Case Study: How Walmart Leverages SAP Process Control to Support Its Global Controllership Function

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Walmart
In This Session …

• Learn how Walmart implemented SAP Process Control to support global compliance with global regulations by:
  ◆ Engaging its financial controllership team in project planning and the initial rollout to ensure a smooth transition of production governance activities post-go-live
  ◆ Tying SAP Process Control to critical controllership functions, such as the management of SOX certifications
  ◆ Consolidating different local compliance processes into a global process while still maintaining the flexibility to apply certain functionality – such as change management and approval workflows – at the local level
What We’ll Cover …

- Walmart Overview
- Walmart’s SAP Implementation Background
- What is a Global Controllership?
- Global Control Management
- Regulatory and Certification Management
- Approach Examples and Lessons Learned
- Wrap-up
Walmart Store Operations

- **United States**: 4,479 Units
- **Canada**: 333 Units
- **China**: 370 Units
- **United Kingdom**: 541 Units
- **Japan**: 419 Units
- **India**: 15 Units
- **Mexico**: 2,088 Units
- **Central America**: 622 Units
- **Brazil**: 512 Units
- **Chile**: 316 Units
- **Argentina**: 88 Units
- **Africa**: 347 Units

**Number of Stores**: 10,130
**Number of Countries**: 27
Walmart Organizational Broad View

**Stores**
10,000+ Stores 1 billion+ Square feet in 27 countries

**Logistics**
330 Distribution Centers 140 million Square footage

**Operating Market Home Offices**
Offices 28 ++

**Global Sourcing/Buying Offices**
Offices in 14 countries

**Shared Service Ops. (2)**
AP, AR, Disbursements, Fixed Assets, etc.

**Global eCommerce Operations**
Infrastructure and Retail
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PROFIT is more than a system implementation, it is a complete transformation of People, Processes, Information and Technology

Partnering with the business ... by providing
Reliable data ... resulting in
One version of the truth ... supported by a
Finance Development Process ...
Information ... and
Technology
The first phase of PROFIT focuses on the fundamentals with the implementation of a new system. Once Base Camp is reached, PROFIT moves to Beyond Base Camp, which includes analytics and financial planning.
Finance Transformation Progress

PROFIT has been implemented and is operating successfully across the U.S., Canada, UK, Puerto Rico, Japan, Mexico, and Argentina. PROFIT in Central America will go-live in April 2013.

92.2% of Revenue on SAP Financials (PROFIT)
PROFIT Program Structure

- Leadership
- TMO
  - Program Management
  - Program Benefits
  - Integration Management
- Change, Training and Communication / Financial Shared Services
  - Change, Training and Communication / Financial Shared Services
  - Financial Shared Services
- Technical
  - Information Technology
  - Security
  - Business Intelligence
- Functional
  - Process and Applications
  - Tax
  - SOX, Compliance, and Controls
  - Business Intelligence
Accounts Payable
- Maintain Supplier Account Information
- Manage Merchandise Payables
- Manage Non-Merchandise Payables
- Manage Post-Audit Process
- Manage Import Payables

Accounts Receivable
- Maintain Customer Account
- Create Receivables
- Rent Receivables, Pharmacy/Optical, Other Income, Cr Card receivables
- Process Receipts

Decision Support
- Perform Overhead Accounting
- Report and Analyze Business Performance

GL and Closing
- Manage the General Ledger
- Perform Transaction Processing
- Intercompany Transactions
- Manage Cash
- Perform Closing
- Perform Inventory Reconciliations

Project Systems
- Create and Plan Project
- Initiate and Budget Project
- Execute Project
- Perform Project Accounting
- Close Project and Settle Final Assets

Indirect Procurement
- Create Purchase Order
- Receive Goods and Services
- Maintain Article and Service Master
- Manage Request for Quotations
- Purchase Requisitions

Fixed Assets
- Place Asset into Service
- Asset Valuation
- Asset Transfers
- Asset Disposition/Retirement
- Asset Depreciation – Book and Tax

Business Intelligence
- Core Financial Reporting
- Key Financial Metrics (KFMs)
- Key Management Reports

Master Data Management
- Global Location Master
- Global Supplier Master

Sales and Distribution
- Maintain Rental Contracts
- Create Receivables
- Rental Contract Billing
- Miscellaneous Billing
- A/P-generated debit/credit memos (e.g., factoring or mailing)

Imaging and workflow capabilities
Walmart’s Previous GRC Scope

- SAP GRC Access Control Suite (ACS) 5.3 is deployed and tasked with managing access to SAP environments
- Walmart leveraged ACS for:
  - Managed SOD and sensitive access with Risk Analysis and Remediation (RAR)
  - Centralized user administration through Compliant User Provisioning (CUP)
  - Monitored emergency access through Super User Privileged Management (SPM)
- ACS is currently live in 7 countries
- GRC 10.0 upgrade and functionality expansion is in process
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High-Level Global Controllership Structure

Global Controller

Global Controllers Office (GCO)

Shared Services
- GS
- ISD
- GSS
- GeC
- Etc.

