



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Special Report

EPA's Human Resources Management System Did Not Deliver Anticipated Efficiencies to the Shared Service Centers

Report No. 09-P-0206

August 11, 2009

Report Contributors:

Eric Lewis
Dwayne Crawford
Rae Donaldson

Abbreviations

DFAS	Defense Finance Accounting Service
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
HR	Human Resources
HR-LoB	Human Resources Line of Business
IT	Information Technology
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
SSC	Shared Service Center



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

We assessed the capability of the U.S. Environmental Protection Agency's (EPA's) human resources (HR) management system to provide the information technology (IT) support necessary for successful implementation of EPA's shared service center (SSC) initiative.

Background

In June 2008, EPA began consolidating HR transactional services under three EPA SSCs. EPA expected the consolidated SSCs to provide better results at a lower cost. EPA had documented the necessity of upgrades to its HR management system to achieve these efficiencies. The Office of Management and Budget (OMB) has mandated that agencies migrate to an Office of Personnel Management (OPM)-certified shared service center (certified SSC) unless an agency can show that it can maintain its own operations at a lesser cost.

For further information, contact our Office of Congressional, Public Affairs and Management at (202) 566-2391.

To view the full report, click on the following link:
www.epa.gov/oig/reports/2009/20090811-09-P-0206.pdf

EPA's Human Resources Management System Did Not Deliver Anticipated Efficiencies to the Shared Service Centers

What We Found

The EPA SSC initiative lacked the necessary management controls to achieve efficiency and effectiveness. In our draft report, we noted that EPA's Office of Administration and Resources Management (OARM) lacked necessary cost analysis and OMB approval to upgrade PeoplePlus with an automated workflow feature in support of the establishment of the EPA SSCs. These actions were contrary to OARM's own 2007 Business Case Study (*Shared Service Center for Human Resources*) that stated EPA needed to upgrade its HR management system to make the SSCs successful. EPA launched the SSCs in June 2008 before obtaining the necessary upgrades. Subsequent to the release of our draft report in April 2009, EPA changed its approach to achieving anticipated efficiencies at its SSCs. EPA has determined that it is not cost-effective to update PeoplePlus. Further, EPA's testing of an automated workflow feature to help improve HR processing in support of EPA SSCs has proven unsuccessful, causing the Agency, in part, to abandon the project.

EPA now looks to find an OPM-certified HR Line of Business (LoB) provider who can provide the required HR IT support. This decision would be in agreement with the previous recommendation included in our draft report pending a detailed cost analysis for migration. However, EPA spent considerable time and funds pursuing the former options. We concur with the Agency's decision to migrate to a certified HR-LoB provider since it cannot justify upgrading PeoplePlus. However, we believe that EPA must seek approval from OMB regarding its current hybrid approach whereby the Agency would retain its current HR personnel who would use an OPM-certified provider's HR system.

What We Recommend

Going forward, EPA needs to have the appropriate analysis, actions and approvals in place to ensure the effective management of the Agency's HR function. Therefore, we recommend that the Assistant Administrator for OARM: (1) obtain approval from OMB for the level of migration intended by EPA; (2) develop a baseline cost estimate to determine and secure necessary funding for migration to a certified SSC; (3) establish realistic milestones with OMB for migration to a certified SSC; and (4) document the risk of using PeoplePlus until EPA migrates to a certified SSC.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

August 11, 2009

MEMORANDUM

SUBJECT: EPA's Human Resources Management System Did Not Deliver
Anticipated Efficiencies to the Shared Service Centers
Report No. 09-P-0206

FROM: Bill A. Roderick
Acting Inspector General

A handwritten signature in black ink, appearing to read "Bill A. Roderick", is written over a horizontal line.

TO: Craig Hooks
Assistant Administrator
Office of Administration and Resources Management

This is the final report of the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA) assessing the capability of EPA's human resources management system to help achieve anticipated efficiencies from EPA's shared service centers. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determination on matters in this report will be made by EPA managers in accordance with established audit resolution procedures. The Office of Administration and Resources Management provided comments to our draft audit report on May 29, 2009. The OIG evaluated these comments, and where appropriate has made necessary changes in this report. We have included the response and the OIG's evaluation in Appendix A.

The estimated cost of this project – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time is – \$152,524.00.

Action Required

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days. You should include a formal corrective action plan for agreed upon actions, including milestone dates. We have no objection to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

Should you have any questions, please contact Eric Lewis, Director, Special Reviews, at 202-566-2664 or lewis.eric@epa.gov.

