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MANAGEMENT REFORM

Agencies' Initial Efforts to Restructure Personnel Operations





**United States
General Accounting Office
Washington, D.C. 20548**

General Government Division

B-277016

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The Honorable Jacob J. Lew
Acting Director
Office of Management and Budget

Dear Mr. Lew:

Resource reductions and changing missions, coinciding with the replacement of aging human resource management information systems, are driving efforts in federal agencies to restructure their personnel offices. Congress has made it clear, through enactment of a statutory framework with the Government Performance and Results Act of 1993 as its centerpiece, that it expects agencies to improve their accountability for resources, including human resources, in accomplishing agency missions. In addition, the National Performance Review (NPR), now called the National Partnership for Reinventing Government, in 1993, recommended that agencies reduce by half the costs of administrative positions, including personnel positions, by 1999.

Between September 1993 and September 1997, the number of civilian personnelists across government decreased by about 8,900 employees (or about 21 percent). In order to gain an understanding of the initial effects of this reduction, we reviewed four major federal departments to (1) describe the activities they have undertaken in restructuring personnel offices and operations; (2) ascertain what, if any, performance measures are in place to gauge results of the restructuring efforts; and (3) identify issues agencies may commonly encounter when, in restructuring their personnel operations, they consider outsourcing automated personnel and/or payroll services to another agency or the private sector.

The four departments whose personnel offices¹ we reviewed were the Departments of Agriculture (USDA), Health and Human Services (HHS), the Interior (DOI), and Veterans Affairs (VA), which together employ roughly one-fourth of the nonpostal federal workforce. These four departments provide or plan to provide personnel or payroll services to other federal agencies. All four departments took slightly different approaches to streamlining personnel operations and were in the early stages of implementing restructuring plans in late 1997, when we were completing our work. We use the term “restructuring” broadly to capture major changes occurring in an organization, including reorganizations,

¹We use the term “personnel offices” with the understanding that some federal agencies use the term human resource (HR) office and that the functions handled by a personnel office or an HR office can vary by agency.

consolidations, downsizing (reducing the size of the workforce), quality improvements, streamlining efforts, the use of new technologies, and reengineering personnel processes,² such as the process used to hire employees.

Results in Brief

Although the focus of agencies' restructuring efforts differed across the four departments, their streamlining plans included reducing the number of employees working in personnel operations and automating paper-based personnel processes to improve the responsiveness and quality of personnel-related services. The departments and their agencies made initial cuts in personnel staffing and, as they did, they consolidated personnel offices and streamlined work processes to varying degrees. The reduction in the number of personnelists at the four departments ranged from 14 to 41 percent between September 1993 and September 1997. However, even with reductions of this magnitude, the personnel servicing ratios—a comparison of the number of employees served to the number of personnelists servicing them—for three departments did not change substantially. According to our analysis of federal workforce data collected by the Office of Personnel Management (OPM), the departments' ratios did not increase more because, coinciding with the decrease in the number of personnelists, departmentwide downsizing had simultaneously reduced the number of employees served. Nevertheless, as of September 1997, the ratio ranged from 103:1 at VA to 47:1 at HHS.

The departments sought to boost the efficiency of their personnel offices by automating their largely paper-based operations. To achieve this increase in efficiency, the departments generally planned to have new equipment and software in place before staff reductions were made. However, that did not occur. The departments fell behind their original milestones for implementing new personnel and payroll systems while initial personnel staff reductions occurred which, in some cases, led to delays in their overall scheduled completion dates. According to officials at the four departments, converting to the new systems has taken much longer than expected. A number of factors contributed to these milestone delays, such as the need for greater system testing than was initially anticipated.

The four departments, according to personnel officials, had few measures in place to gauge the results of their personnel operations before

²Business process reengineering is a systematic, disciplined improvement approach that critically examines, rethinks, and redesigns mission-delivery processes in order to achieve dramatic improvements in performance in areas important to customers and stakeholders.

restructuring. However, officials in all four departments recognized the need for measurement, were developing performance measures to assess future efforts, and, in some cases, were seeking to more fully assess current costs and performance to identify specific targets for improvement. For example, VA and a USDA agency reported having developed measures to evaluate certain outputs of their personnel operations. A performance measure that personnel officials of the four departments said they used was the personnel servicing ratio. Personnel officials stressed that although the personnel servicing ratio is a broad measure of efficiency, it does not measure how well a personnel office meets the needs of its customers as they work to accomplish organizational missions. The departments generally had not fully implemented measures to assess such key performance results as how responsive personnel offices have been to customers, the quality of personnel services provided, and the cost of providing specific services. Without performance measures, departments and component agencies will find it difficult to determine the timeliness of personnel services, the satisfaction levels of those who use the services, and other attributes of effective personnel operations.

According to agency officials, among issues agencies may encounter when purchasing personnel and payroll services are (1) the inability of service providers to deliver services when scheduled, (2) the lack of a common framework to identify the various services being offered, and (3) the lack of common format and requirements to permit agencies to fully and efficiently exchange automated personnel data.

In addition to providing personnel services to their component agencies, the four departments were developing or purchasing automated personnel systems with the intention of selling payroll or other key personnel services to other agencies—also referred to as cross-servicing. Since their automation plans in some cases were behind schedule, none of the four could provide the upgraded personnel services as soon as planned. This situation has already affected the plans of certain agencies to obtain services, which is further complicated by the need for agencies to address the Year 2000 date conversion problem. For example, the Department of Energy (DOE) initially planned to use DOI's payroll services because its own payroll system was not Year 2000 compliant. However, DOE cancelled its agreement because of the time and costs involved in building an interface between their respective systems to allow the exchange of data. DOE plans now to make its existing payroll system Year 2000 compliant.

Agency officials with whom we spoke suggested that a framework was needed with which agencies could obtain information on the personnel services offered by other federal agencies, the costs of those services, and their performance characteristics, including service-level standards. As part of our review, we spoke with officials at several agencies who said that their agencies were considering purchasing personnel and payroll services from other federal agencies or the private sector. However, they said that information available from provider agencies on the operational performance and cost of personnel and payroll services was limited, except for the National Finance Center. The four provider agencies we reviewed had limited data on the specific costs of their personnel and payroll processes, although they were beginning to capture more data. Without adequate information on the services being offered, the service quality, and their costs, an agency will have a difficult time making an informed decision on whether to purchase personnel and payroll services from another government agency.

Agency officials with whom we spoke also suggested the need for a standard technical format and a core set of requirements for personnel data that agencies are likely to exchange with each other. In April 1997, we reported on the need for core requirements.³ Since then, OPM has rechartered the mission of the Federal Personnel Automation Council and tasked it to develop a set of core data elements and requirements for personnel information systems. Also, the President has established an Administrative Management Council to direct attention to administrative matters governmentwide. We are making recommendations designed to focus these efforts on the parallel need for common performance measures.

Background

In the 1990s, Congress constructed a statutory framework to address long-standing weaknesses in federal operations, improve federal management practices, and provide greater accountability for the use of resources and achieving results. This framework included as its essential elements the Government Performance and Results Act of 1993 and key financial management and information technology reform legislation: the Chief Financial Officers Act of 1990—as expanded by the Government Management Reform Act of 1994—and the Paperwork Reduction Act of 1995 and the Clinger-Cohen Act of 1996, respectively.

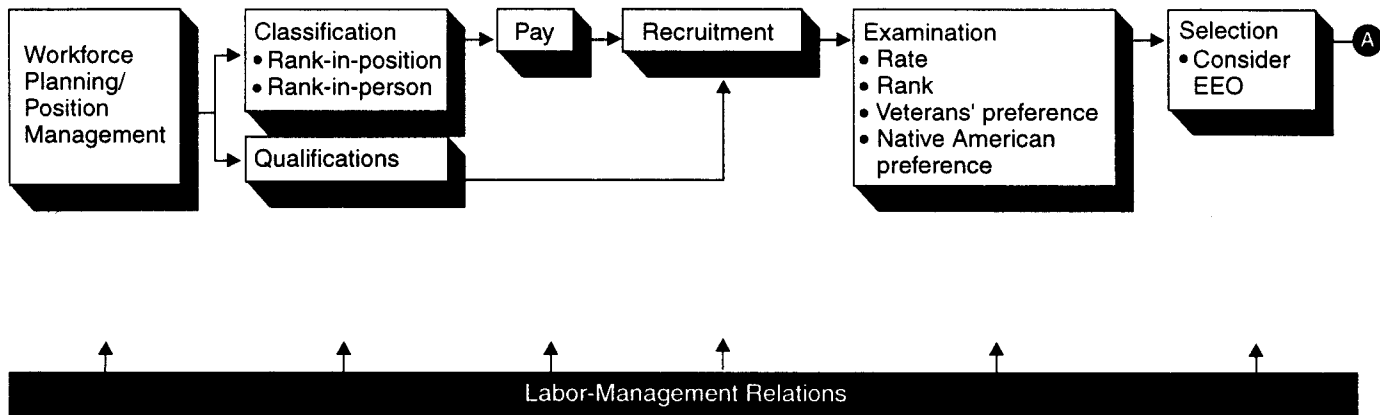
³Management Reform: Initial Observations on Agencies' Restructuring of the Human Resource Management Function (GAO/GGD-97-68R, Apr. 14, 1997).

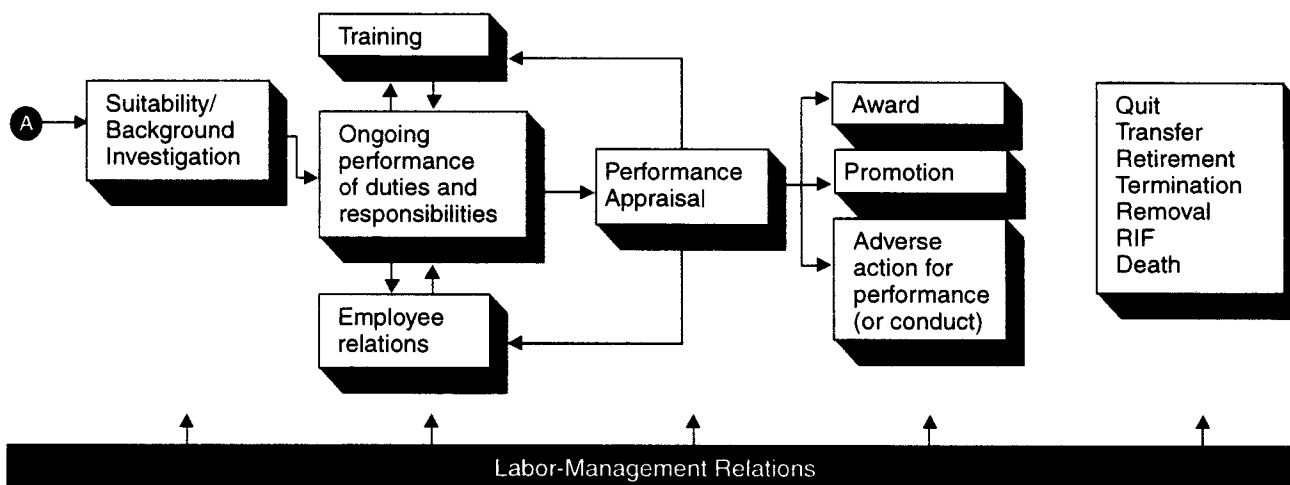
In 1993, NPR recommended to the President that agencies reduce by half the costs related to central management control positions, by 1999. NPR targeted administrative costs and positions, such as managers, personnel specialists, budget analysts, procurement specialists, and other headquarters staff positions to reduce administrative layers at headquarters and streamline field structures. NPR estimated that these central control positions cost about \$35 billion a year in salaries and benefits. To achieve NPR's streamlining goals, in 1994, the Office of Management and Budget (OMB) required agencies to prepare streamlining plans detailing, in addition to other things, how they planned to reduce these targeted positions.

