

September 19, 2008

The Honorable Richard Durbin  
Chairman  
The Honorable Sam Brownback  
Ranking Member  
Subcommittee on Financial Services and General Government  
Committee on Appropriations  
United States Senate

The Honorable José E. Serrano  
Chairman  
The Honorable Ralph Regula  
Ranking Member  
Subcommittee on Financial Services and General Government  
Committee on Appropriations  
House of Representatives

*Subject: Briefing on Observations on the Office of Management and Budget's Report on the Human Resources Line of Business Initiative*

The Human Resources Line of Business (HR LOB) initiative, under Office of Management and Budget (OMB) direction and Office of Personnel Management (OPM) management, aims to increase operational efficiencies and cost savings governmentwide by transitioning outdated and decentralized federal agency human resources information technology systems to pre-qualified public sector or commercial shared service center providers. Section 747 of Division D of the Fiscal Year 2008 Consolidated Appropriations Act (Pub. L. No. 110-161) required OMB to provide to the Congressional Committees on Appropriations of the House and Senate a report on a number of issues, including the role of public-private competition as part of HR LOB, and for GAO to review OMB's report and brief the committees on GAO's views concerning the report. On September 10, 2008, we briefed your staff on the results of our review, and that briefing is reprinted in full as an enclosure to this letter. As agreed, this concludes our work performed under this mandate.

We are sending copies of this letter to the directors of OMB and OPM and other interested congressional committees. We will also make copies available to others upon request. In addition, the letter will be available on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at (202) 512-4841 or [sherrilla@gao.gov](mailto:sherrilla@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this letter were Carolyn Kirby, Assistant Director; Katherine Trimble; Karin Fangman; and John Krump.

A handwritten signature in cursive script that reads "Andrew Sherrill".

Andrew Sherrill  
Acting Director, Acquisition  
and Sourcing Management

Enclosure

# Enclosure: Briefing Slides



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## Briefing to Congressional Committees September 10, 2008

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### Observations on the Office of Management and Budget's Report on the Human Resources Line of Business Initiative

Mandate under Fiscal Year 2008 Consolidated Appropriations Act,  
Division D, Section 747

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## **Two HR LOB Reporting Mandates**

Sec. 747(b): Office of Management and Budget (OMB) Director submits to appropriations committees a report on the role of public-private competition in the Human Resources Line of Business (HR LOB) initiative addressing the following—

- 1) The role of Circular A-76 public-private competition or direct conversion to contractor performance under the initiative;
- 2) The expected impact of the initiative on federal employment levels at affected agencies;
- 3) An estimate of the initiative's annual and recurring savings and a description of the methodology used to generate the estimate;
- 4) An estimate of the initiative's total transition costs; and
- 5) Guidance for agencies to evaluate the initiative's benefits and to develop alternative strategies in the absence of expected benefits.

Sec. 747(c): GAO reviews OMB's report on the HR LOB initiative and briefs the committees on its views concerning the report.

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- Reviewed the HR LOB report, dated June 25, 2008, that was submitted by OMB's Director to congressional committees;
- Interviewed HR LOB officials at OMB and Office of Personnel Management (OPM) to further discuss report and obtain supplemental information for review;
- Consulted with other GAO staff with expertise in the areas of human resources (HR) and information technology (IT) administration; government IT initiatives; and federal program cost-benefit analysis methodologies;
- We discussed a draft of this briefing with OMB and OPM. Overall, officials agreed with our characterization of OMB's report to Congress as well as with the supplemental information we provided and our observations. Officials provided some clarification and additional technical details, which we incorporated as appropriate; and
- We conducted this performance audit between July and September 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The initiative, under OMB direction and OPM management, aims to increase operational efficiencies and cost savings governmentwide by transitioning outdated and decentralized agency HR IT systems to one of nine pre-qualified public sector or commercial shared service center (SSC) providers:

Public sector SSCs

National Finance Center (Agriculture)

Civilian Personnel Mgmt. Service (DOD)<sup>1</sup>

Program Support Center (HHS)<sup>2</sup>

National Business Center (Interior)

HR Connect (Treasury)

Commercial SSCs

Accenture

Allied Technology Group

Carahsoft Technology

IBM<sup>3</sup>

<sup>1</sup>Department of Defense; <sup>2</sup>Department of Health and Human Services; <sup>3</sup>International Business Machines

- Customers = all federal agencies covering about 1.8 million civilian employees to be serviced by SSCs after transfer of core HR IT functions from in-house systems
- HR LOB mandates that three core HR IT functions be transferred to a public or commercial SSC:
  1. personnel action processing (e.g., actions to appoint, separate)
  2. benefits management (e.g., process health and retirement benefits)
  3. compensation management (e.g., payroll processing)
- HR LOB makes it optional to transfer nine non-core HR Staff Support functions: human resources strategy, organization and position management, staff acquisition, performance management, compensation management,<sup>1</sup> human resources development, employee relations, labor relations, and separation management

<sup>1</sup>Non-core compensation management activities could include consultative support, administrative support, and knowledge management.