Table of Contents

Chapters

1	Introduction	1
	Purpose	1
	Background	1
	Scope and Methodology	2
2	EPA’s Human Resources Management System Did Not Deliver Anticipated Efficiencies	4
	EPA Options	4
	Former Approach	5
	New Plan and Challenges	8
	Conclusion	9
	Recommendations	10
	Summary of Agency Response and OIG Evaluation	11
	Status of Recommendations and Potential Monetary Benefits	12

Appendices

A	Agency Response to Draft Report and OIG Evaluation	13
B	Distribution	20

Chapter 1

Introduction

Purpose

The Office of Inspector General (OIG) assessed the capability of the human resources (HR) management system of the U.S. Environmental Protection Agency (EPA). We sought to determine whether the system could provide the information technology (IT) support necessary for successful implementation of the Agency's shared service center (SSC) initiative and to achieve anticipated efficiencies.

Background

The Office of Administration and Resources Management (OARM) is responsible for managing EPA's human resources functions as well as developing Agency-wide policy, planning strategically, and directing EPA's human resources programs. As such, in June 2006, EPA's Chief Financial Officer directed OARM and Region 9 to develop a plan to study consolidating and streamlining EPA's human resources functions. These functions were processed at 15 human resources offices located throughout the country. Senior managers from OARM and Assistant Regional Administrators, who oversee human resources functions in the 10 regional offices, directed the study.

In May 2007, OARM issued EPA's draft Business Case Study entitled *Shared Service Center for Human Resources* (2007 Business Case Study), based on the results of the internal analysis by OARM senior managers and Assistant Regional Administrators. The Business Case Study suggested consolidating the Agency's HR transactional-type functions into two or three EPA SSCs. In January 2008, the former Assistant Administrator for OARM announced that EPA would be consolidating HR transactional services under three EPA SSCs to improve the timeliness and quality of customer service and to standardize work processes within EPA. The selected SSC locations were Las Vegas, Nevada; Research Triangle Park, North Carolina; and Cincinnati, Ohio. The former Assistant Administrator announced that transition to the EPA SSCs would begin in June 2008, with consolidation efforts expected to last from 12 to 24 months. According to the Agency's SSC Implementation Plan, the final phase of transition is targeted for completion on December 31, 2009.

The Agency's 2007 Business Case Study indicated significant IT upgrades to the Agency's HR management system would be necessary if the EPA SSCs were to succeed and operate efficiently. The IT upgrades listed were:

- Converting to an automated standard form 52 (Request for Personnel Action) feature, known as "workflow."¹
- Processing automated awards.
- Implementing EZhire XI options to track staffing actions.
- Implementing PeoplePlus modules for Employee Relations and Health and Safety.
- Establishing a standardized benefit system with regional and field office input.
- Purchasing learning management system modules for training and development.

EPA stated that the SSC effort is also intended to align the Agency with the HR-Line of Business (HR-LoB) initiative of the Office of Management and Budget (OMB). OMB launched this initiative in 2004, to create a government-wide, modern, cost-effective, standardized, and interoperable HR solution, to provide common core functionality to support strategically managing human capital through establishing certified public or private sector SSCs.² OMB selected the Office of Personnel Management (OPM) as the HR-LoB managing partner due to its core mission and prior experience managing E-Government initiatives.

Scope and Methodology

We conducted our audit between December 2007 and April 2009 in accordance with generally accepted government auditing standards. Those standards require that we adequately plan for the audit; properly supervise audit staff; obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions; and prepare audit documentation related to planning, conducting, and reporting for each audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Our audit objective was to determine the feasibility of OARM implementing the proposed EPA SSC initiative from an IT perspective, given the critical support necessary from the

¹ The Agency describes workflow as an automated set of relationships between the activities in a business process from start to finish. Such capabilities would enable EPA to efficiently automate the flow of information throughout the Agency, crossing both application and functional boundaries. The goal of Workflow was to obtain a high return on investment by automating manual, time intensive or paper intensive processes.

² The five certified public sector SSCs are the Defense Department, U.S. Department of Agriculture's National Finance Center, the U.S. Department of Health and Human Services, the Interior Department's National Business Center, and the Treasury Department. The private sector SSC contracts have been awarded to Accenture, Allied, Carahsoft, and IBM.

Agency's HR management system for these SSCs to succeed. To achieve our objective, our field work analysis involved the following:

- Interviewing senior Agency officials involved with the planned implementation of the EPA SSCs.
- Interviewing program officials involved with ensuring IT capabilities necessary to support the EPA SSCs.
- Interviewing the PeoplePlus Project Officer and Contracting Officer to discuss IT support for the EPA SSCs.
- Interviewing OMB officials involved in implementing the certified public/private sector SSC concept.
- Obtaining and reviewing OMB criteria relative to the Government-wide HR-LoB initiative.
- Obtaining and reviewing documentation supporting the Agency's decision to implement EPA SSCs that included EPA's May 2007 Business Case Study, SSC Implementation Plan, IT Workflow Implementation Plan, Performance Work Statements under the PeoplePlus operations and maintenance contracts, EPA's June 2007 HR-LoB Analysis, and OARM's Reorganization Proposal for EPA SSCs.
- Analyzing OARM's responses to OIG questionnaires regarding the overall aspects of EPA's SSC initiative.

