



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
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**NEW E-PAYROLL PROGRAM ESTIMATED TO SAVE MORE THAN \$1 BILLION  
OMB Directs Agencies to Consolidate from 22 Providers to Two Payroll Partnerships**

**Washington D.C.** – Today the Office of Management and Budget (OMB) and the U.S. Office of Personnel Management (OPM) announced the selection of two payroll partnerships to consolidate federal payroll systems and save the federal government an estimated \$1.2 billion over the next decade. A copy of the memo that issues guidance for agencies on how to proceed with payroll consolidation follows this release.

“Twenty-two payroll providers running 22 different systems is all too typical of government when no one feels accountable. President Bush has told his appointees that he holds us responsible to leave government better run than we found it, and today’s reform responds to his instruction to the benefit of both government workers and taxpayers,” said OMB Director Mitchell E. Daniels, Jr.

“E-Government is about making the government efficient and responsive to American citizens. The e-Payroll initiative saves taxpayer money through consolidating IT investments and eliminating costs of duplicative payroll systems,” said Mark Forman, Associate Director of E-Government and Information Technology at OMB.

As the managing partner of the e-Payroll initiative, OPM conducted an internal competition and recommended that two payroll partnerships be formed – one partnership between the Defense and Accounting Service (DoD) and the General Services Administration and the other between the National Finance Center (USDA) and the National Business Center (DOI). DOD and USDA are currently two of the largest government providers of payroll processing.

Currently, the 22 federal payroll providers serve anywhere from 1,250 to 680,000 government employees at an average annual cost of \$77 per employee. Last February the President’s budget identified an objective of consolidating the current payroll providers into two by FY 2004. With the selection of two payroll partnerships, the payroll processing will be consolidated into four agency providers for the entire federal government.

Pursuant to Section 5113 of the Clinger-Cohen Act of 1996, OMB evaluates the management practices of Executive agencies including performance and IT investments. To ensure timely and effective results for e-Payroll, the memo issues agencies the following guidance:

- DoD, GSA, DOI and USDA will proceed with payroll processing migration, consolidation to two processing partnerships, and standardization under OPM’s leadership
- Agencies who receive payroll processing from DoD, GSA, DOI or USDA will remain with those providers through September 30, 2004.
- Agencies identified to migrate to a new provider must confirm selection of a payroll processing provider with OPM no later than February 3, 2003.
- Agencies other than DoD, GSA, DOI and USDA should not spend FY 2003 funds for modernization of payroll processing unless it is an IT investment that will facilitate the agency migration to one of the payroll providers.

E-government is an integral part of the President’s Management Agenda to make it easier for citizens and businesses to interact with the government, save taxpayer dollars and streamline citizen-to-government transactions. A copy of the President’s E-government strategy, which includes information on each of the E-Government Initiatives, is available on the OMB Web site at [www.omb.gov](http://www.omb.gov).

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MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Mitchell E. Daniels, Jr.  
Director

SUBJECT: Consolidating and Standardizing Federal Civilian Payroll Processing

The President's Expanding Electronic Government reform is focused on better using federal information technology spending to make the Federal Government more productive and responsive to citizens and business. In December 2001, OMB designated the Office of Personnel Management (OPM) as the managing partner to lead the e-Payroll initiative, a cross agency project to consolidate federal civilian payroll processing in light of numerous redundant IT investments. The President's FY 2003 Budget identified an objective of consolidating 22 federal payroll entities into two by Fiscal Year 2004. This memorandum provides an update on the status of the initiative. It also provides guidance for implementation of the e-Payroll initiative consistent with Section 5113 of the Clinger-Cohen Act of 1996 governing Federal IT investments.

Through you and your agency's support for this important initiative, agencies have documented good teamwork that resulted in a business case that will yield a better quality and more cost effective approach to government payroll processing. OMB approved the business case for e-Payroll. By consolidating duplicative payroll modernization efforts, the e-Payroll initiative should provide high quality service while saving over \$1.2 billion in future IT investment costs from economies of scale and cost avoidance.

In August 2002, OPM conducted an internal competition for consolidated payroll processing providers. OPM Director Kay Coles James approved the Source Selection Advisory Board (Board) recommendation that two partnerships be formed - one partnership between the Defense Finance and Accounting Service (DoD) and General Services Administration (GSA), and another between the National Finance Center (USDA) and the National Business Center (DOI).

I am pleased to report that OPM and the partnerships have reached agreement on how to proceed with the consolidation. In order to ensure that the e-Payroll Project achieves results in a timely and effective manner, OPM will create and lead a Program Management Office to: consolidate federal Executive Branch civilian payroll providers, migrate agencies to two payroll processing partnerships, standardize federal civilian payroll policy, and to enable the pursuit of competitive sourcing. Executive Branch agencies will proceed with the consolidation in the following manner:

- DoD, GSA, DOI and USDA will proceed with payroll processing migration, consolidation to two processing partnerships, and standardization under OPM's leadership, and pursuant to the Terms and Conditions of the Memoranda of Agreement negotiated between OPM and the payroll processing partnerships.
- Agencies who receive payroll processing from DoD, GSA, DOI or USDA will remain with those providers through September 30, 2004.
- Agencies identified to migrate to a new provider must confirm selection of a payroll processing provider with OPM no later than February 3, 2003.
- Agencies other than DoD, GSA, DOI and USDA shall not spend FY 2003 funds for modernization of payroll processing unless that IT investment facilitates the agency migration to one of the consolidated payroll processors. To this end, agencies must submit for advance review all such proposed expenditures to the e-Payroll Project Manager and to OMB's Office of E-government and IT for review with the OMB Resource Management Office representative for that agency. Any existing payroll modernization effort must be modified to comply with the e-Payroll Project plan.

I appreciate your agency's assistance and continued cooperation in this important project so that we can realize the President's goal of leveraging E-Government to enable agencies to operate more efficiently, thereby enabling the federal government to dedicate a greater share of its resources to the ultimate mission of serving the citizen. OPM Director Kay Coles James will soon publicly announce the selection of the federal e-Payroll partnerships and the roadmap for the consolidation.

The OPM e-Payroll Project Manager is Ms. Janet Dubbert, 202-606-4904, [jdubbert@opm.gov](mailto:jdubbert@opm.gov). The OMB point of contact for this initiative is Mr. Stephen Galvan, Internal Efficiency and Effectiveness E-Government Portfolio Manager, 202-395-0368, [sgalvan@omb.eop.gov](mailto:sgalvan@omb.eop.gov).