The typical federal personnel office carries out a wide range of functions related to the management of an organization's people, from the time they apply for a position to the time they leave. This includes establishing policies and carrying out activities, many of which are prescribed by federal law. The range of personnel functions generally includes, but is not limited to, recruitment and employment (including workforce diversity), classification (i.e., determining the appropriate grade and classification series of a position), merit promotion, and employee and labor relations. A personnel office collects and maintains data related to the employment process. Personnel activities include such tasks as advertising positions to be filled, verifying candidate information, processing paperwork on health insurance and other employee benefits, and processing paperwork on employee discipline and promotions.

Although agencies use automation to store and analyze various pieces of personnel information (e.g., employees' occupations, grades, and performance ratings) and process payroll data, personnel administration has been largely a paper-based, labor-intensive operation, as often is the case with administrative functions. Each year, hundreds of federal personnel offices process millions of personnel actions that affect the federal workforce of almost 1.9 million civilian, nonpostal employees. For example, nearly every official personnel action affecting a specific employee, such as a promotion, begins with the preparation of a Standard Form 52, "Request for Personnel Action." And when the request is approved, it is followed by the preparation of a Standard Form 50, "Notification of Personnel Action." Figure 1 shows various processes that typically are included in personnel operations.

Figure 1: Federal Personnel Processes





Source: GAO analysis.

Federal efforts to reduce administrative overhead positions, including personnel, somewhat parallel streamlining efforts in the private sector. For example, human resource managers in the private sector have been asked to integrate the company's personnel management practices with its business goals and objectives while also providing cost-effective, traditional personnel services. Private sector human resource managers increasingly are expected to quantify their operations' return on investment or what "value-added" the function provides. In the federal sector, cost concerns have forced managers to reexamine the role of the personnel function and its relationship as a support function to the mission of the agency. For example, the Results Act recognizes the importance of human resource management as a key element for achieving performance goals as part of agencies' strategic and annual performance plans. We have suggested that agencies' performance plans that contain a description of how workforce knowledge, skills, and abilities can contribute to the achievement of program performance goals would be most useful to congressional decisionmakers.⁴

⁴Agencies' Annual Performance Plans Under the Results Act: An Assessment Guide to Facilitate Congressional Decisionmaking (GAO/GGD/AIMD-10.1.18, Feb. 1998, Version 1).

In addition to the reexaminations that are taking place about the role of the personnel function and its relationship to mission accomplishment, the departments' restructuring efforts also were taking place within a context of evolving concerns about the federal human resource management system's statutory and regulatory framework. These concerns, which have been expressed by agencies, OPM, NPR, and Congress, center on striking the best balance among the priorities of managerial flexibility and decentralization on the one hand, and systemwide consistency and adherence to merit principles on the other. How these priorities are balanced and any changes to current regulatory or statutory requirements may have important implications for federal human resource management and personnel offices, as well as how personnel services are provided to line managers.

In planning how to restructure personnel operations and what personnel processes to automate, agencies are now required by the Clinger-Cohen Act of 1996⁵ to reassess their work processes to determine whether their administrative and mission-related business processes should be improved before investing in major information systems to support them. As federal agencies decide how to streamline administrative support functions, they must choose among options for providing automated personnel and payroll services. Such options include purchasing personnel and/or payroll services from another government agency (or franchise, also called cross-servicing)⁶ or contracting with the private sector.

Scope and Methodology

To meet our first objective in this self-initiated review—to describe the activities that have taken place in restructuring personnel offices and operations—we first surveyed 24 CFO agencies (as designated by the Chief Financial Officers Act of 1990), which employ most executive branch employees—to identify those that were restructuring personnel

⁵The Omnibus Consolidated Appropriations Act of 1997 (P.L. 104-208) renamed both the Federal Acquisition Act of 1996 (P.L. 104-106, Div. D) and the Information Technology Reform Act of 1996 (P.L. 104-106, Div. E) as the "Clinger-Cohen Act of 1996." For related reports see [Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology \(GAO/AIMD-94-115, May 1994\)](#) and [Business Process Reengineering Assessment Guide \(GAO/AIMD-10.1.15, Apr. 1997\)](#).

⁶A franchise is an entrepreneurial activity within a government organization that provides common administrative support services to other agencies or other components within the same agency. A franchise may offer one or more common administrative services and generally conducts its business (1) on a reimbursable basis, (2) in a manner that fosters competition, and (3) within appropriate standards and legal authorities for both the service rendered and the method for accounting for franchise expenditures and charges. Under such arrangements, a government entity remains fully responsible for the provision of affected services and maintains control over management decisions, while another entity operates the function or performs the service.

operations. These 24 CFO agencies represent about 97 percent of the nonpostal, full-time workforce of the executive branch. From among those that were restructuring personnel operations, we reviewed USDA, DOI, HHS, and VA to obtain further information about restructuring activities at these agencies. We selected these agencies primarily because they said they were using business process reengineering as an approach to restructuring and/or were providing or planning to provide personnel and payroll services to other agencies. We interviewed personnel officials from the four departments and selected component agencies to obtain information on the reasons for restructuring, the planning in preparation for restructuring, the activities undertaken to restructure, and the status of restructuring efforts. We also reviewed the restructuring plans of the four departments and component agencies. (The component agencies we reviewed are listed in app. I.)

To address our second objective—to ascertain what, if any, performance measures are in place to gauge the results of restructuring activities—we discussed with responsible officials of the four departments and component agencies whether their organizations had or were developing measures to assess the performance of the restructured personnel offices and operations. Where measures were said to exist, we reviewed the documentation that described and supported the measure. In addition, to better understand the major issues associated with restructuring personnel operations and performance measurement, we reviewed current literature on the two subjects and spoke with performance measurement experts from the National Academy of Public Administration (NAPA) and the Saratoga Institute.⁷

In connection with our second objective, we computed one common measure—the personnel servicing ratio—to assess progress in restructuring. To compute the ratios, we obtained September 1993 and September 1997 data from OPM’s Central Personnel Data File (CPDF) on the number of employees and personnelists at the 24 agencies we surveyed. These personnelists were in the federal Personnel Management and Industrial Relations occupational group—GS-200s—that NPR specifically targeted for reduction. We used the NPR definition of personnel specialist with the understanding that some agencies classify some employees working in personnel offices in other occupations, such as program analysts (GS-345) or management analysts (GS-343). In addition, all

⁷NAPA is an independent, nonpartisan, nonprofit, congressionally chartered organization that assists federal, state, and local governments in improving their performance. The Saratoga Institute is a human resources research and consulting company that specializes in benchmarking performance of human resource management.

personnel specialists in the GS-200 group may not have worked in personnel offices; some may have worked in allied offices, such as training and counseling.

To address our third objective—to identify issues agencies may commonly encounter as they consider purchasing automated personnel and payroll services—we interviewed officials from the departments and component agencies who were involved in the development or purchase of computer hardware and/or software for use in personnel/payroll operations. We obtained information from these interviews on the decision processes for acquiring new technology, the challenges that surface in acquiring new technology, and the status of implementing the new technology at their departments and agencies. We also met with officials from OMB and OPM and representatives of two governmentwide councils to discuss governmentwide efforts to streamline personnel operations, including the use of technology to automate personnel processes. (For additional information on our objectives, scope, and methodology, see app. I.)

We did our work in the Washington, D.C., metropolitan area and at several other locations listed in appendix I between October 1996 and January 1998 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Directors of OMB and OPM, the Secretaries of DOE, DOI, HHS, USDA, and VA, or their designees. A discussion of their comments appears at the end of this letter, and their written comments are included in appendixes II through VIII.

Agencies' Activities to Restructure Personnel Offices

The four departments we reviewed generally approached the restructuring of their personnel offices with the intent of achieving staff reductions. Although all four departments reduced the number of personnelists they employed by 14 percent or more, the personnel servicing ratio for three of the four departments did not change as much. Another key component of the departments' restructuring plans was to install new technology—hardware and/or software—to automate paper-based personnel processes and thereby improve the responsiveness and quality of personnel services. However, for various reasons, such as an agency deciding to do additional system testing, these automation efforts had all fallen behind schedule.

Restructuring Approaches Aimed at Achieving Staff Reductions

The four departments we reviewed had all developed restructuring plans. One of the primary goals of those plans was to reduce administrative staff, including the number of employees working in personnel offices. In reducing their administrative staffs, the departments were responding to a number of factors. One major impetus was the 1993 NPR recommendation to reduce administrative staff. Other major factors were the governmentwide reality of operating with reduced budgets, exemplified by a succession of budget agreements between Congress and the administration, as well as the requirement in the Federal Workforce Restructuring Act to reduce governmentwide full-time equivalent positions. USDA was also responding to 1994 legislation that directed it to reorganize and to reduce its workforce. There were also cases, such as VA, where the departments or their agencies started their restructuring efforts to improve customer service before governmentwide efforts began in the 1990s. In deciding how to restructure, each department had to confront its own particular set of circumstances and challenges.

As of late 1997, officials in each of the four departments characterized the status of their personnel office restructuring as generally nearing the end of its initial stages of implementation. A brief summary of those restructuring efforts is presented next.

Department of Agriculture's Restructuring Efforts

Between September 1993 and September 1997, USDA reduced its personnel staff departmentwide from 2,463 to 2,035 employees, a decrease of about 17 percent. One of the primary reasons for this restructuring was a major, departmentwide reorganization and downsizing required by the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994.⁸

After reducing personnel staff, USDA initiated an HR project using a business process reengineering approach to (1) define and document the existing business framework through which personnel offices performed their mission, (2) identify any problems that were present in personnel operations, and (3) identify opportunities for improving those operations. This project was part of an initiative—Modernization of Administrative Processes Program—that USDA had begun in 1989 to streamline administrative processes and supporting systems departmentwide.

⁸The act requires USDA to (1) reduce the number of full-time equivalents (FTE) by at least 7,500 by the end of fiscal year 1999, (2) reduce the number of FTEs so that the percentage reduction in headquarters is at least twice the percentage reduction in the field offices, (3) consolidate headquarters offices, and (4) combine field offices and jointly use field resources. We reported on USDA's response to the act in U.S. Department of Agriculture: Update on Reorganization and Streamlining Efforts (GAO/RCED-97-186R, June 24, 1997).

Although several of its projects would likely continue under other USDA organizations, the modernization initiative itself was terminated in 1997 by the Acting Assistant Secretary for Administration because the initiative had only modest accomplishments. For example, only two of seven active projects to improve the administrative function had reached the pilot stage.

Certain USDA agencies had begun to restructure their personnel operations apart from the 1989 initiative and the 1994 legislative mandate to reorganize. For example, the Forest Service had been consolidating personnel operations in its 10 regions since the mid-1980s, and had eliminated 56 of its 160 personnel offices as of September 1997. It planned to further reduce the 104 offices to fewer than 40.