Chapter 2

EPA's Human Resources Management System Did Not Deliver Anticipated Efficiencies

The EPA SSC initiative lacked the necessary management controls to achieve efficiency and effectiveness. Through consolidating HR transactional services under EPA SSCs, the Agency's anticipated efficiencies included improving the timeliness and quality of customer service, standardizing work processes, and positioning the Agency for migration via OMB's HR-LoB initiative. To achieve these efficiencies, EPA was relying on critical IT support from PeoplePlus and deployment of an automated business processing feature known as "workflow." However, PeoplePlus faced increased risks to its security and stability because the software vendor no longer supported the current version and had required that the Agency upgrade to a newer software version.³

EPA Options

In December 2008, an OARM manager told us that EPA was considering two options. The first option was to upgrade the current PeoplePlus-HR software to PeopleSoft v. 9.0 to meet requirements by the software vendor. For this option, we recommended that EPA obtain OMB approval to upgrade HR systems. Under the HR-LoB initiative, OMB stated that no agency could upgrade HR systems without OMB approval. The second option was to migrate Agency HR IT services to a certified public or private sector HR SSC provider. According to OARM management, that migration would require EPA to use the providers systems. OMB guidance indicates that the providers have the IT staff to operate the systems and the agencies should develop their competitions based upon the number of full time equivalents to be replaced. For this option, we recommended that EPA develop a baseline cost analysis to determine the cost of the option and to obtain the funding necessary for migration. We concluded that EPA must obtain documented approval from OMB to perform the limited migration. The baseline cost estimate could be used to determine if EPA's plan was less expensive than full migration.

In response to our draft report, EPA stated it was not in the best interest of the Agency and cost-prohibitive to update the PeoplePlus system. OARM management also stated that the testing of an automated workflow model proved unsuccessful, prompting the Agency, in part, to abandon that project. The Agency indicated it will now pursue the second option, to find an OMB-certified HR-LoB provider for the necessary HR IT support. However, EPA

³ PeoplePlus is based on the Federal PeopleSoft commercial off-the-shelf (COTS) application version 8.3.

spent considerable time and funds pursuing the former option. We concur with the Agency's decision to migrate to a certified HR-LoB provider since it cannot justify upgrading PeoplePlus. However, we believe that EPA must seek approval from OMB regarding its current hybrid approach whereby the Agency would retain its current HR personnel who would use an OPM-certified provider's HR system.⁴ Joint OMB/OPM guidance requires that agencies consult with OMB if they pursue a migration involving more than 10 full-time equivalents.⁵ This guidance is designed to help agencies describe, prepare for, and manage migrations. However, neither OMB nor EPA could produce documentation stating that OMB had approved any EPA migration plan. Consequently, until EPA migrates to a certified SSC, the Agency will continue to operate on outdated and unsupported application software, which will not produce the efficiencies anticipated from the EPA SSCs.

Former Approach

EPA began consolidating its HR transactional-type functions under Agency SSCs in June 2008 to improve the timeliness and quality of customer service and to standardize work processes within EPA. Although EPA management determined significant IT upgrades to the Agency's HR management system would be necessary if the EPA SSCs were to succeed, the Agency created the SSCs before obtaining the upgrades. These upgrades included enhancements to PeoplePlus and the development of an automated business processing feature known as workflow. EPA's stated its consolidation efforts were also to align the Agency with OMB's HR-LoB initiative for later migration to an OPM-certified SSC.

EPA's launch of its SSCs was risky given that it had no assurances that the upgrades were achievable. Further, EPA could not produce documentation showing that OMB approved EPA's migration plan. OARM management stated that EPA chose this plan for migration because EPA wanted to maintain its own HR staff. The ultimate nature of the EPA migration rests with OMB; however, EPA has not developed the baseline cost estimate to show the cost of this option and has not obtained documented approval from OMB that the limited migration would be acceptable. We contacted OMB and could not get OMB to state that any EPA migration plan was acceptable. Therefore, we consider EPA's former migration plan to be high risk because no evidence exists to show it is cost-effective or that OMB would approve the specific action.

⁴ Rather than showing that an EPA option is cost effective, EPA favors a hybrid approach where the Agency keeps its HR personnel who would use an OMB/OPM-approved HR system. PeoplePlus would be a necessary interface to the approved system because of EPA Superfund requirements.

⁵ Joint guidance issued by the Deputy Director for Management, OMB, and Director, OPM, May 21, 2007.

