

June 2004

HUMAN CAPITAL

Selected Agencies' Use of Alternative Service Delivery Options for Human Capital Activities



G A O

Accountability * Integrity * Reliability

Highlights of [GAO-04-679](#), a report to congressional requesters

Why GAO Did This Study

Human capital offices have traditionally used alternative service delivery (ASD)—the use of other than internal staff to provide a service or to deliver a product—as a way to reduce costs for transaction-based services.

GAO was asked to identify which human capital activities agencies were selecting for ASD, the reasons why, how they were managing the process, and some of the lessons they had learned. Eight agencies were selected to provide illustrative examples of ASD use.

What GAO Recommends

GAO is making a recommendation to the Director of the Office of Personnel Management (OPM) to work with the Chief Human Capital Officers Council to share and distribute information about ASD. OPM stated that the recommendation is consistent with their concern for overseeing human capital contracting, for which OPM has the lead. OPM expressed concern about two issues it believes were not sufficiently covered in the report—OPM’s support for agencies’ ASD efforts and agency accountability issues when using ASD providers. GAO believes that both issues are covered by this recommendation.

www.gao.gov/cgi-bin/getrpt?GAO-04-679.

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

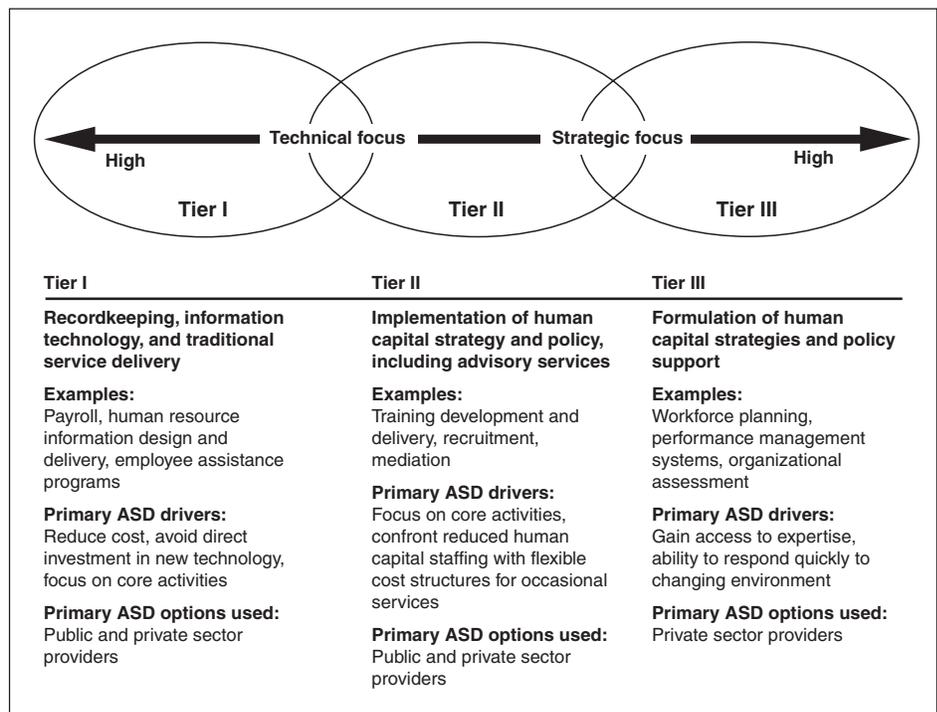
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What GAO Found

The selected agencies were using ASD for the full range of their human capital activities. The figure below groups like human capital activities that the agencies provided through ASD into three overlapping tiers and identifies their associated drivers and the options used.

Summary of Selected Agencies’ ASD Characteristics for Three Tiers of Human Capital Activities



Source: GAO.

Agencies generally approached their management of ASD in similar ways. They conceptually agreed that human capital activities that did not require an intimate knowledge of the agency, oversight, or decision-making authority could be considered for ASD, although in practice they showed differences in their choices of ASD activities. GAO identified several lessons the agencies had learned about ASD management, such as the importance of understanding the complexity and requirements of an activity before making an ASD decision. As the President’s agent and adviser for human capital activities, OPM also has a central role in assisting agencies’ management of ASD. Several agencies noted that they used OPM’s Training and Management Assistance program, which provides human capital contract assistance. However, the officials also cited the need for sharing information about specific ASD efforts, useful metrics, and lessons learned.

