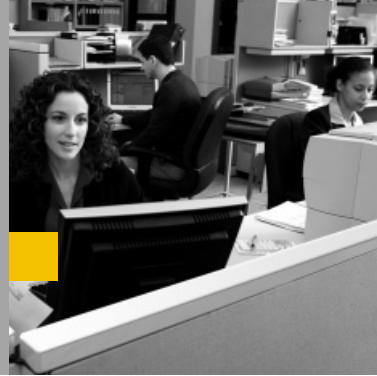


## SAP Customer Success Story Public Sector



**“SAP offered a world-class technological application . . . Thanks to this solution, we can provide citizens with greater access to our operations and information.”**

Abraham Sotelo, E-Government and IT Policy Chief of Staff for Secretaría de la Función Pública, Government of Mexico

### AT A GLANCE

#### Company

- Name: Secretaría de la Función Pública, Government of Mexico
- Location: Mexico City
- Industry: Public sector
- Products and services: Monitoring and auditing financial performance of the Government of Mexico
- Budget: US\$120 million
- Web site: [www.compranet.gob.mx](http://www.compranet.gob.mx)
- Partner: Deloitte Consulting

#### Challenges and Opportunities

- Respond to new federal laws that regulate government's procurement
- Improve transparency of financial operations in response to international banking requirements
- Streamline contract bidding process
- Implement a significant number of organizational changes
- Improve financial analysis, reporting, and auditing
- Replace disparate legacy systems
- Implement within a limited time frame

#### Objectives

- Deploy electronic contract bidding mechanism
- Improve methodologies for accounting, reporting, and auditing
- Create a single, Web-based portal for government suppliers
- Enforce accounting practices that meet international requirements
- Provide flexible platform with best practices for all operating units

#### SAP® Solutions and Services

- SAP NetWeaver® platform, including the SAP NetWeaver Business Intelligence and SAP NetWeaver Portal components
- SAP® Supplier Relationship Management application
- SAP Procurement for Public Sector package

#### Implementation Highlights

- Nationwide implementation at hundreds of locations
- Intensive training effort to bring all groups online
- Configuration flexibility to meet mandated needs of thousands of operating units
- Rapid implementation of SAP solutions

#### Why SAP

- Flexibility of solutions
- Best business practices incorporated
- Localization for Mexican laws and financial practices
- All required functionality included

#### Benefits

- Ability to double number of electronic bidding transactions in next 2 years
- Streamlined and transparent process for procurement and contracts
- Significant improvements in producing financial and audit reports
- Greater transparency into government operations
- Bidding process open to more vendors, which will reduce cost of goods and services
- Reduction in project duration
- Improved citizen access to financial and operational information

#### Existing Environment

Legacy systems

#### Third-Party Integration

- Database: Oracle and MaxDB
- Hardware: Sun Microsystems
- Operating system: Sun Solaris

## SECRETARÍA DE LA FUNCIÓN PÚBLICA, MÉXICO

### Mexican Government Agency Uses SAP® SRM to Help Comply with New Laws and Improve Its International Financial Standing

The government of Mexico awards over US\$20 billion annually in contracts for professional services, public works, and other operations. These contracts are awarded through a mandated contract bidding process that is open to both domestic and foreign vendors and suppliers. With over 100,000 purchasers operating in over 6,500 purchasing units, monitoring this process and auditing the resulting contracts and projects is a daunting task.

As a result of a new vision for e-government – and to make the bidding and procurement process more balanced, open, and transparent – the government of Mexico passed laws in 2005 designed to streamline the contract bidding and award process for all government procurements. Essentially the watchdog of the government of Mexico, Secretaría de la Función Pública (SFP) – based in Mexico City – is mandated to regulate the procurement and contract awarding processes and to monitor, analyze, and audit all governmental financial transactions at the federal level.

The primary functions of SFP are to establish and ensure adherence to internal government processes, audit federal spending, set performance and competency standards for the government, manage federal properties, and regulate federal policies for e-government. It is also mandated to ensure that all government financial processes are transparent, and to investigate and prosecute government employees who violate the laws and regulations concerning government behavior.

However, SFP found that the existing system could neither handle the additional functional scope demanded by the new laws – where compliance meant adding the capacity to meet new auditing and reporting requirements – nor was it robust enough to support the anticipated growth in the use of the system.

### **Meeting International and Domestic Financial Requirements**

In short, the system could not help SFP comply with the new laws that mandate that the bidding process be open to more vendors. Nor could the existing system support processes such as making direct awards or inviting bids from a minimum of three suppliers. Furthermore, the existing system could not provide the transparency and reporting capabilities demanded by the international banks that finance government procurement.

“The World Bank and the Inter-American Development Bank had financial processing and reporting requirements that our current system could not meet,” says Abraham Sotelo, e-government and IT policy chief of staff at SFP. “We needed a solution that would meet those banking requirements, especially in how we manage and protect information, how we analyze data, and how we generate statistics and performance indicators.”