Plans for System Upgrades

EPA Requirements for Efficient SSCs. The Agency's 2007 Business Case Study indicated conversion to an automated standard form 52 (SF-52) feature, known as "workflow," and upgrades noted by Agency human resource officers, were necessary to realize greater efficiencies under EPA SSCs in the long run. EPA's June 2007 HR-LoB SSC analysis recommended that EPA deploy workflow to facilitate and enable the internal operation of EPA SSCs. This analysis also indicated the Agency should consider the remainder of any prospective Fiscal Year (FY) 2008 development, modernization, and enhancement funding to address immediate workflow needs in preparing for migration

PeoplePlus Limitations. EPA's 2007 HR-LoB SSC analysis revealed another important factor confronting EPA in selecting a certified SSC: the ability to operate the PeoplePlus Time Reporting and Labor Distribution system as a "stand-alone" module within EPA while outsourcing the remainder of its HR IT systems to an outside provider. However, according to this analysis, employing this approach for migration would pose significant costs and technical risks to EPA. According to the HR-LoB SSC analysis, the risks would be driven by the required development of two-way interfaces between: (1) EPA's retained PeopleSoft Time Reporting and Labor Distribution System; (2) the certified SSC HR IT system; (3) the Defense Finance Accounting Service (DFAS)-Defense Civilian Payroll System (assuming that EPA was to maintain DFAS as its payroll provider); and (4) the new EPA Financial Management system. This analysis also showed building and maintaining multiple interfaces and associated data feeds would exponentially increase the cost and technical burdens to EPA.

Therefore, since 2007, OARM knew the risks of this strategy. The Assistant⁶ Administrator's May 2009 memorandum stated OARM is currently working with the Office of the Chief Financial Officer (OCFO) to meet requirements related to the Agency's HR management system and expect to make a decision on a service provider and next steps during the fourth quarter of FY 2009. In June 2009, OARM management stated that EPA would continue to use PeoplePlus until OARM and OCFO could find an alternative for the system.

OMB Requirements. Joint OMB/OPM guidance prohibits federal agencies from upgrading their HR management systems without first getting a waiver. The only exceptions are (1) for migrating to a certified public or private sector SSC under its HR-LoB initiative; or (2) if the agency can demonstrate that investing in a system limited to the agency's own use and associated support represent a better value and lower risk alternative than migrating to a certified SSC.

⁶ He was the Acting Assistant Administrator when he issued the comments.

OARM Pursued Upgrades Without Approval. An OARM manager acknowledged that the list of upgrades from the human resource officers did contain some items considered development, modernization, or enhancement, and that these upgrades would not be implemented. However, this manager stated that according to OARM, workflow features did not constitute development, modernization, or enhancement, and the areas of PeoplePlus that EPA would be customizing were operations and maintenance. However, under OMB Circular A-11, Part 2, Section 53, the definition for development, modernization, or enhancement covers "...the program cost for new investments, changes or modification to existing systems to improve capability or performance, changes mandated by... agency leadership...for... direct support." When informed, OARM's former Assistant Administrator disagreed with our assessment, stating in memorandum that his office did not consider the work associated with enabling the workflow module in PeopleSoft to be development, modernization, or enhancement, since the Agency already owned it. However, based on OMB's definition for development, modernization, or enhancement, regardless of when the Agency purchased the PeopleSoft software, OMB guidelines would prohibit changes or modifications to improve PeoplePlus capability and performance through developing the workflow module.

Results of HR Systems Upgrades. EPA pursued HR systems upgrades although it did not obtain OMB approval to do so. As such, the success of EPA's SSCs was dependent on upgrades that the Agency did not have permission to obtain. The failure to produce the upgrades leaves the EPA SSCs without the tools to perform efficiently. In June 2009, OARM managers stated that upgrading PeoplePlus was not cost-effective and OARM efforts to develop the workflow module were unsuccessful. These managers also told us that although the EPA SSCs were operational, they were not efficient because they did not have some IT upgrades recommended in the 2007 study. Specifically, OARM managers stated the SSCs were still performing manual procedures to accomplish their mission.

Software Costs and Projected Savings

Workflow Costs. OARM's initial costs for developing the workflow module was \$245,000, with deployment scheduled for May 2008. By September 2008, EPA's estimated costs for development of the workflow module had increased to \$485,000, with deployment moved to early 2009. However, by December 2008, OARM management began dismissing the importance of the workflow module from earlier assessments but did not provide any documented evidence or updated analysis supporting these assertions. We found these assertions from OARM management to be unsubstantiated and contradicted statements found in the Agency's 2007 Business Case Study and OARM's own HR-LoB SSC analysis. Currently, OARM states that the

selection criteria for a certified SSC will be the ability of a service provider to deliver anticipated automated workflow functionality. OARM has not provided the final costs incurred to develop workflow.

PeoplePlus Costs. According to the PeoplePlus Contracting Officer Representative, EPA's annual maintenance fee of \$156,000 paid to the software vendor no longer included patches and fixes normally provided by the vendor to update or address new issues regarding security or stability problems with the existing software. Rather, the annual maintenance fees mainly afford the Agency the ability to "ask questions" on the functionality and limitations of the outdated PeopleSoft software. The Contracting Officer Representative stated the vendor requires that EPA upgrade its PeopleSoft software to version 8.9 or higher to maintain full vendor support and obtain access to patches and fixes.