- In order to select a public or commercial SSC to which their core and/or non-core functions will be transferred, customer agencies are to follow a 5-phase end-to-end “migration roadmap” overseen by OMB & OPM

### Phase – Agency Actions

1. Assess – Envision best scenario for HR service delivery
2. Define – Develop SSC requirements
3. Select – Select SSC and negotiate service expectations
4. Migrate – Move selected HR IT operations from agency to SSC
5. Operate and Improve – Use performance results to identify opportunities for improvement



## **Timeline of HR LOB Initiative Actions**

- Spring 2004 – OMB convened taskforce on standardization of HR business functions and processes
- August 2005 – 5 public sector SSCs established
- May 2007 – Competition Framework for HR LOB migrations issued
- Dec. 2007-Jan. 2008 – 4 commercial SSCs are selected under General Services Administration schedules program
- Dec. 26, 2007-August 24, 2008 – Statutory moratorium on use of funds for HR LOB migrations
- According to OMB and OPM, 3 agencies started migrations under HR LOB prior to the moratorium (1 completed)

## **HR LOB-Related Migrations Under e-Payroll**

- Under the guidance of OMB and OPM, the pre-HR LOB e-Payroll initiative was established in June 2002 to standardize and consolidate the operations of 22 federal payroll system providers by migrating operations to 4 selected public sector SSCs
  - According to OPM officials, this initiative is nearly complete
  - In addition, 3 agencies migrated all 3 core HR IT functions as part of e-Payroll. While the agencies did not apply the competition framework to their migrations, OMB and OPM have treated them as comparable to full-scale HR LOB migrations of the three core functions

## OMB Report Highlights

- When a customer agency is ready to select a SSC, the HR LOB Competition Framework establishes two public-private competition scenarios based on the number of full time equivalent (FTE<sup>1</sup>) positions involved:
  1. More than 10 FTEs: OMB officials told us in this scenario migrations must be conducted in accordance with Circular A-76. The customer agency must conduct a public-private competition among the most efficient organization (MEO)<sup>2</sup> and at least 3 public and 3 commercial SSCs (1+3+3 public-private competition). No exceptions other than those authorized under Circular A-76
  2. 10 or fewer FTEs: A-76 procedures do not apply. Rather, a customer agency must conduct a competition among at least 3 public & 3 commercial SSCs (3+3 public-private competition). No exceptions to 3+3 competition without OMB approval
    - Under scenario 2, OMB may authorize non-competitive migrations or limited competitions involving only public or only commercial SSCs (e.g., 1+1 public-public instead of the 3+3 public-private competition)

<sup>1</sup> FTE is a measure of federal civilian staffing.

<sup>2</sup> OMB defines a MEO as the staffing plan of the agency, developed to represent the agency's most efficient and cost-effective organization.

### GAO Observations and Supplemental Information

- For its 2006 budget estimate for the initiative, OMB projected that 32 agencies would undergo HR LOB public-private competitive migrations between 2007-2010
- While the OMB report describes the role of A-76 public-private competition in the migration process, it does not provide a clear picture of how many agencies are expected to undergo the A-76 process (scenario 1), which has been a focus of ongoing congressional concern
  - Instead, OMB and OPM officials stated that they expect most HR LOB migrations to occur under scenario 2 (i.e., non-A-76 process) because the focus is on migrating HR IT operations typically performed by contractors rather than federal FTEs.
- As of Aug. 2008, no such competitions have occurred due in part, according to OMB and OPM officials, to the statutory moratorium
- Pending FY 2009 appropriations include an additional 1-year moratorium on new A-76 studies that would prohibit HR LOB efforts under scenarios 1 and 2

## OMB Report Highlights

- Report suggests that impact of HR LOB on federal employment levels is likely to be relatively low because
  - HR IT systems are typically operated and maintained by contractors. Thus, the effects of migrations to SSCs have primarily impacted contractors, not federal FTEs;
  - Moreover, the report suggests that HR IT contractors are typically overseen by small numbers of federal IT managers or HR specialists; and
  - Federal IT managers directly affected by migrations have frequently been redirected to other mission-related projects (which indicates that federal IT FTEs have not been cut)

