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

General Government Division

B-275102

April 14, 1997

The Honorable John A. Koskinen  
Deputy Director for Management  
Office of Management and Budget

Subject: Management Reform: Initial Observations on Agencies' Restructuring of the Human Resource Management Function

Dear Mr. Koskinen:

As you know, the Chief Financial Officers (CFO) Council discussed concerns about the widespread development of new payroll systems in federal agencies at its February 18, 1997, meeting. We understand the Council will soon decide on steps to take concerning the development of federal payroll systems. On the basis of preliminary work we have undertaken on agency development of broader human resource management (HRM) information systems, we believe that the concerns expressed in the Council about new payroll systems may also be applicable to the new HRM information system development plans. Accordingly, we are summarizing our observations in this letter to assist you in carrying out your responsibilities under the Clinger-Cohen Act,<sup>1</sup> in addition to

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<sup>1</sup>Under the Clinger-Cohen Act and other related management laws, the Office of Management and Budget's (OMB) role is two-fold: (1) to ensure that automated systems are being used to achieve specific agency performance improvements in association with their HRM restructuring activities and (2) to facilitate achievement of similar goals on an interagency basis. Specifically, the Clinger-Cohen Act requires that the Director of OMB provide guidance to the head of each executive agency for undertaking efficiently and effectively interagency and governmentwide investments in information technology to improve the accomplishment of missions that are common to executive agencies. This legislation grants OMB the authority to take any authorized action it considers appropriate to carry out this mandate.

other management-related laws, such as the CFO Act, as amended, and the Paperwork Reduction Act, as amended.

The HRM function collects and maintains data related to the employment process, from application through termination. Payroll systems support compensation and benefit activity and are highly interrelated with HRM information systems, which track employees' performance, salary, grade/rank, payroll entitlement, and withholdings. Developing new HRM systems can represent a major investment. For example, a few agencies' estimates range between a cost of about \$60 million to over \$200 million to automate an individual agency's HRM function and upgrade its payroll system.

To summarize, we have observed that the 24 CFO agencies have a variety of activities under way to restructure their HRM function. New information technology development is an integral part of these HRM restructuring efforts. By design, these systems commonly integrate HRM and payroll information as part of agencies' initiatives to streamline these processes. Because agencies design these systems independently to meet specific agency needs, as well as governmentwide statutory requirements, the potential exists for great variation in system design. According to some agencies' officials, the need to standardize information requirements as agencies develop new HRM information systems is reemerging as an issue. We agree this issue warrants further attention.

Our initial observations are based on a recent survey we undertook of the 24 agencies cited in the CFO Act, which we will refer to as the 24 CFO agencies.<sup>2</sup> We interviewed agency officials and reviewed agency documents to identify agencies with ongoing HRM restructuring activities, as well as any associated issues they might be facing in developing new HRM information systems.

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<sup>2</sup>The agencies cited in the CFO Act are the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Housing and Urban Development, the Interior, Justice, Labor, State, Transportation, the Treasury, Veterans Affairs, and the Environmental Protection Agency, as well as the National Aeronautics and Space Administration, the Agency for International Development, the Federal Emergency Management Agency, the General Services Administration, the National Science Foundation, the Nuclear Regulatory Commission, the Office of Personnel Management, the Social Security Administration, and the Small Business Administration.

AUTOMATING HRM PROCESSES INTEGRAL  
TO AGENCIES' STREAMLINING EFFORTS

At the National Performance Review's recommendation, and OMB's direction, many agencies have been restructuring their administrative functions, including updating aging HRM and payroll systems. On the basis of preliminary information gathered from the 24 CFO agencies, we found that all of these agencies were engaged in or planned some form of restructuring of their administrative functions, including procurement, accounting, financial management, and HRM.

An integral part of 22 of the 24 CFO agencies' activities to restructure their HRM function is the use or planned use of new information systems. By design, these new applications integrate HRM and payroll systems, at least to the extent that data from HRM information systems provide information directly into payroll systems. As a result, the changes that agencies make in their HRM information systems can also affect agencies' payroll systems, and ultimately may provide an opportunity for streamlining these administrative functions. During our survey, we observed that agencies are in various stages of systems development. Some agency officials told us that they are developing or purchasing new HRM systems and, as was discussed at the CFO Council meeting, payroll systems as well. Other agency officials said that they were still evaluating new HRM and payroll software applications or considering outsourcing these operations to other federal agencies.