Department of Health and
Human Services' Restructuring
Efforts

HHS reduced its personnel staff by about 320 employees over the period from September 1993 to September 1997, a decrease of about 14 percent.⁹ HHS' restructuring efforts focused on reorganizing and consolidating the department's personnel offices. The individual agencies within HHS developed separate plans to restructure their personnel offices in conjunction with the departmentwide reorganization. According to HHS personnel officials, the NPR recommendations, budget constraints, and specific changes required by legislation were the primary motivators for restructuring personnel operations. Other factors cited by HHS officials that influenced HHS' restructuring decision included OMB exerting pressure on the department to improve its administrative processes and the findings of two organizational studies conducted by HHS in 1993 and 1995.

HHS' streamlining and reinvention strategy included three parts. The first part of the strategy was to separate personnel policy from personnel operations at HHS headquarters, which was accomplished in 1995. The second part of the strategy was to create the Program Support Center, which was established in 1995. The Center operates the automated personnel and payroll system for the Department and provides personnel administration services for the Office of the Secretary, the Administration on Aging, and for the Center's employees. According to HHS officials and documents, establishing the Center has helped HHS reduce duplicative administrative services and the number of administrative employees. The

⁹According to OPM data, HHS had 2,265 personnelists as of September 1993. This number included personnelists who were employed by the Social Security Administration (SSA). As of September 1997, HHS had 1,240 personnelists, not including SSA's employees. SSA separated from HHS in 1995 to become an independent agency. To determine the change in the number of personnelists, we added SSA's personnelists to HHS' personnelists for 1997 and then subtracted the 1993 figure from the new 1997 figure, for a reduction of 319 employees.

third part of HHS' restructuring strategy was to delegate authority in personnel and other administrative and management operations to its component agencies. For example, as part of HHS' broader restructuring efforts, HHS delegated to the health agencies that formerly comprised the Public Health Service their own delegation of HR authorities.

Department of the Interior's Restructuring Efforts

DOI reduced its personnel staff from 1,787 to 1,062 employees between September 1993 and September 1997, which was a decrease of about 41 percent. DOI's nine bureaus mainly restructured their personnel offices through consolidating offices, reorganizing bureaus, and downsizing the workforce through attrition and reductions-in-force. For example, the personnel office of DOI's Office of Surface Mining agreed to provide personnel services to the Bureau of Indian Affairs (BIA). After the agreement was reached, DOI eliminated BIA's personnel policy and operations staff at its central office in Washington, D.C., which had provided service to the Eastern Area. BIA also shifted coverage of personnel services for the Eastern Area to the Anna Darco, Oklahoma, area office and for BIA's Education Division to the Albuquerque, New Mexico, area office.

DOI departmental and bureau officials cited two reasons for restructuring personnel operations in the department—budgetary constraints and NPR recommendations and guidelines. In October 1994, after the bureaus rejected an earlier proposal to regionalize all personnel operations, DOI issued a plan for the department that detailed objectives, principles, approaches, and strategies for streamlining administrative operations. According to the plan, the bureaus were asked to review their organizations to identify strategies to reduce management layers, increase the span of control for supervisors, and reduce their headquarters' functions by as much as 50 percent. Each bureau was to devise its own plan to meet the departmental goals.

Under the streamlining plan, authority for personnel matters would be delegated to line managers of DOI's nine bureaus so that they could accomplish operating missions. According to departmental and bureau officials, this delegation has been made but with varying degrees of success. According to officials at one bureau, the concept of managers assuming personnel work was not realistic without fundamentally changing the personnel requirements and the associated processes to fulfill those requirements.

Department of Veterans Affairs' Restructuring Efforts

Between September 1993 and September 1997, VA reduced its personnel staff from 2,880 to 2,387 employees, a decrease of approximately 17 percent. According to VA officials, although VA's personnel staffing has been reduced, customer satisfaction with personnel services was the primary factor that led VA to restructure its personnel operations. VA's initial restructuring of personnel offices began in the Veterans Health Administration and the Veterans Benefits Administration, which together employ most of the VA workforce. Since then, VA has taken a departmentwide approach to restructuring its personnel and payroll operations, referred to as "HR LINK\$."

Key features of this departmentwide approach include a national "shared service center" to process personnel transactions for all of VA and a newly designed three-tiered approach to address the questions and concerns of employees and managers. At the first tier, a generalist is to answer routine inquiries and process simple transactions. If an inquiry goes beyond the assistance the generalist can provide, it goes to a specialist at the second tier who is to provide problem-solving, issue resolution, and advice or counsel based on the specific needs of the case. If assistance is needed above the specialist's expertise, then a small staff of experts at the third tier is to provide or facilitate answers on department policy, program design, or resolve complex case work. VA had a four-phase strategy for implementing the remaining activities of its restructuring plan and was in the second phase as of late 1997. VA officials planned to complete departmentwide implementation by December 1999.

According to VA officials and documents, VA's aim in developing its approach was to improve the delivery of personnel service and to have the personnel function more directly assist program managers in accomplishing the mission of the organization. To determine how personnel services could be improved and made more useful to managers, VA compared its personnel operations with the personnel operations of leading private and public sector organizations and used a business process reengineering approach to streamline its personnel processes. Expanding on that effort, VA's September 1997 HR managers' conference focused on how the human resource function can become a strategic partner in supporting managers and employees in accomplishing VA's mission. The purpose of the conference, as stated in conference materials, was "to develop effective strategies and accountable action plans, with relevant stakeholders, to optimize value-added and measurable human resource services for the changing VA, and to clarify responsibilities in the new HR/Payroll model."

Personnel Servicing Ratios Generally Did Not Change Substantially

Personnel officials we interviewed referred to their personnel servicing ratios as a key indicator when they spoke about restructuring personnel operations. As previously stated, governmentwide reductions of personnelists totaled about 8,900 employees or about a 21-percent reduction. The reductions in the number of personnelists at the four departments we reviewed ranged from 14 to 41 percent, or an average of about 22 percent. In contrast to the large reductions in the number of personnelists, however, the personnel servicing ratios for the departments, except for DOI, did not change as substantially from September 1993 to September 1997 because of downsizing in other parts of the agencies. For example, although USDA reduced the number of personnelist by 17 percent, USDA's personnel servicing ratio decreased from 55 employees served by 1 personnelist (55:1) to 54 employees served by 1 personnelist (54:1), which was still below the federal average of 56 employees served by 1 personnelist (56:1). DOI reduced its number of personnelists by 41 percent and improved its servicing ratio from 48:1 to 68:1. VA's 1993 and 1997 servicing ratios were well above the federal average at 95:1 and 103:1, respectively. Table 1 shows the ratios for the four departments and the ratios for the 24 CFO agencies combined. As mentioned previously, the 24 CFO agencies employ most of the federal civilian workforce.

Table 1: Personnel Servicing Ratios for the 4 Departments and the 24 CFO Agencies Combined, September 1993 and September 1997

Agency	Sept. 1993 personnel servicing ratio ^a	Sept. 1997 personnel servicing ratio ^a	Change in ratio
USDA	55:1	54:1	(-1)
HHS ^b (with SSA)	(57:1)	47:1 (64:1)	n/a (7)
DOI	48:1	68:1	20
VA	95:1	103:1	8
24 CFO agencies	51:1	56:1	5

^aThese data include part-time and temporary employees (see app. I). A department's personnel servicing ratio may be lower when excluding part-time and temporary employees. For example, VA's 1997 ratio when only including full-time, permanent employees was 83:1. These data do not include vacant positions, which may also change an agency's ratio.

^bHHS' 1993 ratio and bracketed 1997 ratio include personnelists employed by SSA. SSA separated from HHS in 1995. Therefore, in 1993, all SSA employees were counted in HHS' workforce, which was not the case in 1997. If SSA personnelists were added to the number of HHS personnelists to make the 1997 data more comparable to 1993 data, HHS' 1997 personnel servicing ratio would be 64:1, rather than 47:1.

Source: GAO analysis of data from OPM's CPDF, as of September 1993 and September 1997.

The personnel servicing ratios for the four departments did not increase more because, at least in part, the overall number of employees served

also decreased between September 1993 and September 1997. In addition to reducing personnel staff, each department also downsized other parts of its workforce. For example, according to data from OPM's CPDF, USDA had about 25,700 fewer employees in September 1997 than it did in September 1993, a decrease of about 19 percent. In comparison, the number of personnelists at USDA decreased by 17 percent.

Use of New Technology, Key Component of Restructuring Plans, Is Behind Schedule

As part of their restructuring efforts, the four departments planned that new hardware and/or software technology—designed to reduce paperwork and workload for personnel staff—would be in place before personnel staff reductions were made. To this end, each department was developing or purchasing new technology for automating personnel transactions.¹⁰ In some cases, the departments had begun to automate the processes for classifying and staffing positions, which streamlined those processes and reduced the time necessary to process certain transactions, such as employee hiring and promotions. However, across all four departments, much of the new automation was not in place even though personnel staff reductions had occurred.

As of late 1997, the departments were behind their original milestones for implementing the new personnel and payroll systems. For example, USDA officials were deciding whether to provide an automated “front-end processing” supplement to its core payroll/personnel system by developing software in-house or purchasing commercially available software. Pilot tests of both software products were planned to develop information on which to base the decision. HHS' Program Support Center, which is to serve all of HHS, was converting its existing system to use commercially available software to upgrade its personnel and payroll system, as well as testing the converted system. DOI had been developing a system for processing personnel and payroll transactions, including automating SF-52s, since the late-1980s, but it was not fully operational departmentwide as of January 1998. VA had rescheduled the opening of its national service center from September 1997 to March 1998 to allow more time for programming and testing the new information system. However, VA officials remained confident that the new system would be implemented departmentwide by December 1999, as projected, because key implementation steps were being done in parallel rather than in sequence.

¹⁰As we noted earlier, USDA and VA officials used a business process reengineering approach; HHS and DOI officials did not. With the passage of the Clinger-Cohen Act in 1996, agencies are now required to assess and reengineer their paperwork processes before automating them.

Officials of the four departments and their agencies told us that efforts to upgrade technology have been resource intensive and have taken longer than expected. Specifically, some officials said that when restructuring efforts began they had not fully appreciated the need to (1) assess existing automated systems before making changes, (2) have technology in place before downsizing personnel staff, and (3) allow sufficient time for testing the new technology. One option these officials recommended to other agencies to facilitate the conversion process was to consider purchasing commercially available software rather than building new personnel information and payroll systems in-house. Few commercial software programs suitable to the departments' needs, according to officials at two departments, were available when the departments began to develop their automated systems in-house.

Further complicating the system delays in the agencies is their need to comply with the Year 2000 date conversion. In both the public and private sectors, the way dates are recorded and computed in many computer systems is at the root of the Year 2000 compliance problem. For the past several decades, systems have typically used two digits to represent the year, such as "97" representing 1997, to conserve electronic data storage space and reduce operating costs. With this two-digit format, however, the year 2000 is indistinguishable from 1900, 2001 from 1901, and so on. As a result of this ambiguity, system or application programs that use dates to perform calculations, comparisons, or sorting may generate incorrect results. Payroll and personnel information systems and programs clearly fit those categories. All four departments were aware of this problem and were taking steps to address the issue. For example, according to DOI officials, the personnel information and payroll system they are developing is designed to be Year 2000 compliant. DOI plans to validate and test the new system's compliance in 1999.