Individual Countries
- MX*
- UK*
- CN*
- CH*
- Etc.*

*Separate Controller at noted level
Global Controllership Overview

Vision
- High performance, globally integrated controllership function – world class

Mission
- Provide high quality financial information to meet the needs of our customers

Pillars
- Be Excellent at the Basics
- Own Our Systems
- Develop Great Talent
- Be Proactive
- Connect and Collaborate

Values
- Integrity
- Transparency
- Respect
- Community
Global Controllership Responsibilities

GCO

- Accounting Policy
- Controllership Governance
- SOX Governance
- Global Legal Entity Acct.

Controllership Tools

- Global Consolidation
- WMSI Consol. Analysis
- Global Talent

Segment/Country/Business Level

- Int. & Ext. Reporting
- Financial Analysis
- Sub-Consolidation
- Controls & Governance
- Technical Acct.
- Acct. Estimates
- Account Recon.
- High Volume A/C Acct.

Shared Services

- AP
- Cash
- AR
- FA

Statutory
Mgt.
Finpack
Tax

Global Legal
Entity Acct.
Global Talent
Walmart Controllership Areas of Responsibility

- Financial Closing
- Financial Reporting
- Consolidations
- Balance Sheet analysis
- Corporate Accounting for Consolidated Entity
- Legal Entity Accounting
- Technical Accounting Policy (USGAAP, IFRS)
- In-Market Statutory Accounting
- General and Transactional Accounting
- Global SOX Compliance
In recent years we have worked to establish baseline Controllership systems tools. SAP GRC is one of our key initiatives in the Controllership Toolbox.
Walmart currently uses SAP GRC, both Process Control and Access Control, to support SOX Governance efforts.
SOX Governance Organization

Global Controller’s Office SOX Governance
- Provide Scoping to all entities and internal audit
- Provide guidance related to risk control matrices and key control identification
- Monitor global deficiencies
- Strategic meetings with all countries
- 404 Certification process
- 302 and 404 Certification automation
- Continuously gain efficiencies with internal and external audit
- Continuously increasing system efficiencies and controls
- Assist with new process documentation and review

International Markets
- Training
- Manage certification process
- Liaison to Controller’s Office and IAS support

US Based Operations
- Attend walk-throughs with Audit teams
- PBC management
- Review all new process documentations
- Manage certification process
- IAS support and liaison

Expanding Shared Service Centers
- Work with Process Owners to remediate and close deficiencies timely
- Assist with process transition and control needs
- Manage certification process
- GSS Compliance and IAS support and liaison
Process Control Scope and Vision

Vision

An optimized global controls environment that reduces Walmart's exposure to risk, enabled by an integrated GRC platform

Drivers/Objectives

- Reduced Risk Exposure
- Compliance
- Increased Security
- Operational Efficiency
- Improved User Experience

Goals

- A single integrated SAP GRC platform
  - A single global set of controls
  - A controlled process to govern the change management process
  - Automated compliance opportunities
  - Enhance current regulatory compliance processes
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As a part of the SAP ECC implementations, several resources were dedicated to identifying, documenting, and testing new controls. This documentation was delivered to local process owners with high-level guidance on how to use that documentation for SOX.
SOX Control Management Before Process Control

- No software or tool was utilized to maintain or monitor Global Controls
- Global Controls must remain standard across all markets to realize the full benefits of an integrated SAP platform within the Control Environment

Global Controls are those which are standardized and executed in all countries on the SAP platform
Considerations If GRC Were Absent from the SAP Scope

- **Deferring the implementation of GRC would potentially result in the following opportunity costs and associated risks:**