STANDARDIZATION OF INFORMATION REQUIREMENTS  
REEMERGING AS AN ISSUE IN DEVELOPING HRM SYSTEMS

As agencies restructure their HRM function and update their information systems, standardization of information requirements across agencies is reemerging as a concern. Agencies design their HRM function to meet specific agency needs, as well as to comply with broader governmentwide statutory requirements, such as those contained in Title 5 of the U.S. Code. Standardizing core HRM information (such as workforce data) and functional data requirements (such as the order and format in which data are to be transmitted and received) have long been identified as a need among federal agencies. In January 1991, the Office of Personnel Management (OPM) and other federal agencies recognized the need to use automation to improve the efficiency of HRM operations. To address this need, these agencies undertook a cooperative planning effort that resulted in a strategic plan for personnel systems automation. This plan was issued by the Director of OPM in April 1992. The strategic plan called for OPM and agencies to achieve such outcomes as

- reducing or eliminating wasteful duplication in personnel system development,

- identifying common applications for voluntary agency adoption,
- developing systems that meet primary information needs of personnelists and line management in user friendly ways,
- increasing the productivity of the operating personnel office, and
- increasing the compatibility of information for exchange between OPM and agency automated systems.

The 1992 strategic plan for automating personnel systems noted that the federal personnel community had not rigorously defined either its essential core information requirements or the essential minimum functional requirements that an effective HRM information system should integrate and satisfy. The OPM Director at that time established the Personnel Automation Council (PAC) to oversee the plan's implementation.

In 1994, PAC redefined its goals on automating personnel processes and focused its work on specific automation projects, such as establishing the electronic official personnel folder. According to OPM and agency officials, PAC has produced some useful automated HRM applications in recent years, such as "Employee Express."<sup>3</sup> According to some officials, PAC, through its activities, also has fostered the sharing of information among agencies. However, in our discussions with a few agencies' officials, they indicated that the original goals of the 1992 OPM strategic plan have not been achieved and that there is still a need to define the core information requirements of users governmentwide when redesigning or augmenting HRM systems, especially as cross-servicing agreements increase among agencies. In addition, to assure data compatibility at a functional level, both OPM and agency officials have suggested to us that there is a need to redefine the formats and requirements for the data elements used in agency HRM systems.

According to some agencies' officials, they have defined or are defining their core information requirements internally as part of their activities to reengineer their HRM work processes. For example, DOD officials have told us that DOD is both restructuring its civilian personnel field structure and, together with its service

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<sup>3</sup>Employee Express is a self-service, paperless, automated system created by OPM and a multiagency consortium. Employee Express allows agency employees to access their individual demographic information directly through a telephone link in order to make changes to certain information specific to them, such as name, address, and beneficiaries.

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departments, developing an integrated network of HRM information systems. As part of this effort, DOD officials said that they have defined core HRM information requirements that are common across the department, while at the same time providing individual components the flexibility needed to address their particular situations. Several other agencies, including USDA, HHS, and VA, have analyzed or are analyzing their HRM processes.

Although our work is still in progress, we believe that the concern raised in the 1992 OPM strategic plan about the governmentwide need for standardizing core HRM information requirements and better defining the data formats may still have merit in helping to achieve such outcomes as eliminating wasteful duplication in personnel system development. Given the widespread activities agencies have under way to automate HRM operations, and because HRM information systems are often integrally linked with other key financial and accounting systems, we thought it might be useful to share with you our initial observations given your responsibilities under the Clinger-Cohen Act.