Departments Recognized Need for More Performance Measures to Better Assess the Results of Personnel Operations

The four departments we reviewed had only limited measures in place to assess the performance of personnel offices and operations but were developing further measures. A growing trend in industry and more recently in government, according to HR experts, is the expectation that the personnel function needs to quantify its operations' return on investment or what value-added the function provides to an organization.¹¹ In addition, as we previously reported, without measures of performance, it will be difficult to track the impact of recent activities to streamline

¹¹For example, see Transforming the Civil Service: Building the Workforce of the Future, Results of a GAO-Sponsored Symposium (GAO/GGD-96-35, Dec. 20, 1995).

personnel operations and to know whether the intended results were achieved.¹²

Limited Performance Measures in Place to Gauge the Results of Restructuring

Focusing the measurement of personnel operations on results represents a major shift for HR managers in the federal government. A 1993 study of federal personnel offices, by the U.S. Merit Systems Protection Board (MSPB), highlighted the fact that personnel offices in the federal government have long been evaluated on the basis of compliance with laws, rules, and regulations and not on service delivery or results.¹³ The MSPB found little in the way of performance indicators of service delivery in personnel operations. In our survey of the 24 CFO agencies, we found that there had been little progress since the MSPB study was conducted. The 24 CFO agencies reported little if any performance measurement activity.

More specifically, when we spoke with personnel officials from the four departments, they told us that they had few measures in place across the department to track performance or to indicate what value-added services personnel offices bring to the organization. These departments had not routinely gathered the data needed to gauge operational efficiency and effectiveness. For example, data were not usually gathered to measure the costs of personnel and payroll processes or the level of satisfaction customers had with the quality and timeliness of the services they received. A 1996 USDA study identified 360 operational activities associated with the delivery of personnel services but identified performance measures for only 6 of them.

While not common, we did observe that some agencies had performance measures in place that were not routinely being used elsewhere. For example, at USDA's Animal and Plant Health Inspection Service (APHIS), officials said they had performance standards in place for a number of years. As part of its performance standards, APHIS tracks how long it takes to carry out certain activities, such as 34 days to complete the processing of paperwork for promotions.

One performance measure that agencies' personnel officials consistently used was the personnel servicing ratio, as discussed earlier. For example,

¹²Business Process Reengineering Assessment Guide (GAO/AIMD-10.1.15, Apr. 1997) and Assessing Risks and Returns: A Guide for Evaluating Federal Agencies' IT Investment Decision Making (GAO/AIMD-10.1.13, Feb. 1997).

¹³Federal Personnel Offices: Time for A Change? A Report to the President and the Congress of the United States by the U.S. Merit Systems Protection Board, August 1993.

DOI issued guidelines to the bureaus to attain a servicing ratio of 100 employees to 1 personnelist. VA had projected a target servicing ratio of 110 to 125 employees to 1 personnelist. The servicing ratio, while providing a broad measure of efficiency and an indicator of progress in restructuring, does not indicate how well an agency's personnel office meets the needs of its customers—managers and employees—or its contribution to mission accomplishment. Performance indicators can aid agencies' efforts to improve service delivery, efficiency, and quality—key goals of agencies' restructuring efforts.

Agencies Were Developing Performance Measures

Agency officials we interviewed in all four departments recognized the need for measurement and were beginning to develop appropriate measures to assess the performance of personnel offices. For example, officials of HHS' National Institutes of Health said they were working with NAPA to develop specific measures to track the delegation of authority to line managers and whether line managers believed that the personnel systems were flexible and easier to use. According to HHS officials, HHS also conducts an HR management indicators survey, which provides managers with data on employee perceptions of organizational effectiveness. VA sought to quantify the costs and performance of its personnel activities as it was developing its restructuring initiative to identify specific opportunities for improvement. Moreover, VA also recently developed performance measures that it circulated for comment to its personnel managers, including measures of users' satisfaction with the new automated personnel system and cost per employee for operating the new human resource system. At USDA, the Natural Resources Conservation Service also planned to use performance measures, for example, to determine the time personnel staff take to provide lists of eligible candidates to managers to fill vacant positions.

A 1997 NAPA study¹⁴ was commissioned by a number of federal agencies, including HHS and VA, to help personnel offices design useful measurement systems and to provide information and tools for that purpose. While the study emphasized that there is no one-size-fits-all system of measurement, it did identify four aspects of HR that should be measured. The four aspects were (1) financial measures, such as cost per employee hired and litigation costs; (2) customer satisfaction measures, such as those associated with responsiveness and quality; (3) workforce capacity measures, such as employee satisfaction and education; and (4) process effectiveness, such as cycle time and productivity.

¹⁴Measuring Results: Successful Human Resources Management, NAPA, August 1997.

Governmentwide Issues Concerning the Purchase and Delivery of Automated Personnel Services

In restructuring its personnel operations, a federal agency may decide to purchase personnel and payroll services rather than operate its own systems. Congress and the current administration, as with prior administrations, have encouraged federal agencies to provide administrative services to other agencies on a reimbursable basis. The Director of OMB was authorized by the Government Management Reform Act of 1994 to designate a number of agencies that can establish pilot franchise funds to provide common administrative support services. Federal agencies may also contract with private companies for personnel and payroll services. Among the issues that agencies may encounter if purchasing personnel and payroll services is the inability of service providers to deliver services when scheduled. Another issue is the lack of a common framework in which to (1) compare the service quality of personnel and payroll services that franchise and other federal agencies will provide to agencies seeking services and (2) permit the efficient exchange of automated personnel data between agencies and service providers.

Services to Be Obtained Through Cross-Servicing May Not Be Available as Planned

Each of the four departments is selling or planned to sell automated personnel and/or payroll services to other federal agencies, which was one reason why each department was upgrading its payroll and/or personnel information system. Three of the four departments (DOI, HHS, and VA) were franchise pilots, and USDA's National Finance Center already provided personnel and payroll services of some extent to 45 agencies, including us, as of August 1997. As previously stated, the departments had all fallen behind schedule in bringing their proposed systems to operational status. This situation had already affected the plans of certain agencies to obtain services. For example, DOI had agreed to provide payroll services to DOE if it were feasible to build an interface with DOE's human resource information system under development using commercially available software. Upon completion of a feasibility study, DOI estimated that it would take at least 15 months beyond the scheduled delivery date to provide payroll services to DOE because of the need to develop a computer interface. DOI estimated that the interface would cost at least \$3.4 million to develop and between \$450,000 and \$675,000 annually to operate. Because of the estimated time lag in the delivery of services and the associated costs, DOE decided to cancel its agreement with DOI. DOE plans to upgrade its existing payroll system and develop its own interface to DOE's new HR system, which, according to DOE officials, is Year 2000 compliant.

The situation of an agency waiting for an uncertain length of time to receive automated services is further complicated by the need for all agencies to comply with the Year 2000 date conversion. According to DOE officials, one reason why the Department decided to purchase payroll services from DOI was because its existing personnel information and payroll systems were not Year 2000 compliant. The officials said that DOE will now have to upgrade its payroll system to make it Year 2000 compliant. Other agencies may face similar situations if they cannot obtain personnel and payroll services in a timely manner from outside providers.

Lack of Common Framework to Inform Agencies About Services That Are Available

A common concern among the department and agency officials we interviewed was the lack of a common framework for restructuring personnel processes and information systems. The officials suggested that it would be useful to have, before entering into a cross-servicing arrangement, descriptions of the services agencies are offering. The descriptions could provide cost, performance, and other information about a service that would help an agency to decide whether to develop the service in-house or buy the service from another agency or the private sector. According to USDA, several agencies have expressed to the governmentwide Human Resource Technology Council that costs are not comparable from one service provider to another because different services are provided and different assumptions for including costs are used to determine billing for these services.

As we reported in October 1997, experiences in private sector organizations in purchasing automated administrative services show the need to understand the cost drivers and performance requirements to make effective “outsourcing” decisions.¹⁵ In our survey of the 24 CFO agencies, several agencies reported that they were considering various options for obtaining personnel and payroll services, such as cross-servicing and outsourcing. However, agency officials told us that the available information on operational performance and costs for personnel and payroll services from other federal agencies were limited (e.g., information on whether the systems work together without costly interfaces). This lack of information may be due in some measure to the less-than-fully operational status of new systems that agencies may be installing to provide cross-servicing or franchise services, such as was the status in the four departments we reviewed. The four departments had limited processes to routinely capture specific costs of their personnel and

¹⁵Financial Management: Outsourcing of Finance and Accounting Functions (GAO/AIMD/NSIAD-98-43, Oct. 17, 1997).

payroll activities but were beginning to capture more cost data. For example, VA and USDA officials were beginning to use activity-based costing to determine what the costs were to conduct certain activities and were using this information to help target improvements in their personnel operations.¹⁶

Common Format to Facilitate Data Exchanges Was Being Developed

Department and agency officials we interviewed said it would be useful as well to have a standard technical format for data that agencies are likely to exchange with service providers. Standard technical formats, they said, would enable an agency and its service provider to readily exchange automated data.

In April 1997, we reported on agencies' concerns about the lack of core requirements for automated personnel and payroll systems.¹⁷ OPM recently began taking positive steps to address these concerns by rechartering the Federal Personnel Automation Council as the Human Resources Technology Council. OPM has tasked the Council with developing a set of core data elements and requirements for personnel information systems in recognition of the need to develop a governmentwide strategy for using automation technology. To improve the overall efficiency of agency human resources operations, the President's Management Council tasked the Human Resources Technology Council to (1) review ongoing development and modernization of human resource systems across the government and (2) define and standardize essential functional or information requirements. The Human Resources Technology Council issued a report in November 1997 detailing its findings from a governmentwide survey of human resources information systems.¹⁸ These findings include the following:

- Human resources and payroll information systems should accommodate the flexibility and discretion needed by agency management.
- Agencies should make every effort to adopt standard data elements and descriptions to provide a degree of interoperability and compatibility of human resources information systems across the government.

¹⁶Activity-based costing is a set of accounting methods used to identify and describe costs and required resources for activities within processes.

¹⁷GAO/GGD-97-68R.

¹⁸Governmentwide Human Resources Information Systems Study, Human Resources Technology Council, November 26, 1997.

-
- Analytical processes should be used to critically examine, rethink, and redesign agency human resources management programs before embarking on the development of new information systems.
 - Agencies should review other existing agency information systems to determine if any one of them can satisfy their needs before making a decision to purchase or develop a new system.
 - Agencies' decisions about how and when to replace current systems should be based on a business case analysis.

The Human Resources Technology Council's November 1997 report recommends that the Council and OPM undertake further study to

- develop a strategy to move toward governmentwide electronic human resources recordkeeping,
- evaluate the cost of implementation and maintenance of human resource information systems,
- evaluate the best practices of other government entities and the private sector, and
- ensure that up-to-date functional requirements and data elements are identified in the payroll area.

In addition, in June 1997, the President established an Administrative Management Council, acknowledging that administrative management matters deserve attention across agency lines.