<table>
<thead>
<tr>
<th>Topic Area</th>
<th>Opportunity Cost</th>
<th>Potential Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Automated control monitoring capability</td>
<td>Inability to adopt a framework which effectively utilizes automated controls</td>
<td>Deployment of an overly manual control framework that is inherently less reliable and efficient</td>
</tr>
<tr>
<td>2. Synergies with SAP project effort</td>
<td>Lack of integration between control processes and GRC automated control capabilities</td>
<td>Inability to fully utilize automated control capabilities without significant redesign</td>
</tr>
<tr>
<td>3. Platform for managing control performance</td>
<td>Inability to effectively test and assess controls due to lack of consolidated and integrated testing repository</td>
<td>Lack of defined control framework and ownership which could result in reduced visibility regarding control failures and remediation plans</td>
</tr>
<tr>
<td>4. Security and controls work stream design interdependency</td>
<td>Inability to bridge ECC control gaps through automated means; limited automated ECC controls demand manual processes; Inability to effectively manage controls intended to mitigate SOD concerns</td>
<td>Detective manual controls are inherently less reliable; Unmitigated SOD violations which could result in compliance, fraud, and financial issues</td>
</tr>
<tr>
<td>5. ERP security and controls sustainability</td>
<td>Inability to perform manual controls due to an increase in transaction processing</td>
<td>Control failures and gaps resulting from inability to effectively execute manual controls</td>
</tr>
</tbody>
</table>
Global Controls

- Global controls would apply in a majority of countries and are not specific to any one country. There may be some details about the control that are different depending on the country (thresholds, fields, accounts, etc.). Those details will be maintained in the global control for every country.

SAP is configured with workflow to require journal entries to be approved.

Local Controls

- Local controls are specific to the process and to the country and would not apply in any other country.

Sales tax rates in the system are regularly reviewed to ensure updates are made in a timely manner.
Global Control Maintenance

- Process Control Capability
  - Solely requiring all SOX controls to be documented in Process Control would not completely solve the issue of governance around Global Controls
  - Using workflow strategically in the application design enabled us to control changes to Global Controls
Global Control Maintenance (cont.)

- **Global Control Governance**
  - Local markets could change and update all local controls whenever necessary
  - Global controls require the approval of all applicable markets prior to making changes or updates
  - The Process Control workflow was used to route changes to global controls to the Global Controllership team prior to being made in the system.
Master Data Change Workflow – Local Controls

PC Process for Making Changes to Local Controls

Control Owner
- Start
  - Request Control Change
- Receive Notification that Control Change Was Rejected
- Make Changes to Control
  - NO
    - Receive Control Change Request
    - Approve?
  - YES
    - Receive Notification to review Implemented Change
    - Receive Notification to review Implemented Change
    - END

Local Process Owner

Global SOX Team
Master Data Change Workflow – Global Controls

PC Process for Making Changes to Global Controls

Manual Activities

System Activities
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Managing Regulations Within GRC

- Regulatory Environment Prior to GRC
  - Managed several regulatory requirements in silos using different methods
  - Even within one regulation, multiple tools were used to manage the documentation and testing process

- Regulatory Environment using GRC
  - Prioritized regulatory requirements to determine one regulation (i.e., SOX) to implement first
  - In later phases, we will begin to include additional regulations
Performing Certification in a Global Controllership

- **Certification using GRC**
  - Prior to implementing PC, the team managed certification processes manually using scanned documents, MS Word, MS Excel, and Shared Drives
  - Expected to manage certification centrally using delivered PC certification functionality

- **Implications for a Global Controllership**
  - Walmart markets report on two different fiscal year timeframes
  - Delivered certification functionality only accommodates certification using one fiscal year timeframe for the entire company
Determining Global Certification Solution

• Solution Process
  - Determined that delivered certification functionality by itself could not be utilized due to timeframe constraints
  - Brainstormed various possible solutions and weighed the pros and cons of each

• Options
  - One Certification Process in PC – All markets certify at the same time regardless of their fiscal year end
  - Two Certification Processes in PC – Application would accommodate different processes in each market and still provide overall standardization
Determining Global Certification Solution (cont.)

- **Solution**
  - Configure two fiscal year timeframes
  - Use two different methods for performing certification:
    - Delivered certification functionality (signoff survey) for countries operating on one fiscal year timeframe
    - Policy Management (policy survey) for countries operating on another fiscal year timeframe
  - Use a phased approach – deploy to minimal business units initially and then deploy to additional business units in later phases
Using Two Certification Methods

- Allows the flexibility of certification to be performed using two different fiscal years

- Able to capitalize on the benefits of delivered certification functionality
  - Allows for a hierarchical/roll-up certification process
  - Brings in all issues for the time period on the first certification screen

- Able to capitalize on the benefits of Policy Management
  - Master data is not locked down after users complete the survey
  - Different policies can be set up for different user groups and surveys can be tailored for each group
Using Two Certification Methods (cont.)