According to an OARM manager, regardless of the limitations of vendor support, the Agency still would need an operations and maintenance contract until the Agency decides that it would migrate PeoplePlus to a certified SSC. EPA issued a new operations and maintenance contract with a period of performance from August 29, 2008, through September 30, 2013. According to the contracting officer, the total award is \$10,328,937 for the base period and four option years. There is also an additional \$2,309,387 for optional systems development.

Projected Savings. The Agency stated the consolidation effort was intended to align the Agency OMB's HR-LoB initiative with an agreement with OMB to migrate to an OPM-certified public or private sector SSC providers starting in FY 2009. EPA's June 2007 HR-LoB SSC analysis indicated the Agency may be able to reduce costs by \$40-60 million over 10 years by outsourcing its HR management system to a certified SSC. OARM did not detail how it would achieve the savings. Currently, the Assistant Administrator stated that subsequent analysis (currently in draft) shows a significantly lower reduction in future IT costs as a result of a potential migration. The Assistant Administrator also stated OARM was finalizing its analysis of costs associated with migration, and expects to make a final decision on how to proceed in the fourth quarter of FY 2009.

New Plan and Challenges

The OARM Assistant Administrator's memorandum concluded that OARM and OCFO agreed that upgrading the EPA's current system is not in the best interest of the Agency. EPA is now seeking to migrate the Agency's HR IT services to an OPM-certified SSC provider.

Selection Challenges

According to EPA's 2007 HR-LoB SSC Analysis, a certified SSC would need to provide functionality in the following critical areas:

- Personnel Action Request Processing,
- Integrated Workflow, including manager self-service,
- Time Reporting and Labor Distribution, including an unlimited number of time reporting codes, and,
- Payroll (currently with the Defense Finance Accounting Service - Defense Civilian Payroll System but EPA would consider integration with another provider as an option).

Funding Challenges

Baseline Cost Estimate. OMB criteria requires federal agencies to develop comprehensive baseline cost estimates for investments to measure cost savings and plan for future costs associated with IT investments.⁷ According to OARM management, both they and OCFO are still analyzing costs associated with migrating its HR-IT system capabilities to an OPM approved service provider. The Agency's final decision on how to proceed is not expected until the fourth quarter of FY 2009. Prior Agency documentation in response to this OMB requirement was outdated (most recent was 2007), and did not represent current cost analysis associated with the Agency's migration of its HR management system to an OPM-certified SSC.

Migration is Not Funded. A significant issue facing the Agency with migration is funding. OARM managers told us funding for migration to a public or private sector SSC provider would probably not occur in FY 2009 because no funding for it exists in the Agency's FY 2009 budget. These managers stated that given the anticipated changeover in EPA's administration, there were no assurances that funding for migration would be included in EPA's FY 2010 budget plan. Consequently, the Agency needs to produce the baseline cost estimate to support migration funding in FY 2010. Otherwise EPA will continue to operate the current inefficient HR configuration for the foreseeable future.

Conclusion

OARM lacked effective management controls over implementing SSCs. Although a previous EPA study had forecasted the risks of implementing the SSCs without adequate IT support, OARM chose the risky implementation strategy. OARM could provide no documented analysis showing that this and

⁷ OMB Memorandum M-06-22, issued August 8, 2006.

another study was incorrect or no longer warranted. Rather, OARM managers stated that it had made the decision to implement the EPA SSCs to keep its own personnel. The OMB HR-LoB process allows agencies to keep their internal HR systems if they can show that it is more cost-effective than migration. However, EPA never produced documentation stating that OMB approved EPA's limited migration plan or a baseline cost estimate that could show that EPA's HR plan was cost effective. Consequently, OARM's high risk attempt to provide the SSCs with the necessary HR IT has failed.

In response to our draft report, the Agency responded that it is not in the best interest of the Agency nor cost effective to update the PeoplePlus system, its primary HR system. OARM management also informed us that the testing of an automated workflow model that was supposed to help achieve anticipated HR efficiencies has proven unsuccessful. The Agency has since abandoned this project. EPA spent considerable time and funds pursuing this former option. OARM management now indicates that the Agency still looks to find an OPM-approved HR-LoB vendor who can provide the required HR support.

Recommendations

Therefore, we recommend that the Assistant Administrator for Administration and Resources Management:

- 2-1 Obtain approval from OMB for the level of migration intended by EPA to ensure that future EPA resource efforts are not spent on a concept that OMB could reject.
- 2-2 Develop an updated baseline cost estimate to determine and secure necessary funding for migration to a certified SSC. The Agency must fund the migration, which cannot occur without the baseline cost estimate. Currently, OARM states there is no data to support funding in EPA's FY 2010 budget.
- 2-3 Establish realistic milestone dates with OMB for migration to an OPM- certified SSC. The FY 2009 date is not realistic because no funding for migration exists.
- 2-4 Document the risk of using PeoplePlus until EPA migrates to a certified SSC. Due to budget issues, EPA may not migrate until FY 2011.