Conclusions

Initial efforts to restructure personnel operations at USDA, HHS, DOI, and VA were aimed at reducing personnel office staff and improving automated systems. Upgrading system technology was a primary element of the restructuring plans because the departments planned to increase operating efficiencies and improve services by automating paper-based personnel processes. Each department reduced the number of personnelists it employed, with reductions ranging from 14 percent at HHS to 41 percent at DOI. Each department as well was working to improve its automated systems. However, the automation efforts were not completed as planned before reductions in personnel staffing occurred. Automation efforts had not been fully implemented throughout the departments, as of late 1997.

Although some agencies were beginning to develop and implement performance measures for personnel operations, it was difficult for them to assess the performance of their restructured personnel offices because

the offices generally lacked baseline measures to gauge changes in performance. The Government Performance and Results Act of 1993 requires federal agencies to assess how well they are performing and to do so with appropriate performance measures. Without performance measures, departments and agencies will be unable to determine the timeliness of personnel services, the satisfaction levels of those who use the services, and other attributes that they may associate with personnel operations. Because personnel offices, regardless of department or agency, generally carry out the same activities, some performance measures would appear to have widespread application across agencies, could be used to compare performance among agencies, and could help to identify best practices in the delivery of federal personnel services. Performance measures also provide a benchmark to assess the effectiveness of reform efforts such as those taken by the four departments we examined.

The lagging schedule at the four departments in upgrading the personnel and payroll systems has had consequences beyond the four, since each department is providing or plans to provide personnel and payroll services to other agencies. An agency may sign up to use these services, in part, because its own personnel information and payroll systems are not Year 2000 compliant. As discussed earlier, DOE changed its plans to use DOI's payroll services. One of the factors, which influenced that decision, was the high cost to develop and maintain the DOI interface with DOE's new HR information system. The second factor was DOE's lack of a "comfort zone" between the projected date to complete the interface and the year 2000, in the event delays were encountered in developing and testing the interface, since DOE's payroll system was not Year 2000 compliant. It is imperative that payroll and personnel information systems, which use dates for many computations and analyses, be Year 2000 compliant or that the agencies have some backup means of accurately making the necessary computations when 2000 arrives.

As agencies decide to use alternative approaches for delivering personnel and payroll services, such as cross-servicing arrangements, they will need to be assured that the services they are to receive under these arrangements can and will meet their data and information needs. The administration has recognized that a governmentwide framework for cross-servicing arrangements is needed as agencies restructure personnel operations. OPM's Human Resources Technology Council has begun to focus interagency efforts to develop such a framework. Agency officials have suggested that the framework could include consistent policies, data

formatting requirements, and pricing structures for cross-servicing. The Council's current efforts do not include developing common performance measures. These initial efforts appear to be a good start and, with further refinement, would assist agencies in providing common administrative functions across the federal government as envisioned under the franchise fund pilot program authorized by the Government Management Reform Act of 1994.

Recommendations

We recommend that the Director of OMB require agencies to develop performance measures for personnel operations. The measures to be developed should assess key areas, such as the costs of personnel processes, customer satisfaction with personnel services, workforce capacity, and process effectiveness.

To develop measures that would have widespread application, we recommend that the Director of OPM, in conjunction with the President's Administrative Management Council, lead an initiative that helps agencies develop common measures that could be used to make performance and cost comparisons of personnel operations within agencies and across government.

Agency Comments and Our Evaluation

We obtained written comments on a draft report from OMB, OPM, and the four departments (DOI, HHS, USDA, and VA) whose personnel restructuring efforts we reviewed. We also obtained written comments from DOE because it initially was evaluating alternatives, including using DOI's payroll services, for providing more efficient services to its employees. The agencies' written comments are included in appendixes II through VIII.

OMB's Acting Deputy Director for Management said that our draft report adds considerably to the governmentwide knowledge base on implementation of new administrative systems, lessons to be learned, and the need to employ appropriate measures to determine their effect on organizational and workforce performance. OMB likewise supported the need to achieve these objectives and was in general agreement with our recommendations that agencies develop performance measures for their personnel operations.

OMB agreed that agencies should employ performance measures in assessing the operations of human resources management operations. However, OMB also suggested it is premature to require individual agencies

to develop such measures. Moreover, OMB suggested in its response that we consolidate our recommendations to focus attention on OPM's role in developing a set of common performance measures for human resource management operations.

While we are sensitive to OMB's position, a common framework is important to help guide agencies' efforts and we do not agree that it is premature to require agencies to develop such measures, given their progress to date. In fact, to be most effective, we would expect that work on our two recommendations would be done in tandem, thus building synergies from efforts at both agency and governmentwide levels. As OMB points out in its letter, the Merit Systems Protection Board has noted that 24 federal agency strategic plans identified at least one specific human resource management objective and one or more implementing strategies, and about half of those plans included performance measures that could be used to assess whether the objectives were being met. We also point out in our report that agencies were making progress in developing performance measures for their personnel operations. Given the level of investment in new HR information systems and the movement to cross-servicing among agencies for HR and payroll services, we continue to believe that it is important that agencies move quickly to develop baseline measures to gauge their progress and performance. We agree with OMB that OPM must play a central leadership role in helping to improve the overall quality and responsiveness of human resource management in agencies. However, OMB has a leadership role to play as well. OMB issues the guidance for agencies' annual performance plans and is a key recipient and user of those plans.

The Director of OPM said that OPM shares an interest in working with the Interagency Council on Administrative Management and other organizations throughout the government to develop appropriate performance measures, as our report recommends. The Director cited OPM's ongoing efforts with the agencies to develop a human resources accountability model. OMB's and OPM's written comments are included in appendixes II and III, respectively.

HHS' Inspector General, DOI's Assistant Secretary for Policy, Management and Budget, and USDA's Director for the Office of Human Resource Management said that we had accurately reflected their HR restructuring efforts over the past several years. The agencies provided information to clarify and update the draft report, which we incorporated into this report

where appropriate (see written comments and marginal notations in apps. IV through VIII).

On the other hand, in VA's May 22, 1998, letter, the Assistant Secretary for Policy and Planning said that the draft report fell short in depicting the scope, magnitude, and complexity of VA's primary human resource restructuring initiative—the "HR LINK\$" project. He also stated that this initiative is a model for the federal government. We believe that we have accurately described VA's personnel restructuring efforts. We agree with VA that the "HR LINK\$" project is a significant, large, and complex undertaking. However, as the draft indicated, VA still faces significant challenges in implementing its approach across the nation, including incorporating technology upgrades and addressing important operational details. VA was still in the prototype stage of the project and had not fully implemented its project throughout the department at the conclusion of this review. Because "HR LINK\$" is in the prototype stage and implementation challenges still remain, we believe it would be premature to characterize the initiative as a model for the rest of the federal government. VA's written comments are included in appendix VIII.

We are sending copies of this report to the Chairman and Ranking Minority Members of the Senate Committee on Governmental Affairs and its subcommittees on International Security, Proliferation and Federal Services and Oversight of Government Management, Restructuring and the District of Columbia; the House Committee on Government Reform and Oversight and its subcommittees on Civil Service and Government Management, Information and Technology; the Secretaries of Agriculture, Energy, Health and Human Services, the Interior, and Veterans Affairs; the Director, OPM, and other interested parties. We will also make copies available to others upon request.

Major contributors to this report are listed in appendix IX. Please contact me at (202) 512-8676 if you have any questions concerning this report.

Sincerely yours,

A handwritten signature in black ink, reading "J. Christopher Mihm". The signature is written in a cursive style with a large, stylized "J" and "M".

J. Christopher Mihm
Associate Director, Federal Management
and Workforce Issues

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Abbreviations

APHIS	Animal and Plant Health Inspection Service
BIA	Bureau of Indian Affairs
CFO	Chief Financial Officer
CPDF	Central Personnel Data File
DOE	Department of Energy
DOI	Department of the Interior
FTE	full-time equivalents
HHS	Department of Health and Human Services
HR	human resource
MSPB	Merit Systems Protection Board
NAPA	National Academy of Public Administration
NPR	National Performance Review
OMB	Office of Management and Budget
OPM	Office of Personnel Management
SSA	Social Security Administration
USDA	Department of Agriculture
VA	Department of Veterans Affairs

Objectives, Scope, and Methodology

We had three objectives in this self-initiated review. Our first objective was to describe the activities that have taken place in restructuring federal personnel offices and operations. Our second objective was to ascertain whether performance measures are in place to gauge the results of the restructuring efforts. Our third objective was to identify issues agencies may commonly encounter when, in restructuring their personnel operations, they consider purchasing automated personnel and/or payroll services from another agency or the private sector.

To address our first objective (i.e., to describe activities that have taken place in restructuring personnel offices and operations), we identified federal agencies that were restructuring their personnel offices and operations. We identified and focused on the 24 agencies that have financial reporting responsibilities under the Chief Financial Officers (CFO) Act. These 24 agencies represent about 97 percent of the career, full-time employees of the executive branch, and account for over 99 percent of the federal government's net dollar outlay in fiscal year 1996. We surveyed officials in the 24 agencies, asking a series of questions such as (1) which administrative functions, if any, were being restructured and what methods were used to restructure; (2) how they were measuring or planned to measure the results of these efforts; and (3) whether new technology (computer hardware and/or software) was part of the restructuring plan. Information the officials provided to our questions served as the basis for selecting the four departments we reviewed. We used information obtained from the four departments to address all three of our objectives.

We reviewed USDA, HHS, DOI, and VA because they reported (1) using business process reengineering as an approach to restructuring, (2) developing or purchasing new technology, and (3) providing or planning to provide personnel and payroll services to other agencies.¹ Because the personnel restructuring activities at USDA, HHS, and DOI were decentralized, we obtained information from several of their respective component agencies. We also obtained information from the three agencies within VA, although the VA's restructuring efforts were more centralized. We generally selected those agencies in the four departments that had the largest number of employees. Table I.1 lists by department the component agencies we selected and reviewed.

¹Although the four departments reported using a business process reengineering approach, further discussion with personnel officials after we selected the departments lead to a clarification that USDA and VA had used a business process reengineering approach; HHS and DOI had not.

**Appendix I
Objectives, Scope, and Methodology**

Table I.1: Component Agencies of the Four Departments That We Reviewed

Department	Component agency
Department of Agriculture	Animal and Plant Health Inspection Service Farm Service Agency Forest Service Natural Resources Conservation Service
Department of Health and Human Services	Food and Drug Administration Indian Health Service National Institutes of Health
Department of the Interior	Bureau of Indian Affairs Bureau of Land Management Bureau of Reclamation National Park Service Office of Surface Mining
Department of Veterans Affairs	National Cemetery System Veterans Benefits Administration Veterans Health Administration

In addressing our first objective further, we interviewed personnel officials of the four departments and the selected component agencies to obtain information on (1) when restructuring began, (2) the rationale for restructuring, (3) the plans developed for restructuring, (4) the activities undertaken to restructure, and (5) the status of implementation. The personnel officials we interviewed were from the central offices of the departments and agencies, and regional and other field offices. Specifically, at the field level, we interviewed personnel officials of

- the Bureau of Reclamation in Denver, Colorado;
- the Bureau of Land Management, Forest Service, Natural Resources Conservation Service, Bureau of Indian Affairs, and Indian Health Service in Albuquerque, New Mexico;
- the Bureau of Land Management’s state office in Santa Fe, New Mexico; and
- the Veterans Health Administration in Bath, New York.

