP software vendors? The simple answer is that it doesn't. In fact, a statement of work is not unique to ERP projects, and core standards for building SOWs are available from many different reputable organizations that advocate for best practices in public procurement. NIGP defines a  statement of work as a written description in the contract that details performance expectations and deliverables between the contracting parties. When done well, a statement of work clearly and concisely defines:

- The overall objective of the project.

- Scope defined in terms of outcomes.

- Deliverables or work products.

- Any standards or specifications needed to measure work quality.

- Considerations for the place of performance and working conditions.

- Staffing requirements, including any necessary certification or qualifications.

- Schedule of key tasks or milestones.

- Method of performance measurement, including acceptance criteria.

- Penalties (if applicable) for failure to meet outcomes.

- Method of payment (fixed fee, hourly).

- Total not-to-exceed amount for the project.

In other words, a comprehensive statement of work describes the who, what, when, where, why, how, and price for the contract. When developing the statement of work, governments should consider that individuals involved in negotiations and those who are not should both be able to read the same document and draw the same conclusion. Even when both parties agree verbally on key terms, they must be fully documented in a written SOW. If there is any confusion during the project, the statement of work should clarify or provide direction to resolve the dispute. The more complex the project is, the greater the need for clarification from the SOW.

Unfortunately, that is not always the case. GFOA's consulting services have helped hundreds of clients with negotiating ERP contracts. For some projects, the statement of work development is a collaborative process that involves participants from the future project and is used to plan for the project, document key expectations, and better align the consulting firm with the government.

Unfortunately, not all ERP vendors share the same appreciation of a well-written statement of work. Some view the effort to produce a statement of work as a waste of time, or worse—an effort led by sales executives, lawyers, and partners to shift all risk to the government or to maintain the original form of vendor template documents that does the same. Negotiating an SOW in this environment creates a negative tone for starting a project, and it also decreases the chance of success—for both parties. While some projects get lucky and achieve success without a high-quality SOW, it's almost universally true that projects that don't go well can trace some blame to a poor SOW and lack of defined expectations, clear roles and responsibilities, or set work products. Poorly written SOWs will likely lead to future disputes.

## The Problem with ERP SOWs

GFOA has documented some of the common traps or vendor-biased statements of work terms from recent experiences in negotiating ERP SOWs. All governments should be cautious when they see (or don't see) the following red flags in their vendor-generated SOW.

**Lack of a defined scope.** We know that scope creep can be a problem that adds cost and delays to a project if not properly managed. Well, the same is true for vendor-initiated scope shrinkage. When vendors are not held accountable to a documented scope, key elements can easily be overlooked or intentionally omitted.

**Conflicting scope definitions.** GFOA continues to advocate for defining functional requirements to establish scope (See "We Require Requirements" in the June 2024 issue of *GFR* at gfoa.org/materials/gfr0624-requirements). Vendors may complicate the SOW, however, by providing an alternative, conflicting, and limiting definition of scope. This maneuver redefines the outcome- or output-focused scope definitions the government provides with limitations that control the level-of-effort assumptions made by the vendor (often in an attempt to control cost). For example, rather than taking on the risk

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of completing a fixed-fee milestone, the vendor will limit the scope to a set number of hours or an arbitrary number of configurations.

This is highly problematic. For example: While your requirements may stipulate that vendors accommodate all payroll interfaces and gross-to-net calculations, the vendor's alternative scope definition may limit services with a cap on total hours provided for the task, or limit configurations to only 10 pay codes. In an ideal situation, both can be achieved—the task is complete and the hours are not exceeded. But it is also very possible for the vendor to hit the hours limit, necessitating a change order with additional fees, without yet achieving the defined outcome. Be especially cautious here and make sure the vendor doesn't redefine the scope during negotiations. For instance, these arbitrary or conflicting constraints might not be disclosed in the original proposal but appear after the vendor is notified of intent to award the contract during contract negotiations.

**Open-ended pricing.** Governments can only spend money that has been properly budgeted, so a statement of work needs to identify a total not-to-exceed amount for the entire contract. While not-to-exceed amounts can be based on hourly or fixed prices per milestone, it's impossible to exceed a total not-to-exceed amount without a change order. This protection is essential for public procurement and to ensure that an adequate budget has been appropriated.

**Pre-paid services.** Within a software-as-a-service agreement, governments often pay for the entire subscription period (annual) at the beginning of

the subscription term; however, all payments for consulting services should be made after services have been formally accepted. This ensures that payments aren't front-loaded. Governments should feel at all times that the value of services received is greater than the price paid.

**Lack of staffing expectations.** ERP projects require a collaborative effort between the government and the vendor. To set proper expectations and ensure that both parties can meet their contractual obligations, the statement of work needs to list the key people who will staff the project.

**Deemed acceptance.** Quality assurance for ERP projects requires that the vendor and government agree on the direction of the project and the completeness and accuracy of project deliverables. At key points in the process, ERP projects will require that the government review work and formally accept that work to move forward.