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Abbreviations

ASD	alternative service delivery
CASU	cooperative administrative support unit
CHCO	Chief Human Capital Officers
COTR	contracting officer's technical representative
DOE	Department of Energy
EEO	equal employment opportunity
FWS	U.S. Fish and Wildlife Service
GSA	General Services Administration
IR	intragovernmental revolving
IT	information technology
MMS	Minerals Management Service
NAPA	National Academy of Public Administration
NFC	National Finance Center
NGA	National Geospatial-Intelligence Agency
NIMA	National Imagery and Mapping Agency
OMB	Office of Management and Budget
OPM	Office of Personnel Management
SER-CASU	Southeast Regional Cooperative Administrative Support Unit
TMA	Training and Management Assistance
USCG	United States Coast Guard
USDA	United States Department of Agriculture
USITC	United States International Trade Commission

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

June 25, 2004

The Honorable George V. Voinovich
Chairman
Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia
Committee on Governmental Affairs
United States Senate

The Honorable Jo Ann Davis
Chairwoman
Subcommittee on Civil Service and Agency
Organization
Committee on Government Reform
House of Representatives

In an April 2003 report on selected agencies' use of human capital strategies to attain mission results, we noted that improved ways of providing services can enable agencies' human capital offices to reallocate their resources to better meet expanded roles as strategic partners.¹ As part of this, agencies need to consider how best to accomplish their human capital activities, including who the service provider should be. Alternative service delivery (ASD)—the use of other than internal staff to provide a service or to deliver a product—has traditionally been used for transaction-based services, such as payroll administration, as a way to reduce costs. However, many public and private sector human capital leaders are now advancing it as an approach that can also help free their staff to focus on core strategic activities and expand their access to expertise. As the number, scope, and quality of ASD options, such as reimbursable services from other agencies and private sector providers, continue to increase and the experience of agencies continues to mature, human capital leaders expect that ASD will become an increasingly significant consideration in the delivery of human capital products and services. For a broader discussion of the federal government's sourcing policies and procedures,

¹U.S. General Accounting Office, *Human Capital: Selected Agency Actions to Integrate Human Capital Approaches to Attain Mission Results*, [GAO-03-446](#) (Washington, D.C.: Apr. 11, 2003).

see the final report of the Commercial Activities Panel released in April 2002.²

To obtain a better understanding of federal agencies' use of ASD for accomplishing their human capital activities, you asked us to report on how federal agencies determine the human capital activities to retain and those for which they would consider using outside providers. Specifically, you asked that we identify (1) the human capital activities selected agencies are accomplishing through the use of ASD options and the basis on which they decided to use ASD and (2) how the use of ASD is being managed and the lessons learned by the selected agencies. The agencies we selected were the Department of Energy (DOE), the Department of the Interior's U.S. Fish and Wildlife Service (FWS) and Minerals Management Service (MMS), the National Geospatial-Intelligence Agency (NGA),³ the U.S. Coast Guard (USCG), the U.S. Department of Agriculture's (USDA) headquarters, the U.S. International Trade Commission (USITC), and the U.S. Mint's headquarters. Agencies were selected through research that identified them as using ASD for some human capital activities and based on the recommendations of human capital experts from the National Academy of Public Administration (NAPA), George Washington University, and a private sector consultant for federal contract management. The agency selection process was not designed to produce findings that could be considered representative of the use of ASD for human capital activities in the federal government as a whole, but rather to provide illustrative examples of how selected agencies were using ASD.

To meet our objectives, we analyzed information from a review of the literature on the use of ASD for human capital activities in both public and private sector organizations. We then interviewed human capital officials from the selected agencies to identify the activities for which they were using ASD, the basis on which they decided to use it, how the selected agencies managed their use of ASD, and the lessons learned from the agencies' experiences. Some of the agencies provided supporting documentation, such as contracts and project plans, for review. We did not verify the agencies' cost savings estimates. After reviewing and analyzing the agencies' responses, we developed a framework for organizing and

²Commercial Activities Panel, *Final Report: Improving the Sourcing Decisions of the Government* (Washington, D.C.: 2002).