In addition, we reviewed the restructuring plans and other documentation on restructuring provided by the four departments and their agencies. For example, we examined the “Reengineering Blueprint” that details the restructuring plans of the Natural Resources Conservation Service at USDA. We also attended planning conferences held by VA for its human resource managers.

To address our second objective (i.e., to ascertain whether performance measures are in place to gauge the results of the restructuring efforts), we discussed with responsible officials whether the departments and agencies had developed or were developing performance measures, whether the measures were “benchmarked” against leading organizations, and whether the performance measures were linked to the mission of the department or agency. Where departments and agencies had developed performance measures, we examined documents to determine what measures had been developed. In addition, since the restructuring and integration of human resource management is an evolving area in the private and public sectors, we reviewed current literature and spoke with experts in the human resource management area, including officials from NAPA and the Saratoga Institute, to develop an understanding of the major issues associated with restructuring personnel operations and performance measurement.

In discussing performance measures with the officials, we learned that the one measure the departments and agencies all used was the personnel servicing ratio, which compares the number of employees to the number of personnelists serving them. To compute personnel servicing ratios for the four departments and governmentwide and to determine how those ratios may have changed because of restructuring, we obtained September 1993 and September 1997 data from OPM’s Central Personnel Data File (CPDF). The CPDF is a database that contains individual records for most civilian federal employees and is a primary source of information on the civilian workforce of the executive branch. Data in the CPDF are supplied by the individual departments and agencies. We did not verify the data we obtained from the CPDF database, although we have a review in process that is examining the reliability of the CPDF database in general.

In obtaining information on staffing from the CPDF, we extracted data governmentwide and for each of the 24 CFO agencies, which employ most of the nonpostal civilian employees in the executive branch. In addition, when extracting data on the staffing of personnel offices, we identified only employees in occupational series GS-200-299, Personnel Management and Industrial Relations, which was the personnel series that NPR had targeted for downsizing.² We did not determine whether all of those who were in the occupational series worked in a personnel office; some unknown number may have worked in other human resource organizations such as training offices. On the other side, we did not identify employees who worked in personnel offices but who were not in

²We excluded military personnelists in occupational series 204 and 205 since we focused our review on civilian personnel.

the GS-200 occupational series; for example, we did not identify secretaries and clerks who worked in personnel offices. We extracted CPDF data on all employees, including part-time and temporary employees. The staffing numbers we use in this report provide approximate rather than exact reflections of the changes in staffing (overall and in personnel offices) at the four departments and governmentwide. Alternative definitions of whom to count as personnelists could change the personnel servicing ratio.

Finally, to address our third objective (i.e., to identify issues agencies encountered as they purchased automated personnel and payroll services from another agency or the private sector), we interviewed officials from the departments and component agencies who were involved in the development and/or purchase of new technology (hardware and software) for personnel and/or payroll operations. From these interviews, we obtained information on decision processes for acquiring new technology, the challenges that surface in acquiring new technology, and status of technology implementation. To observe agencies' new technology, we visited the Natural Resources Conservation Service's automation test site in Riverdale, Maryland, and the operations of automated administrative service centers in Topeka, Kansas (operated by VA); Denver, Colorado (operated by DOI); and Rockville, Maryland (operated by HHS). We also met with officials from OMB and OPM and representatives from the CFO Council's Joint Systems Solutions Team and the former Federal Personnel Automation Council to discuss governmentwide efforts to streamline personnel operations.

The four departments and the component agencies had not completed their personnel restructuring efforts as of late 1997. Thus, the information we collected from them can provide only a view of their restructuring efforts to date. Since the implementation efforts have not been completed, we cannot conclude the outcome of their efforts. Furthermore, the findings from the four departments and their component agencies may or may not be representative of the remaining CFO agencies and other federal agencies that may be restructuring their personnel offices and operations. These findings, however, provide some indication of the kinds of issues other agencies could face.

We obtained written comments from the Directors of OMB and OPM, the Secretaries of DOE, DOI, HHS, USDA, and VA or their designees. We obtained written comments from DOE because it initially was evaluating alternatives, including using DOI's payroll services, for providing more efficient services

Appendix I
Objectives, Scope, and Methodology

to its employees. A discussion of their comments appears at the end of the report and their written responses are included in appendixes II through VIII.

Comments From the Office of Management and Budget



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DEPUTY DIRECTOR
FOR MANAGEMENT

11 - 9 1997

Mr. J. Christopher Mihm
Associate Director, Federal Management
and Workforce Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Mihm:

Thank you for your correspondence to OMB Acting Director Jacob J. Lew, requesting OMB comments on the GAO's draft report, Agencies Initial Efforts to Restructure Personnel Operations (GAO code 410134).

This draft report adds considerably to the Governmentwide knowledge base on implementation of new administrative systems, lessons to be learned, and the need to employ appropriate measures to determine their effect on organizational and workforce performance. OMB likewise supports the need to achieve these objectives.

As you know, OMB led the effort to ensure that actions were taken following issuance of your letter report to the OMB Deputy Director for Management (Management Reform: Initial Observations on Agencies' Restructuring of the Human Resource Management Function, GAO/GGD-97-68R, April 14, 1997) that suggested a need for a common framework and information standards for human resources management (HRM) systems. OMB, working with representatives of the Office of Personnel Management's (OPM) Human Resources Technology Council (HRTC) (formerly the Federal Personnel Automation Council), the Chief Financial Officers (CFO) Council, and the Chief Information Officers (CIO) Council, was successful in obtaining the sponsorship of the President's Management Council (PMC) for such a study.

The report by the HRTC, Governmentwide Human Resources Information Systems Study, released November 1997, is now being reviewed by the Joint Financial Management Improvement Program (JFMIP) and the Financial Systems Committee of the CFO Council, with the objective of reissuing the 1990 JFMIP Personnel-Payroll Systems Requirements (FFMSR-2) to include this report and institutionalize these standards.

We agree that agencies should employ performance measures in assessing the operations of human resources management operations. However, we believe that your first draft recommendation, that OMB require individual agencies to develop such measures, is premature. Rather, we believe that, as the second draft recommendation suggests, a framework of common measures developed by OPM in collaboration with the agencies is a better first step.

**Appendix II
Comments From the Office of Management
and Budget**

OMB has already begun conversations with OPM about including in OPM's FY 2000 Performance Plan an initiative to develop performance measures for assessing the effectiveness of agency human resources programs. We believe that OPM is in a unique position to help improve the overall quality and responsiveness of HRM in the agencies, and the agencies, in turn, would benefit by understanding what key indicators they should apply in measuring those factors.

Accordingly, OMB recommends that GAO consolidate the draft report's recommendations to focus attention on OPM's role in developing a set of common performance measures for HRM operations. The measures could include those key areas identified under GAO's first draft recommendation, and would be available for performance and cost comparisons of personnel operations, both within agencies and across government. OMB will, of course, remain active and involved in these efforts.

Finally, OMB notes that a recent review of 26 agency strategic plans by the Merit Systems Protection Board (*Issues of Merit* newsletter, May 1998, enclosed) noted that 24 identified at least one specific HRM objective and one or more implementing strategies, and about half of those plans included performance measures that could be used to assess whether the objectives were being met. We are optimistic that this trend will increase in future years.

Thank you again for the opportunity to comment on the draft report.

Sincerely,



G. Edward DeSeve
Acting Deputy Director
for Management

Enclosure

Comments From the Office of Personnel Management

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



OFFICE OF THE DIRECTOR

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

JUN 8 1998

Mr. J. Christopher Mihm
Associate Director
Federal Management and Workforce Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Mihm:

Thank you for giving us the opportunity to comment on the draft report on Agencies' Initial Efforts to Restructure Personnel Operations.

I share your objectives concerning the restructuring of personnel operations in the Federal Government. As the Federal Government continues to restructure, the number of employees needed to perform administrative functions will also decrease, and managers will need accountability measures to determine whether agency goals are being met.

As the draft report indicates, the automation of personnel functions will continue to figure prominently as we approach the millennium. Outsourcing and cross-servicing will become more common as Federal agencies do more with less. The Human Resources Technology Council will continue its work to define and standardize essential functional or informational requirements for automated personnel and payroll systems.

In the broader area of performance measures for all human resource management functions, we already have efforts underway to promote agency development of accountability systems, models and guides for agency use. We have an ongoing working relationship with agencies to define a human resources accountability model. Our overall goal is that such a model would identify key indicators that can be used for measuring the effectiveness of agency human resource programs as well as their compliance with merit systems principles, laws, and regulations.

In the personnel operations area, the personnel servicing ratio is one performance measure widely used. For the computations on page 26 of your draft report, it appears that GAO has mistakenly included the number of employees in the personnel series with the number of employees being serviced by personnelists. The computation should be corrected. In addition, the definition of personnelists is much broader than the one we have traditionally used over the years. For example, we do not include military personnel or equal opportunity specialists in our computation of a personnel servicing ratio. We typically define that population as full-time permanent employees in the mainstream personnel series (Personnel Staffing Specialist, Position Classification Specialist, etc.) when we compute the servicing ratio.

See comment 1.

**Appendix III
Comments From the Office of Personnel
Management**

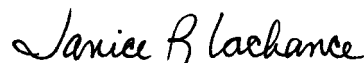
Mr. J. Christopher Mihm

2

One of the recommendations of the draft report is for OPM to work with the Interagency Council on Administrative Management to lead an initiative to develop common measures for performance and cost comparisons of personnel operations. We share an interest in working with the Council and other organizations throughout government to develop appropriate measures.

Thank you for giving me the opportunity to comment. Copies of the draft report are returned to you as requested.

Sincerely,



Janice R. Lachance
Director

Enclosures

The following is GAO's comment on the Office of Personnel Management's letter dated June 8, 1998.

GAO Comment

1. OPM notes in its response that OPM calculates the servicing ratio differently than we did and suggests that we change the computation of the ratios in our report. OPM also said that we used a broader definition of personnelists than theirs in our ratio calculation. First, we include the personnelists, as employees, in the calculation of total employees to present a more complete measure of the personnelists' workload. Personnelists must still process personnel actions and payroll for their own staff in the same manner as they would for other employees; and therefore, we believe it is a more complete way to calculate the ratio. Including personnelists in total employees serviced increases the servicing ratios by one (e.g., VA's 1993 ratio is 95:1 with personnelists included in total employees versus 94:1 without personnelists included in total employees). Second, we used the definition of personnelists as defined by the National Performance Review. Contrary to OPM's comment, we did not include military personnel specialists in our calculation of the servicing ratios (see app. I). We included part-time employees in our calculation to, again, give a fuller efficiency measure of the personnelists' workload, since processing personnel actions for part-time employees generally requires similar amounts of effort as required for full-time employees. As stated in our report, we believe that the servicing ratio is a rough measure of efficiency but does not capture the quality of the work performed.

Comments From the Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



**United States
Department of
Agriculture**

**Office of the
Assistant Secretary
for Administration**

Policy Analysis &
Coordination Center

Human Resources
Management

1400 Independence
Avenue SW

Washington, DC
20250-9600

JUN - 3 1998

Mr. J. Christopher Mihm
Associate Director, Federal Management
and Workforce Issues
General Accounting Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Mihm:

Thank you for the opportunity to comment on the report on Agencies Initial Efforts to Restructure Personnel Operations. We have reviewed the draft and also obtained comments from our Mission Area Human Resources (HR) offices. The report provides a good overview of the actual impact of restructuring on HR offices.