Summary of Agency Response and OIG Evaluation

The Assistant Administrator for OARM provided a memorandum of response to our draft report on May 29, 2009. The memorandum concluded that OARM and OCFO agreed that upgrading the EPA's current system is not in the best interest of the Agency, and that it would be cost prohibitive to both upgrade the current system and migrate to a service provider in response to our draft recommendation.⁸ As such, the Agency is currently analyzing the costs associated with migrating its HR IT system capabilities to an OPM-approved service provider. The memorandum stated that OARM agreed that there may be increased risks to PeoplePlus security and stability because the vendor no longer supports the current version. However, the memorandum stated OARM management believes the overall security of PeoplePlus is sound and represents only a minimal acceptable risk to the Agency as it assesses the HR-LoB service center options. OARM management expects to make a final decision on a service provider and next steps for migration in the fourth quarter of FY 2009.

As noted in our draft report, OARM lacked the analysis and OMB approvals to support its position to upgrade its HR systems. In 2007, the Agency had identified that an upgrade to PeoplePlus and other IT initiatives were necessary for the long-term success of the EPA SSCs. In June 2008, OARM established the EPA SSCs without obtaining the necessary IT upgrades. A key upgrade was the development of an automated business processing feature known as workflow to realize greater efficiencies under EPA SSCs. However, in June 2009, OARM managers stated their efforts to develop the workflow module were unsuccessful. These managers also told us that:

- Although the EPA SSCs were operational, without the IT upgrades they were not efficient. Specifically, OARM managers stated the SSCs were performing manual procedures to accomplish their mission.
- The Agency is now directing its attention toward selecting a certified SSC provider to achieve HR efficiencies once expected from PeoplePlus and the workflow module.
- They were still seeking only to use the providers systems because the Agency still wanted to keep HR IT jobs at EPA.
- OMB was aware of EPA's limited migration plans but could not provide documentation that OMB had approved this concept.

Where necessary, we made revisions to this report based on OARM's comments. We have included the Agency's entire response and the OIG's evaluation as Appendix A.

⁸ Our recommendation required OARM to (1) seek a waiver from OMB to upgrade PeoplePlus to regain access to patches and fixes to ensure system security and stability; and, (2) to develop a baseline cost estimate to determine and secure necessary funding for migration to a public or private sector SSC on a revised date negotiated with OMB.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
2-1	10	Obtain approval from OMB for the level of migration intended by EPA to ensure that future EPA resource efforts are not spent on a concept that OMB could reject.	O	Assistant Administrator for Administration and Resources Management			
2-2	10	Develop an updated baseline cost estimate to determine and secure necessary funding for migration to a certified SSC. The Agency must fund the migration, which cannot occur without the baseline cost estimate. Currently, OARM states there is no data to support funding in EPA's FY 2010 budget.	O	Assistant Administrator for Administration and Resources Management			
2-3	10	Establish realistic milestone dates with OMB for migration to an OPM certified SSC. The FY 2009 date is not realistic because no funding for migration exists.	O	Assistant Administrator for Administration and Resources Management			
2-4	10	Document the risk of using PeoplePlus until EPA migrates to a certified SSC. Due to budget issues, EPA may not migrate until FY 2011.	O	Assistant Administrator for Administration and Resources Management			

¹ O = recommendation is open with agreed-to corrective actions pending
C = recommendation is closed with all agreed-to actions completed
U = recommendation is undecided with resolution efforts in progress

Appendix A

Agency Response to Draft Report and OIG Evaluation

May 29, 2009

MEMORANDUM

SUBJECT: Response to Draft Report: Outdated Software Could Jeopardize Anticipated Efficiencies from EPA's Human Resources Shared Service Centers

FROM: Craig E. Hooks /s/
Acting Assistant Administrator

TO: Eric Lewis
Product Line Director
Office of Inspector General

I appreciate the opportunity for OARM to comment on the Office of Inspector General's draft report dated April 29, 2009 and titled "*Outdated Software Could Jeopardize Anticipated Efficiencies from EPA's Human Resources Shared Service Centers*". While we recognize the issues you raise, we believe the overall security of PeoplePlus is sound and represents a minimal risk to the Agency as we assess the Human Resources Line of Business service center options. OARM is currently working closely with OCFO to identify the best course of action for the Agency to meet requirements related to HR, time and attendance, payroll, and labor distribution. We both agree that upgrading PeoplePlus is not in the best interest for EPA and expect to make a decision on a service provider and next steps during the 4th quarter of FY2009.