Many ERP vendors include contractual terms that allow the vendor to deem a milestone or deliverable accepted if the government fails to notify the vendor of acceptance or rejection within a pre-defined timeframe, allowing the vendor to invoice for the deliverable and requiring a change order to revisit the deliverable if any corrective work is required. This is an awful practice that contradicts accepted standards for project management. While the vendor gets paid, it creates significant risk to the project, with deficient work being moved forward without proper analysis. Governments should insist that the only way deliverables or milestones will be

accepted is with actual approval from designated individuals.

Governments face two options for avoiding these red flag issues. They can either read, edit, and negotiate a vendor's standard statement of work template, or they can bring their own. Most government templates aren't specific enough to address unique ERP project elements. In the past, this has left governments with only one real choice: the ERP software vendor template and an uphill battle played out with the vendor holding the home field advantage. In an attempt to level the playing field, or to move discussions back to a more neutral location, GFOA has created an SOW template that aligns with standard public procurement best practices.

## GFOA's Industry-Standard ERP SOW

Based on experiences over the past few years, GFOA has developed a new standard template and approach for building clear and concise statements of work for ERP projects. The template is based on NIGP best practices for professional service contracts and GFOA's experience with ERP implementation over the past decade. The following are critical elements to include in an ERP SOW.

### Project Scope

The scope of the project should be defined to identify what will be achieved or completed. GFOA recommends that the scope specifically address:

**Software scope.** For ERP projects, governments need to define the specific products (including modules or third-party applications) that will be installed.

**Functional scope.** From the government's perspective, the scope is defined to set clear acceptance criteria of what will be accomplished with the project. GFOA recommends a three-part hierarchy to define scope:

- *Goals.* These are the major outcomes or improvements the government wants to achieve.
- *Process expectations.* This includes transactional processes, outputs, or business functions to include in all aspects of the project.
- R*equirements.* There should be a checklist of delivered and configured system capabilities.

**Organizational scope.** Who is the project for? Some governments include component units or separate legal entities in the scope. That should be clearly defined. Also, with ERP systems, some modules aren't implemented in all departments. For example, inventory modules may not apply to departments that don't have that need. The statement of work should define which software modules and business processes apply to each department or business unit, or have a clear statement that all of them apply to the full organization.

**Deliverables.** GFOA defines a deliverable as a work product that is subject to a formal acceptance process, and work products are any item prepared for the project and provided by the consultant to the government. Deliverables should be defined with clear acceptance criteria in what GFOA calls deliverable expectation documents (DED) that set clear expectations for deliverable purpose, scope, outline, and assigned roles.

**Technical scope.** ERP projects often require technical development to either build features within the software or complete a necessary component of the implementation project. The statement of work should detail the scope related to:

- Reports
- Interfaces
- Data conversions
- Enhancements or extensions
- Forms
- Workflows

## Project Governance

Who will work on the project? This section defines high-level roles that will be assigned to the project and the project management and decision-making processes that will be used to lead the project. GFOA recommends clarifying expectations for:

- *Government roles and consultant roles.* The statement of work should include a listing of all project roles, with a brief description of each.
- *Project tools.* List the project management and collaboration tools that will be used to store documents, manage communications, track the project plan, and flag issues. Often, this is a project management platform that core members of the project will have access to. The SOW should clearly state which party is responsible for providing this and maintaining it.

**Management of third-party vendors.** The SOW should identify how any third-party vendors will be managed by the prime vendor.

- *Project management expectations.* The SOW should identify meeting cadence, frequency of status reports, responsibility for managing issue lists, or other components of project management.
- *Quality assurance and deliverable acceptance.* The SOW should define how quality will be managed, along with the key expectations for deliverable review and acceptance. The statement of work should define the timeframe for reviewing and accepting deliverables, and what happens when they are rejected.

## Project Schedule

The SOW should establish expected completion dates for key milestones. If the project is broken apart by phase, a clear beginning and go-live date should be established for each phase. Further details will be identified in a project plan managed outside of the SOW.

## Project Approach

While project scope, governance, and schedule answer what, who, and when, project approach identifies how.

This section of the SOW typically provides an overview of the implementation methodology and clearly lists major tasks assigned to both government and consulting resources.

## Payment

Clear milestones, or events that trigger payments, need to be identified in the statement of work. It's preferable to assign a fixed amount for each milestone, which will be due after the milestone has been completed. Milestones are often set to occur when deliverables (one or more) are formally accepted. Milestone payments ensure that payment is made to align with progress toward project outcomes rather than for the consultant's expended effort. It is also critical that the sum of all milestones, plus any amount for travel reimbursement or other fees, equal the total not-to-exceed amount of the contract.

## Conclusion

High-quality statements of work do not guarantee project success. They do, however, provide the blueprint for achieving goals and outcomes, and defining the processes used to manage the project, evaluate performance, accept milestones, and, when necessary, resolve disputes. GFOA's SOW outline provides a straightforward starting place that emphasizes scope, governance, schedule, roles and responsibilities, and milestone payment. ▣

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Access GFOA's new standard ERP statement of work template here:

⮞ **gfoa.org/erp**



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