The overall recommendation that consistent performance measures be established for core personnel operations is a commendable goal. As you noted in your report, we conducted a thorough business process analysis effort on the HR function and identified only a few objectively measurable performance indicators. The difficulty of this task should not be underestimated, because HR involves dealing with people in activities that are hard to measure and quantify. The Federal HR environment is a dynamic one, with many unanticipated changes in rules, regulations, and executive orders. For example, who could have anticipated in advance the impact on the HR workload of the upcoming open season for conversion from the Civil Service Retirement System to the Federal Employees Retirement System?

Nevertheless, the development of consistent performance measures is an important goal that we agree should be carried out by an interagency group working with OPM. Such an approach would be preferable and more efficient than each agency dealing with this issue separately. Many of our HR offices are still heavily committed to major restructuring, and while they would benefit from the availability of such measures, they would not be able to commit resources to this effort at the present time.

The report points out that one HR performance measure that is consistently used, however imprecise, is the personnel servicing ratio. We would like to note that the Central Personnel Data File statistics used in the report to develop servicing ratios do not reflect vacant positions. Efforts to fill vacant positions require a significant amount of HR offices' time, but using the workforce data, without vacancies, makes the servicing ratio seem lower. Perhaps a statement to this effect could be included in a footnote to Table I.

AN EQUAL OPPORTUNITY EMPLOYER

See footnote a,
p. 15.

**Appendix IV
Comments From the Department of
Agriculture**

Mr. J. Christopher Mihm

2

The summary of personnel activities on page 8 should be revised to provide a more substantive description. We suggest the following:

“The typical Federal personnel office carries out a wide range of functions related to the management of an organization’s people, from the time they apply for a position to the time they leave. This includes establishing policies, managing programs, and carrying out activities, many of which are prescribed by Federal law. The range of personnel functions generally includes, but is not limited to, recruitment and employment (including workforce diversity), classification (determining the appropriate grade and classification series of a position), merit promotion, employee and labor relations, personnel security, compensation and performance management, employee recognition, and employee development. Other common functions of personnel offices include workforce planning, personnel management evaluation, executive development, safety and health management, and personnel information systems.”

We have been active in supporting the work of the Human Resources Technology Council (HRTC), and were pleased to see the report reflected some of their good work. In the discussions of the Council’s activities on pages 6 and 36-38, the report suggests that the four agencies reviewed have little data on the cost of providing personnel and payroll processing services to others. USDA does have a billing algorithm for charging our customers for automated personnel and payroll services provided by our National Finance Center. Based on this algorithm, we can provide potential customers with an estimate of the cost of the specific payroll/personnel processes provided. We believe the concern that several agencies have expressed to the HRTC is that costs are not comparable from one service provider to another because different services are provided and different billing algorithms are applied. The draft should be revised to more accurately reflect this concern.

On page 28, please revise the sentence which begins: “For example, USDA officials were deciding ...” to read:

“...whether to provide an automated “front-end processing” supplement to the core payroll/personnel system by developing in-house software or by procuring commercially available software. Pilot tests of both software products were planned to develop better information on which to base the decision.”

On page 22, the report reflects the observations of one Department of Interior bureau that the concept of managers assuming personnel work was not realistic without fundamentally changing the Federal personnel requirements and processes. We agree with this observation.

Now on p.5.

Now on pp. 4 & 21.

Now on p. 13.

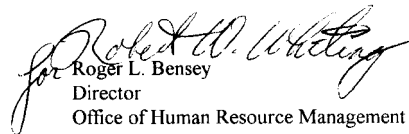
**Appendix IV
Comments From the Department of
Agriculture**

Mr. J. Christopher Mihm

3

The report should cite the lack of successful legislation to reform and streamline Federal personnel policies along with the lack of successful automation of personnel processes as factors working against personnel offices impacted by restructuring.

We commend your efforts to examine this important issue. If there are any questions concerning our response, please have your staff direct them to Joan Golden at (202) 720-2973.


for Roger L. Bensey
Director
Office of Human Resource Management

See comment 1.
See p. 8.

The following is GAO's comment on the Department of Agriculture's letter dated June 3, 1998.

GAO Comment

1. While agencies have cited concerns about the need for changes to the federal human resource management system's statutory and regulatory framework to assist the streamlining of their personnel operations, we have previously reported that agencies are not always aware of the range of flexibility they have, or have not taken full advantage of the available flexibility. Nevertheless, as we noted in our report, any changes to current regulatory or statutory requirements may have important implications for federal human resource management, personnel offices, and how personnel services are provided to line managers.

Comments From the Department of Energy



Department of Energy

Washington, DC 20585

May 21, 1998

Mr. J. Christopher Mihm
Associate Director
Federal Management and Workforce Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Mihm:

We have reviewed and concur with the draft report to the Director, Office of Management and Budget on Management Reform (GAO/GGD-98-93). However, we would like to offer the following suggestions and request clarification in language specifically related to the Department:

Suggestions:

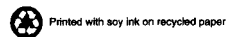
With reference to the following quotes:

- ▶ Page 6: "Without adequate information on the services being offered and their costs, an agency will have a difficult time making an informed decision on whether to purchase personnel and payroll services from another government agency."
- ▶ Page 34: "Among the issues that agencies may encounter if purchasing personnel and payroll services is the inability of service providers to deliver services when scheduled. Another issue is the lack of a common framework in which to (1) learn what personnel and payroll services franchise and other federal agencies will provide to agencies seeking services and (2) permit the efficient exchange of automated personnel data between agencies and service providers."

One additional missing ingredient in assessing potential providers would be information on the quality (knowledge, skills, and abilities of staff) of services that might be expected, e.g., lack of any service level standards that a customer might expect to be in place. However, in the summary under, "Lack of Common Framework to Inform Agencies About Services That Are Available," this was alluded to: "They suggested it would be useful to have, before entering into a cross-servicing arrangement, descriptions of the services agencies are offering. The descriptions could provide cost, performance, and other information about a service that would help an agency to decide whether to develop the service in-house or buy the service from another agency or the private sector."

It is suggested you consider adding the need for service level standards or, as a minimum, lack of indicators of quality of service be added, as appropriate, as an issue on pages 6 and 34.

Now on pp. 4 & 20.



Appendix V
Comments From the Department of Energy

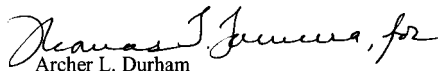
Clarifications Requested Related to DOE Quotes:

- ▶ Page 5, request language be amended to read: “For example, the DOI had agreed to provide payroll services to the Department of Energy if it was feasible to build an interface with the Department of Energy’s new human resource information system under development using commercial-off-the-shelf software. Upon completion Because of the estimated lag in the delivery of services and the associated costs, the Department of Energy decided to cancel its agreement with DOI, upgrade its existing payroll system, and develop internally the needed interface to the new HR system which is Year 2000 compliant.”

- ▶ Page 42, request language be amended to read: “As discussed earlier, the Department of Energy changed its plans to use the Department of Interior for payroll services. One of the factors which influenced that decision was the high cost of development and maintenance of the DOI interface with DOE’s new human resource information system. The second factor was the lack of a “comfort zone” between the projected date of the interface completion and the Year 2000 in the event delays were encountered in the interface development and testing schedule since DOE’s payroll system was not Year 2000 compliant.

Should you have questions about these suggestions and requested clarifications, please contact Nancy Tomford of my staff at (202) 586-7480.

Sincerely,


Archer L. Durham
Assistant Secretary for
Human Resources and Administration

See p. 20.

See p. 24.

Comments From the Department of Health and Human Services

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

MAY 26 1998

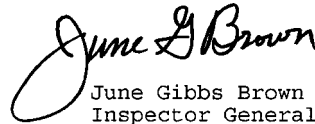
Mr. J. Christopher Mihm
Associate Director, Federal Management
and Workforce Issues
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Mihm:

Enclosed are the Department's comments on your draft report, "Management Reform: Agencies' Initial Efforts to Restructure Personnel Operations." The comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely,


June Gibbs Brown
Inspector General

Enclosure

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designated focal point and coordinator for General Accounting Office reports. The OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

**Appendix VI
Comments From the Department of Health
and Human Services**

**Comments of the Department of Health and Human Services on the Draft GAO Report,
"Management Reform: Agencies' Initial Efforts to Restructure Personnel Operations"**

In general the Department believes that the General Accounting Office (GAO) draft report accurately reflects the Department's overall pattern of human resources (HR) restructuring in the past 5 years. The report also provides a sense of current trends and priorities. We are pleased to note the acknowledgment of the role of the Office of Personnel Management and the Human Resources Technology Council in supporting agencies collaboratively in the next phases of restructuring.

We do wish to point out several areas that would benefit by modification or clarification.

On page one and elsewhere, the report references the National Performance Review recommendation that agencies reduce their personnel positions by half by 1999. The report notes that the agencies selected for this study had not achieved that level of reduction. In our opinion, it is not surprising that the reduction of personnel positions had not reached 50 percent, as a substantial part of the reduction was predicated on changing the statutory personnel system to reduce red tape and unnecessary complexity. Absent such changes, even the proportional level of personnel staff reductions during a period of rapid change has increased the strain on remaining staff and made productivity increases through automation even more important.

With respect to the Department's restructuring (see page 20), the statement that, "...SSA, which had been providing personnel services to other HHS' agencies...." is not correct. Prior to its becoming an independent agency, Social Security Administration (SSA) field employees were serviced by the Department's ten regional personnel offices. Also, on page 20, the role of the Program Support Center (PSC) needs to be clarified. While the PSC operates the *automated personnel and payroll system* for the Department, it provides *personnel administration services* for only the Office of the Secretary, the Administration on Aging, and for PSC employees.

Another major restructuring achievement that is not mentioned in GAO's report is the abolishment of the Public Health Service staff and management organizational layer. Subsequently, the health agencies that formerly comprised the Public Health Service have become operating divisions of the Department with their own delegation of HR authorities.

In Table 1 (page 26), we believe the Department's servicing ratio figures would be clearer if SSA's population was excluded in both 1993 and 1997, and the remaining Department population was used.

While we recognize that servicing ratios were one of the few HR measures found in the study, and that the report notes their limited accuracy, we believe that their subsequent repeated mention in GAO's report is misleading. First of all, different personnel offices perform different functions, making a comparison of servicing ratios problematic. For instance, some ratios may include an employee assistance program while others do not. Personnel offices servicing environments (for

See comment 1.
Now on p. 8.

Now on pp.12-13.

See p. 13.

See comment 2.

See comment 3.

**Appendix VI
Comments From the Department of Health
and Human Services**

example, the variety of occupations serviced, the geographical dispersion) also undermine comparisons. Another source of difficulty, which applies in this report, is the type of staff that are included in the ratio. The report includes staff in occupational group 200 only. As GAO notes, this method does not account for many support staff and some professionals who are classified in other groups but who perform personnel work. On the other hand, the report apparently includes staff in the 260 series (Equal Employment Opportunity Specialist), who generally do not perform personnel duties.