Below are specific comments on the draft report:

At a Glance Section

Under background, the OIG writes "*EPA has determined that upgrades to PeoplePlus are paramount to successful implementation of the Agency's SSC initiative.*"

We agree that upgrades to PeoplePlus would be beneficial and add to the success of the Shared Service Center implementation in terms of further streamlining business processes and reducing the total "time to hire". Unfortunately, OMB and OPM restrictions have prevented OARM from enhancing or adding functionality. The Agency's decision to consolidate HR transactional services under three Shared Service Centers was based on the expectations of not only improving

efficiencies but also improving the overall timeliness and quality of customer service by streamlining business processes and enacting standardized operating procedures. We believe that when the transition is complete, all of these goals will be met and we will provide Agency customers and the public they serve, a more efficient, cost effective, customer-oriented organization.

OIG Evaluation

EPA pursued HR systems upgrades (i.e., the workflow module and other listed in the Agency's 2007 Business Case Study deemed necessary if the EPA SSCs were to succeed and operate efficiently) although it did not obtain OMB approval to do so. As such, the successes of EPA's SSCs were dependent on upgrades that the Agency did not have permission to obtain. The failure to produce the upgrades, in particular the workflow module, leaves the EPA SSCs without the tools to perform efficiently.

Chapter 2

- In the 1st paragraph the OIG states, *“However, PeoplePlus faces increased risks to its security and stability because the software vendor no longer supports the current version, and has required that the Agency upgrade to a newer software version.”*

OARM Comment: While we agree that there may be increased risks to PeoplePlus security and stability because the vendor no longer supports the current version, we believe the increased risk is minimal and therefore acceptable at this time. Even though EPA is currently running the 8.3 version of PeopleSoft HRMS application software, the underlying component software is being patched, and kept at current release levels. These components are the focus of Computer Security Incident Response Capability (CSIRC) notices and result in system patch application. In addition, the PeoplePlus system is wholly contained behind the EPA firewall and Agency security systems. OARM believes the overall security of PeoplePlus is sound and running the current version represents a minimal risk to the Agency as we explore the various options for moving to an HR-LoB service center.

OIG Evaluation

OARM management is in agreement that there may be increased risks to PeoplePlus security and stability because the vendor no longer supports the current version. OARM management believes the increased risk is minimal and therefore acceptable at this time. During the exit conference with OARM managers in June 2009, the OIG requested a copy of the most recent risk assessment of PeoplePlus supporting this statement. These managers stated a risk assessment was almost finished and that the OIG would be provided a copy. However, the OIG had not received a

copy by the time this final report was issued. We have recommended that EPA document the risk of using PeoplePlus until EPA migrates to a certified SSC.

- In the Funding Challenges section on page 10, the OIG states, “*However, OMB issued criteria in August 2006 that required Federal agencies to develop comprehensive baseline cost estimates for investments to measure cost savings and plan for future costs associated with IT investments. Further, this memorandum provides an IT investment framework for determining the total cost of projects, both government and contractor costs, based on costing methodologies provided in OMB-Circular A-76. The Agency could not provide documentation that they had met this requirement.*”

OARM Comment: We have located in our files documentation that reflects the Agency responded to this requirement. A copy of the submission to OMB is attached.

OIG Evaluation

A review of the file documentation submitted to OMB revealed this information was outdated (most recent was 2007), and did not represent current cost analysis associated with the Agency’s migration to an OPM-certified SSC. Consequently, the Agency needs to produce an updated baseline cost estimate to support migration funding in FY 2010 or beyond. Otherwise, EPA will continue to operate the current inefficient HR configuration for the foreseeable future.

- In the Conclusion and Recommendation section on page 11, the OIG states, “*...not realize \$40-60 million in reduced costs through outsourcing its HR management systems to a certified SSC, which according to EPA’s own analysis can be achieved by eliminating heavy reliance on external contractors.*”

OARM Comments: Since that initial analysis, EPA has continued to research and update the costs associated with migrating to a certified line of business provider. These subsequent analyses (currently in draft) show a significantly lower reduction in future IT costs as a result of a potential migration. We are finalizing our analysis at this time and are working with OCFO to determine the best system for the Agency.

OIG Evaluation

EPA spent considerable time and funds pursuing their former option. OARM management now indicates that the Agency still looks to find an OPM-approved HR-LoB vendor who can provide the required HR support. To help avoid a repeat occurrence, we have recommended that OARM obtain documentation from OMB specifying the level of migration required

from EPA to ensure that future EPA resource efforts are not spent on a concept that OMB could reject.

- In the Conclusion and Recommendation section on page 11, the OIG states, *“Therefore, we recommend that the Assistant Administrator OARM:*

- 1. Seek a waiver from OMB to upgrade PeoplePlus to regain access to patches and fixes to ensure system security and stability.*
- 2. Develop a baseline cost estimate to determine and secure necessary funding for migration to a public or private sector SSC on a revised date negotiated with OMB.”*

OARM Comments: We are currently analyzing the costs associated with migrating our HR IT system capabilities to an OPM approved service provider. We expect the Agency will make a final decision on how to proceed in the 4th quarter FY 2009. OARM and OCFO agree that upgrading our current system is not in the best interest of the Agency. Therefore, we do not agree with the recommendation to both upgrade our current system and migrate to a service provider. The resources needed to perform both of these tasks are cost prohibitive and represent a duplicative effort, as well as doubling the time required to achieve a final solution.