- **Other Considerations**
  - **Additional Maintenance:**
    - Separate surveys (sign-off survey and policy survey)
    - Two separate hierarchies (organization hierarchy and policy hierarchy)
    - Different certification processes (two different types of surveys, planning types, reports, and trainings)
  - Policy Management does not support a hierarchical/roll-up certification process — all surveys are sent to users at the same time
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GRC Process Control Global Roll-Out Strategy

- The roll-out strategy below was followed for an effective Global GRC Process Control Implementation
- This approach will allow for an initial centralized controllership function with a gradual transition to a decentralized compliance environment:
  - Phase 1 – Global Controls and Control Change Workflow
  - Phase 2 – Controls for key business units and Ad Hoc Issue Management
  - Phase 3 – Continuous Control Monitoring and Assessment techniques for key business units
  - Phase 4 – Continuous Control Monitoring and Assessment techniques for subsequent business units
GRC Process Control Global Roll-Out Strategy

– Benefits

• This approach has allowed the GRC Team to realize the following benefits over a “big bang” approach:

  ◦ Initial rollouts supported a centralized compliance model
    ▶ Reduced efforts on business units and control owners
    ▶ Ability to setup Global Controllership Governance Organization
    ▶ Oversight of master data, monitoring, assessments, and issues

  ◦ As we progress with future rollouts, a more decentralized model will prevail
    ▶ Individual management of control exceptions with controllership oversight
GRC Process Control Global Roll-Out Strategy

- **Phase 1:**
  - Implementation of global controls
  - Enablement of control change workflow
  - **Key Benefits:**
    - Centralized management of key global controls which reduced end user impact while allowing for controllership oversight of control changes
    - Built appropriate reporting structure to set the stage for future rollouts
GRC Process Control Global Roll-Out Strategy (cont.)

• Phase 2:
  ♦ Additional control repository for key countries
  ♦ Ad Hoc Issue Management
  ♦ Key Benefits:
    ▶ Built upon current master data structure to roll in additional controls for global business units
    ▶ Centralized issue management while enabling Internal Audit to manage and oversee oversight of controls
GRC Process Control Global Roll-Out Strategy (cont.)

- Phase 3:
  - Continuous Control Monitoring for Key SOX Controls and business units
  - Manual Assessment Techniques
  - Entity Level Control Management
  - Key Benefits:
    - Building a baseline of automated controls for material business units
    - Assessments allow for the integration and shifting of responsibility to other key parties, including process owners and Internal Audit
GRC Process Control Global Roll-Out Strategy (cont.)

- Phase 4:
  - Continuous Control Monitoring for additional business units
  - Key Benefits:
    - Ability to build upon the continuous control monitoring foundational activities of Phase 3 to transition to other business units
Production Controls Monitoring

- As part of production monitoring after the final phase, the Controllership will perform on-going governance and monitoring of production controls enabled by SAP GRC, as well as providing frequent end-user support for the tools.

<table>
<thead>
<tr>
<th>Area</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automated Control Monitoring</td>
<td>• Monitors key configurations, master data, and transactions which result in compliant business processing, more efficient and effective controls testing activities.</td>
</tr>
<tr>
<td>Platform for Driving Issue Resolution</td>
<td>• Provides a workflow for Process Control issue management and ensuring that issues are resolved in a timely manner&lt;br&gt;• Provides a platform to monitor and evaluate overall control in production</td>
</tr>
<tr>
<td>Ongoing Monitoring of Key IT Controls</td>
<td>• Ensuring review and signoff of firefighter logs in production&lt;br&gt;• Drives periodic review of Segregation of Duties ruleset and its impact to the production user-base&lt;br&gt;• Periodically reviews users who have unmitigated SODs or access to critical functions&lt;br&gt;• Ensures that mitigating controls assigned to SOD or critical action risks remain applicable to the business environment</td>
</tr>
<tr>
<td>Cost Avoidance from Automated Processes</td>
<td>• Automation and monitoring of key operational controls allows for savings associated with early detection of system anomalies</td>
</tr>
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Where to Find More Information

  - SAP’s GRC Process Control Web site
- www.deloitte.com/view/en_us/us/71417eb4971fb110VgnVCM100000ba42f00aRCRD.htm
  - Making the Business Case for Governance, Risk, and Compliance
- http://docs.media.bitpipe.com/io_10x/io_102213/item_464525/sComp_GRCSolutions_Revise_v3McAfee.pdf
- https://na.theiia.org/training/eLearning/members/Member%20Documents/110308_V...
7 Key Points to Take Home

• Business buy-in on GRC design is vital for implementation success and tool acceptance

• An integrated security and controls work-stream is critical for compliance success

• A dedicated organization to design, implement, and monitor business and control performance is critical for success

• The GRC basic framework can be used in multiple ways to meet specific business needs that a company may have

• Investing in the automation of control monitoring should help to reduce the cost of compliance in the future

• GRC can address compliance concerns across platforms and markets

• Significant efficiencies and cost avoidance can be realized by integrating a GRC rollout with a SAP implementation
Your Turn!

Questions?

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