### GAO Observations and Supplemental Information

- OMB's 2006 projection was that 32 agencies would undergo HR LOB migrations. The report provides two examples for expecting a low impact on FTEs:
  - One example is of a Department of Homeland Security migration under the smaller-scale e-Payroll initiative and a second is of the Department of Labor's anticipated plans for a full-scale HR LOB migration
- Thus the report's finding about the low impact on federal employment levels appears to be based, in part, on a migration under e-Payroll, which was a smaller scale SSC migration and may not be a reliable predictor of the initiative's impact on federal HR IT employees performing the wide range of core functions listed on slide 5
- In addition, the report does not directly address the expected impact of HR LOB on HR Staff Support FTEs performing the nine non-core functions listed on slide 5
- Customer agencies are required to collect data on affected HR IT and HR Staff Support FTEs during the first two phases of each migration

## OMB Report Highlights

- OMB developed a rough-order-of-magnitude estimate of \$1 billion (net present value) in savings over 10 years (FYs 2006-2015) for the initiative
- Model:
  - Status quo costs – reduction in status quo costs = gross savings
  - Gross savings – cost of establishing SSCs = net savings
- Status quo costs were calculated using agencies' reported average spending for FY 2004-2005
- Reduction in status quo costs was estimated to be 50%
- Costs (planning, acquisition, maintenance) of establishing SSCs over 10-year period were estimated to be \$1.6 billion
- OPM plans to revise the cost-benefit analysis for HR LOB for the FY 2010 budget process based on agency budget submissions (Exhibit 300)

## GAO Observations and Supplemental Information

- OMB report does not distinguish between annual<sup>1</sup> and recurring savings
- OMB officials told us that the 10-year savings estimate is out of date and likely would increase if recalculated with updated information, including
  - Actual costs of establishing public sector and commercial SSCs
  - Changing assumptions on agency migration patterns
- In addition to OPM's plan to revise the cost-benefit analysis for the FY 2010 budget process, OMB officials told us they support the idea of periodically providing to Congress revised savings estimates as HR LOB progresses

<sup>1</sup> For this review we have interpreted annual savings to mean one-time savings, in contrast to recurring savings.



## OMB Report Highlights

- OMB estimated that the integration and transition costs for migration would average \$5 million per agency
  - These costs include planning and verification, integration of systems, data conversion and validation, and agency change management
- Agency transition costs will vary significantly based on the size of the agency and other factors
- While HR LOB is in the early stages, actual costs to migrate appear to be in line with the initial rough-order-of-magnitude estimate

### GAO Observations and Supplemental Information

- Report does not provide an estimate of the total transition costs attributable to the initiative, which officials indicated could involve 32 agencies
  - OPM officials told us that OMB's \$5 million figure for average agency transition costs is a "soft" estimate
- Report provides two examples for claim that actual transition costs are in line with the per-agency estimate. However, the extent to which these examples are representative of future agency results is unclear
- OPM told us it plans to collect and revise transition costs for the 2010 budget process, using cost data agencies submit for budget process (Exhibit 300)
- While they did not indicate any plans to do so, OMB officials told us they support the idea of providing to Congress revised cost estimates as HR LOB progresses

## OMB Report Highlights

- Summarizes guidance and tools for the evaluation of agency benefits, including:
  - Identifying quality assurance processes and surveillance methodologies
  - Establishing performance metrics to support periodic evaluation of SSCs
  - Tracking results in a manner consistent with federal guidance
- Report notes that pre-qualifying the SSCs serves to minimize many risks associated with major systems migrations

## GAO Observations and Supplemental Information

- LOB governance structure—which calls for regular contact between OPM, agencies, and SSCs—is intended to facilitate agency efforts to identify and address problems
- The type of HR LOB performance data to be collected and monitored by OPM could also be used to provide periodic performance and accountability reporting to Congress and the public
- Report does not reference any guidance provided to agencies for developing alternative strategies should expected benefits fail to materialize
  - OMB officials explained that if problems cannot be addressed, agencies have eight other pre-qualified SSCs among which to re-compete

- Our related work on the Financial Management LOB initiative indicates that an approach such as HR LOB, as described in OMB's report, holds promise for enhancing the economy and efficiency of federal operations in an environment of increasingly constrained federal resources
- Since agencies are still in the early stages of implementing the HR LOB initiative, the OMB report responded to the Sec. 747 reporting requirements in large part by citing procedural requirements and rough-order-of-magnitude estimates, rather than data on actual impacts of HR LOB migrations
- Periodic analyses of the data that are planned to be collected on actual outcomes of HR LOB could provide greater insight on the progress of the initiative

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