OIG Evaluation

In December 2008, OARM managers told us that EPA was considering two options. The first option was to upgrade the current PeoplePlus-HR software to PeopleSoft v. 9.0 to meet requirements by the software vendor. For this option, we recommended that EPA obtain OMB approval to upgrade HR systems. The second option was to migrate Agency HR IT services to a public or private sector HR SSC provider. For this option, we recommended that EPA develop a baseline cost analysis to determine the cost of the option and to obtain the funding necessary for migration. The Agency indicated it will now pursue the second option, to find an OMB-certified HR-LoB provider for the necessary HR IT support. Because of this decision the original 1st recommendation has been removed. We concur with the Agency’s decision to migrate to a certified HR-LoB provider since it cannot justify upgrading PeoplePlus. We have developed recommendations to assist the Agency in this effort to ensure that future EPA resource efforts are not spent on a concept that OMB could reject; develop an updated baseline cost estimate to determine and secure necessary funding for migration to an OPM-certified SSC; and establish realistic milestone dates with OMB for migration to an OPM-certified SSC.

If you have any questions, please contact Sherry Kaschak, Director, Office of Policy and Resources Management or Susan Kantrowitz, Deputy Director, Office of Human Resources. I look forward to discussing this issue further during the

exit conference and working with the Office of Inspector General to ensure the Agency moves forward in the best approach.

Attachments (2)

- 1- Actual Cost Reporting September 2007
- 2- Baseline Cost Reporting - August 2006

**Actual Cost Reporting
September 2007**

Agency: EPA

Investment/Project Name: PeoplePlus-Human Resources (PPL-HR)

Related E-Gov/LOB Initiative: Human Resources Management LoB

Prepared by: _____

Date: _____

Direct	\$ 475,000		\$ 791,633
Indirect	\$ 3,876		
Material and Supply Costs	\$ 4,875		\$ 185,868
Facilities	\$ 34,835		
Utilities	\$ 18,956		
Maintenance and Repair	\$ 1,200		
Travel	\$ 1,800		
Training	\$ 1,800		
Contract Administration			
Miscellaneous	\$ 23,310		

Notes:

* Refers to costs incurred on a fee-for-service basis from a government organization at another agency or within the agency (e.g. shared service centers)

1 - For work performed on a fee-for-service basis, please indicate the service provider and associated agency as well as the methodology and algorithm for determining the service fee (e.g., cost per employee, cost per transaction, etc).

2 - Report all costs rounded to the nearest dollar

3 - Cells in blue are calculated values

**Baseline Cost Reporting
August 2006**

Agency: EPA
 Investment/Project Name: PeoplePlus-Human Resources (PPL-HR)
 Related E-Gov/LOB Initiative: Human Resources Management LoB
 Prepared by: Leo Cuerguijan
 Date: 9/26/2006

Direct	\$ 828,000	\$ 1,319,266	\$ 949,000	\$ 905,000	\$ 5,784,000	\$ 905,000	\$ 2,370,000
Indirect	\$ 7,752	\$ 7,752	\$ 7,752	\$ 7,752	\$ 7,752	\$ 7,752	\$ 7,752
Material and Supply Costs	\$ 6,450	\$ 451,734	\$ 9,750	\$ 6,450	\$ 350,000	\$ 6,450	\$ 6,450
Facilities	\$ 60,390		\$ 39,735	\$ 60,390		\$ 60,390	\$ 60,390
Travel	\$ 2,085		\$ 2,417	\$ 2,085		\$ 2,085	\$ 2,085
Maintenance and Repair	\$ 2,085		\$ 3,750	\$ 2,085		\$ 2,085	\$ 2,085
Travel	\$ 3,250		\$ 3,250	\$ 3,250		\$ 3,250	\$ 3,250
Training	\$ 3,250		\$ 3,250	\$ 3,250		\$ 3,250	\$ 3,250
Contract Administration							
Miscellaneous	\$ 40,004		\$ 46,020	\$ 40,004		\$ 40,004	\$ 40,004

Notes:
 * Refer to costs incurred on a fee-for-service basis from a government organization at another agency or within the agency (e.g. shared services centers)
 1 - Work performed by the contractor on behalf of the agency or on behalf of another agency under and associated agency as well as the methodology and algorithm for determining the service fee (e.g. cost per employee, cost per transaction, etc.)
 2 - Report all costs rounded to the nearest dollar
 3 - Cells in blue are calculated values

Appendix B

Distribution

Office of the Administrator
Assistant Administrator for Administration and Resources Management
Acting Chief Financial Officer
Agency Follow-up Official (the CFO)
Agency Follow-up Coordinator
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Audit Follow-up Coordinator, Office of Administration and Resources Management
Audit Follow-up Coordinator, Office of the Chief Financial Officer
Acting Inspector General