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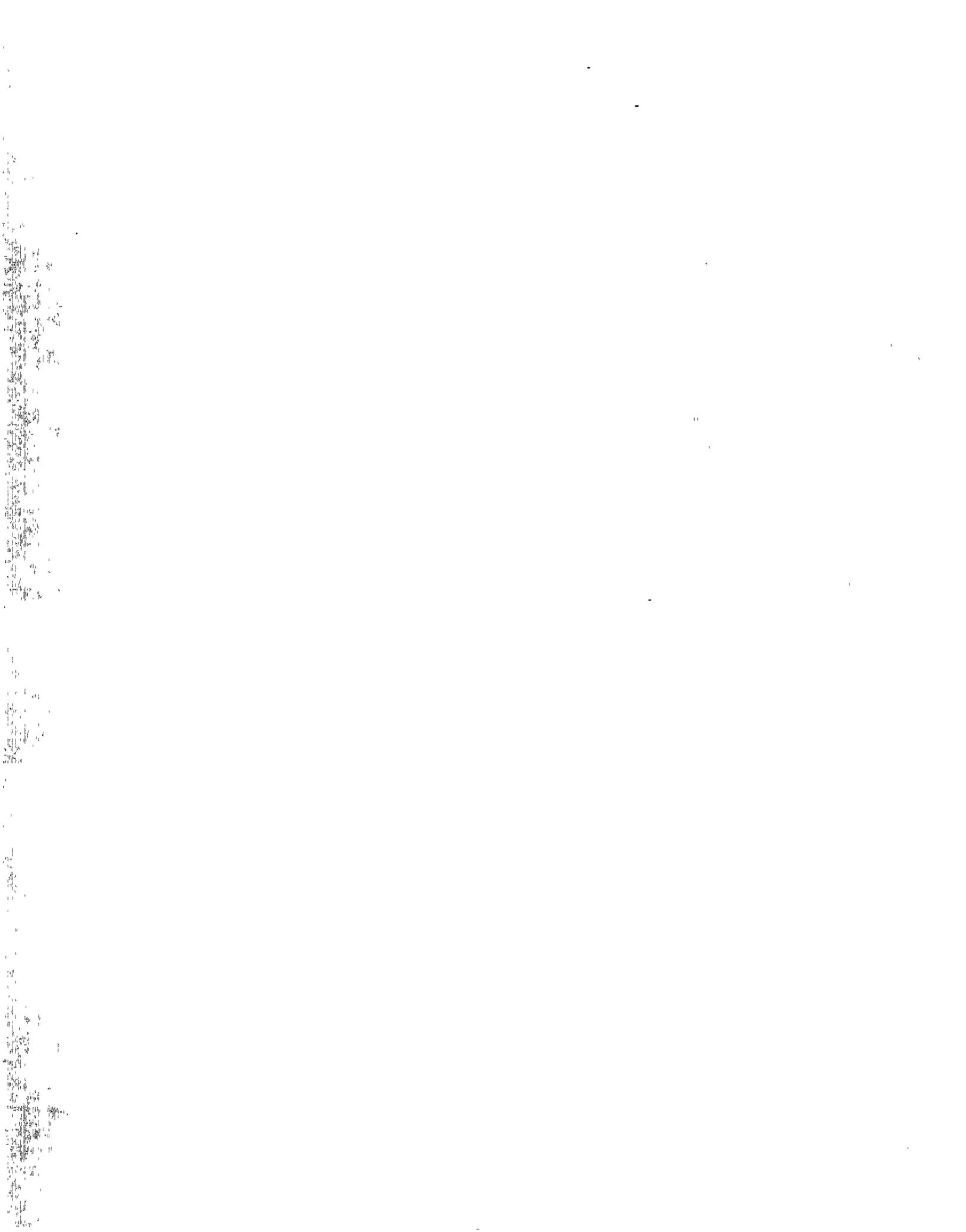
In commenting on a draft of this letter, your staff indicated that this letter would be of use to you and the CFO Council as you consider the issues related to the development of agency payroll systems. As agreed with your staff, we plan to make copies of this letter available to the Director of OPM, and others upon request. Should you wish to discuss these matters, please contact me on (202) 512-9039. Major contributors to this letter included John Needham, Debra Johnson, Dion Anderson, and Katharine Cunningham.

Sincerely yours,



Michael Brostek  
Associate Director, Federal Management  
and Workforce Issues

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