One additional performance measure that we have been using in the Department for a number of years is the Human Resources Management Indicators survey, which provides management with data on employee perceptions of organizational effectiveness. We are conducting this survey throughout the Department annually as a part of Secretary Shalala's Quality of Worklife Initiative.

We concur with your recommendation that the Director of the Office of Management and Budget direct agencies to develop performance measures for personnel operations.

See p. 19.

The following are GAO's comments on the Department of Health and Human Services letter dated May 26, 1998.

GAO Comments

1. While agencies have cited concerns about the need for changes to the federal human resource management system's statutory and regulatory framework to assist the streamlining of their personnel operations, we previously reported that agencies are not always aware of the range of flexibility they have, or have not taken full advantage of the available flexibility. Nevertheless, as we noted in our report, any changes to current regulatory or statutory requirements may have important implications for federal human resource management, personnel offices, and how personnel services are provided to line managers.
2. HHS noted in its response that they believe the HHS' ratio would be clearer if SSA's population was excluded in both 1993 and 1997. We included SSA in the calculation of HHS' 1993 ratio for HHS because SSA's field staff were serviced by HHS' personnelists. If we were to calculate the 1993 ratio for HHS without SSA's employees, the HHS' ratio would be understated.
3. We agree with HHS' statement that personnel offices perform different functions in different work environments. This is part of the rationale for our statement that the servicing ratio, although a general measure of efficiency, does not adequately capture how well the work is performed, since some offices may provide more services than others.

Comments From the Department of the Interior



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

MAY 29 1998

Mr. J. Christopher Mihm
Associate Director, Federal Management and Workforce Issues
U.S. General Accounting Office
Washington, D.C. 20548

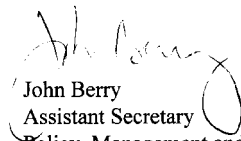
Dear Mr. Mihm:

The Department of the Interior has reviewed your draft report entitled "Agencies' Initial Efforts to Restructure Personnel Operations."

We believe that the General Accounting Office has correctly reported the facts concerning the Department's personnel streamlining efforts. We are also in general accord with the conclusions drawn from the facts and the recommendations offered.

Please let me know if you require any further input from the Department in this regard.

Sincerely,


John Berry
Assistant Secretary
Policy, Management and Budget

Comments From the Department of Veterans Affairs

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF VETERANS AFFAIRS
ASSISTANT SECRETARY FOR POLICY AND PLANNING
WASHINGTON DC 20420

MAY 22 1998

Mr. J. Christopher Mihm
Associate Director, Federal Management
and Workforce Issues
U. S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Mihm:

I am pleased to provide my comments to your draft report, **MANAGEMENT REFORM: Agencies' Initial Efforts to Restructure Personnel Operations** (GAO/GGD-98-93). Regrettably, I believe that the report falls short in depicting the scope, magnitude, and complexity of the Department of Veterans Affairs' (VA) primary human resources (HR) restructuring initiative—the HR LINK\$ project.

We strongly believe that VA's HR LINK\$ initiative is a model for the Federal government. It will implement state-of-the-art technology, improve service, and achieve significant savings resulting in cost competitive services. This initiative is a model IT and HR initiative because it:

- is based on a solid cost benefit analysis of alternatives,
- uses reengineering practices and principles to take full advantage of the best business practices,
- leverages technology fully, allowing transaction and information processing to be pushed to the lowest appropriate level and radically transforming the current paper intensive, manual processes,
- is designed with full cooperation and input of its customers – VA employees, managers, human resources/payroll (HR/P) personnel
- is being developed and implemented on an aggressive time schedule, with appropriate safeguards (e.g., phased development and prototyping), and
- has the support and accountability of senior VA leadership – the Assistant Secretary for Human Resources and Administration and the Assistant Secretary for Management.

In addition, VA participated in the development of the Human Resources Technology Council's November 1997 report that defined and standardized essential functional and information requirements for HR systems. VA's current system replacement project is in total compliance with the recommendations and directions of that report.

**Appendix VIII
Comments From the Department of
Veterans Affairs**

2. Mr. J. Christopher Mihm

I believe these remarks are important for inclusion in your report so that it will express more fully and accurately VA's accomplishments in our efforts to embrace the spirit of GPRA and NPR relative to the restructuring of our human resources management. I appreciate the overall tone adjustments GAO has made based on our comments on a preliminary statement made at the exit conference. In addition, VA accomplishments are now given credit and identified separately, although there is still a great deal of collective reporting in the summary sections.

The enclosure specifically addresses several GAO findings. I appreciate the opportunity to comment on your draft report.



Dennis Duffy

Enclosure

Enclosure

DEPARTMENT OF VETERANS AFFAIRS COMMENTS TO
GAO DRAFT REPORT:
***MANAGEMENT REFORM: Agencies' Initial Efforts to Restructure
Personnel Operations***
(GAO/GGD-98-93)

These comments specifically address the following GAO findings:

Agencies are falling behind schedule:

The GAO Report criticizes all agencies, including VA, for falling behind schedule in efforts to restructure personnel operations. However, it is important that GAO understand that HR LINK\$ is not simply an initiative to replace an aging legacy human resources/payroll (HR/P) system. VA is completely reinventing and reengineering its entire HR/P process. These innovations include creating the Shared Service Center (SSC) and installing a variety of automation technologies and applications (employee and manager self service, classification and staffing expert systems). This significant leveraging of technology and implementation of reengineered business practices will ensure that VA achieves efficiencies and savings on par with the National Performance Review's recommendation of a 50 percent savings in administrative overhead.

Had VA chosen to simply replace its legacy HR/P system, that effort would likely have been concluded or be very close to conclusion at this time. However, that is not the approach VA has taken. Our course truly reflects a totally reengineered approach that has undergone the appropriate levels of scrutiny and analysis, including a very positive cost benefit analysis.

Furthermore, VA has made substantial progress. In just over 3 years, VA has:

- acquired a replacement corporate commercial-off-the-shelf HR/P system (PeopleSoft HRMS),
- conducted a reengineering effort that included visits to public and private sector organizations recognized for their HR/P transformations,
- completed a cost benefit analysis of the new delivery model,
- implemented selected PeopleSoft functionality at the prototype sites,
- identified and secured a location and staffed a single Shared Service Center (SSC),
- designed, developed, and implemented employee self service technology/applications,
- designed, developed, and implemented software applications to support the SSC and ensure the most cost effective delivery of those services, and
- implemented a prototype of the SSC and employee self service functionality.

See comment 1.

Enclosure

DEPARTMENT OF VETERANS AFFAIRS
COMMENTS TO GAO DRAFT REPORT
**MANAGEMENT REFORM: Agencies' Initial Efforts to
Restructure Personnel Operations**
(GAO/GGD-98-93
(Continued)

Though VA experienced some delays in opening the SSC and implementing employee self service, those delays were minimal considering the complexity of that undertaking from both a technical and software development standpoint. VA continues to move toward its goal of full HR LINK\$ software/application development, currently working on the manager self service technology/applications and concluding with payroll processing. At this point in time, VA still intends to complete the development, testing, and full Department-wide deployment in the Year 2000 (our initial target date).

Agencies are not developing performance measures

GAO claims that although agencies see the need for performance measures, they have not developed them. Here, too, we believe GAO has not adequately depicted VA's HR LINK\$ experience. Performance measures are an important and integral ingredient for assessing the success of this project. GAO seems to feel that servicing ratios are the only factor that agencies are measuring. These ratios are only one of many VA performance measures. We do not consider servicing ratios to be a critical measure for determining the project's success. We have or will be establishing performance measures for each prototype phase. When developing these performance measures we also assessed current processing timeframes to be used as a basis for comparison. We have expended significant effort in establishing these performance measures. VA is using the "balanced scorecard" concept to develop performance measures. This approach includes operational, productivity, and financial measures. These measures will serve as the basis upon which to determine the effectiveness and success of the prototype and will be used to make prototype course corrections and decisions on eventual Department-wide rollout.

Agencies have not achieved any real improvements in servicing ratios and are making reductions before new technology is in place

This appears to be a very narrow view of all agencies' projects, especially, VA's. Our plan is to achieve savings as the different phases of the new delivery model are implemented. VA's cost benefit analysis does not identify full FTE savings until one year after Department-wide deployment. With the exception of the prototype sites, VA has not deployed HR LINK\$ broadly within VA. However, VA has achieved considerable FTE reductions (over 500 FTE since the project began in the fall of 1995). Many HR/P staff have retired or secured other employment well in advance of HR LINK\$ implementation at their site. VA organizations have also chosen not to fill these positions due to the eventual downsizing resulting from HR LINK\$. These organizations have taken a variety of actions to manage their workload while awaiting

See comment 2.

See comment 3.

Enclosure

DEPARTMENT OF VETERANS AFFAIRS
COMMENTS TO GAO DRAFT REPORT
MANAGEMENT REFORM: Agencies' Initial Efforts to
Restructure Personnel Operations
(GAO/GGD-98-93
(Continued)

the HR LINK\$ technology. It is unfortunate that such reductions have occurred before the delivery of technology. But for VA, this will most likely result in minimal adverse actions for affected employees (e.g., RIFs) when HR LINK\$ is finally and fully implemented.

The following are GAO's comments on the Department of Veterans Affairs letter dated May 22, 1998.

GAO Comments

1. VA states that our report criticizes all agencies, including VA, for falling behind schedule in efforts to restructure personnel operations. VA states that "HR LINK\$" is not simply an initiative to replace an aging legacy human resources/payroll system. VA further explains that it is completely reinventing and reengineering its entire HR and payroll processes. However, VA also acknowledges that it has experienced some delays in opening its shared service center, which it considers minimal. We have included the factual information about agencies' schedule delays in our report because of its importance to Congress and to decisionmakers in other federal agencies who also are making decisions about changes to their personnel operations. We feel this is important, given the short time frames to implement complex technology changes in HR and payroll operations before the year 2000. Our draft also noted that, despite the delays, VA remains confident of meeting its scheduled December 1999 completion date.

2. VA believes that (1) we did not adequately depict its experience in developing performance measures and (2) servicing ratios are not critical measures for determining its project's success. On the contrary, the draft noted that all four departments we reviewed recognized the need for more performance measures to better assess the results of personnel operations and described some of the agencies' efforts to develop performance measures. We pointed out that VA recently developed performance measures that it circulated to its personnel managers for comment. In our exit conference with VA officials, they acknowledged that their performance measures (referred to in VA's letter) were not implemented throughout the Department. In regards to the servicing ratio, we agree with VA that servicing ratios are not a critical measure for determining the project's success. We noted in our draft report that "the servicing ratio, while providing a broad measure of efficiency and an indicator of progress in restructuring, does not indicate how well an agency's personnel office meets the needs of its customers—managers and employees—or its contribution to mission accomplishment."

3. VA said we took a narrow view of all agencies' projects, especially VA's. VA states that its plan is to achieve savings as different phases of the new delivery model are implemented. VA acknowledges that staff reductions have occurred before the delivery of new technology. As discussed in our

**Appendix VIII
Comments From the Department of
Veterans Affairs**

report, agencies' plans called for new technologies and streamlining of processes in order to achieve cost savings from staff reductions. Since staff reductions have occurred before new technologies are in place, those personnel staff remaining are doing the same work without gaining the efficiencies that were expected from using the new technology.

Major Contributors to This Report

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Office of the General
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James Rebbe, Attorney Advisor

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