### **SAP NetWeaver® Advances E-Government Initiatives**

In early 2006 the SFP selected the SAP® Supplier Relationship Management application and the SAP NetWeaver® platform to support and expand its e-government initiatives and to replace its legacy procurement and information management systems. The secretariat selected SAP software because the functionality of the applications matched the immediate needs of the agency. In addition, the SAP solutions were flexible, allowing the system to be tailored to meet the needs of thousands of operating and purchasing units. SAP has extensive experience both in working with organizations in the public sector and also as a software vendor in Mexico; these factors made SAP solutions more attractive to SFP.

The SFP managers were also impressed by the scalability of the SAP solution, a critical concern considering the rapid expansion of the e-government initiative. The legacy procurement system supported a portal visited by almost 25,000 users a day. SFP used the system to generate almost 20,000 payment receipts each month and process nearly 30,000 bidding transactions each year. With its mandate to expand electronic procurement, SFP anticipates that those numbers will climb dramatically. “Of the US\$20 billion the government spends on procurement, 60% involved public tenders that could be bid on electronically, and that number has been steadily increasing,” explains Sotelo. “In 2000 only 2% of procurement transactions were via electronic bidding. By late 2006 over 40% of the public tenders received at least one electronic bid. More than 50,000 suppliers and contractors participate, either to look up information or to actively take part in the processes, including the e-bidding model. We expect this number to continue to increase.”

### **Tight Schedule, Large Scope**

The implementation project began in March 2006, with the goal of having the system in place and operational before the end of the calendar year. “We were operating under a tight schedule because key financial resources were only available within a certain time frame,” says Sotelo, “Also, we faced a transition in the federal government at the end of 2006, and we wanted to have the system operational before the end of the six-year term of the current administration. We did not want to leave the implementation effort for the next administration to finish.”

With the large scope of the project involving government offices around the nation and tens of thousands of users, SFP instituted an aggressive change management program and an intensive training effort to help ease the government workforce through the transition. “The project was viewed as high-risk because of its organizational impact, cultural change characteristics, and configuration and customization of the technological solution,” says Sotelo. “In addition, government regulations made it necessary to adapt the system to meet countless requirements. Our training effort, coupled with the expertise of SAP consultants and our implementation partner Deloitte Consulting, paid off, and by November of 2006 we were able to successfully roll out the system.”

The SFP initiative is enabled by powerful SAP software designed specifically for the public sector. The software delivers the integration, visibility, and collaboration that are key factors in efficiently delivering services across an entire public sector organization. The backbone of the SFP environment is the SAP NetWeaver platform – the open integration and application platform that provides the best way to integrate all systems running SAP or non-SAP software. For organizations like SFP, SAP NetWeaver unifies integration technologies into a single platform and is preintegrated with powerful applications, enabling change and reducing the need for custom integration.

### **Innovative Solutions Support Real Change**

While it may be too early to report real value metrics, a number of benefits have already been realized. The SAP solution streamlined and standardized the government's purchasing and contract procedures. For public works SFP has incorporated an auditing procedure that will monitor and track contracts the government has awarded to vendors. Operational and financial supervision of ongoing projects will be significantly more efficient with the SAP solution. Whether the government has contracted with a vendor to build a road, a hydroelectric plant, or an oil refinery, the newly streamlined processes, transparent control, and follow-up mechanisms will result in a more reliable and open process.

Contractors and suppliers will benefit by the increased opportunities to participate in the bidding and procurement process. "Before this, the majority of companies participating were in Mexico City, which reduced the opportunity for suppliers from other parts of the country with quality services and good pricing to participate," explains Sotelo. "With the electronic model, suppliers are certified electronically or have a digital signature through which they can participate and present their proposals. Since they mostly participate in the process remotely via Internet-based electronic media, the suppliers have to be physically present only for the contract signing. This facilitates the way in which suppliers can obtain information and follow up on the status of bids and government purchasing and contracting processes. Since it avoids unnecessary travel, it brings savings."

After inspecting and certifying the procurement system, the World Bank and the Inter-American Development Bank implemented a requirement that all transactions and projects financed with resources from these institutions must be managed through the SAP solution. "This requirement speaks well – not only of the bank's confidence in the robustness of the application and its security mechanisms but also of the results that this platform

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provides," says Sotelo. "To further satisfy the requirements of the international financing community, the solution allows suppliers to participate even if they are foreign companies doing so from their own countries. This results in better pricing conditions, greater transparency, more competition, and greater and more efficient participation – conditions the international finance organizations wanted our government to meet."

For the ordinary citizens of Mexico, the solution means they can find out where their taxes and investments are going and how the government is spending its revenues. In essence, it is a vital tool for public accountability. "SAP offered a world-class technological application which will allow SFP to continue to guarantee transparency in the acquisition processes of the public administration," says Sotelo. "Thanks to this solution, we can provide citizens with greater access to our operations and information. This makes us better able to answer their questions and meet their needs now and well into the future."

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