³The National Geospatial-Intelligence Agency (NGA) was formerly known as the National Imagery and Mapping Agency (NIMA).

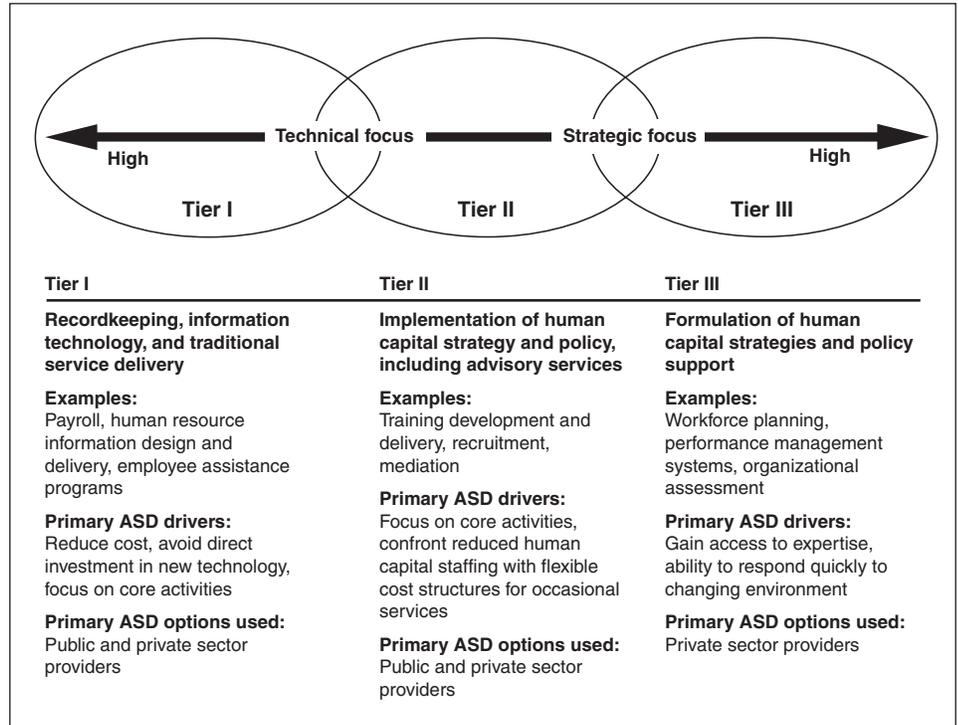
discussing their use of ASD for human capital activities. Our review was conducted in accordance with generally accepted government auditing standards from August 2003 through February 2004. Appendix I provides additional information on our scope and methodology.

Results in Brief

The selected agencies reported using ASD for the full range of their human capital efforts including their transaction-based, administrative, and strategy and policy support activities. For the purposes of this report, we grouped the activities the agencies provided through ASD into three tiers and identified the primary drivers and options associated with each tier.⁴

⁴We are using the construct of “tiers” of activities to discuss similar types of human capital activities that are not discrete categories, but rather groups of like activities with some degree of overlap among the tiers.

Figure 1: Summary of Selected Agencies' ASD Characteristics for Three Tiers of Human Capital Activities



Source: GAO.

All of the agencies said they used ASD for some activities in tier I, such as payroll administration and employee assistance programs. In addition to freeing staff to focus more on core activities,⁵ agency officials regarded purchasing services, such as payroll, from specialized providers as a way to reduce costs through economies of scale. All of the agencies used ASD for some activities in tier II, such as components of their training development and delivery, often to focus on core activities and respond to reductions in human capital staffing. They used a mix of options to accomplish both tier I and tier II activities, including interagency reimbursable services and private sector contracts. In a more recent development in the use of ASD,

⁵We use the term “core activities” throughout the report to refer to those areas where the human capital office can add strategic value and act as a strategic partner with the agency.

agencies reported gaining access to expertise as a primary driver for activities in tier III. These included projects such as workforce planning and organizational development, which involved the formulation of human capital strategy and policy support. Almost all of the eight agencies used ASD for a tier III activity and generally used the private sector as their ASD option for these developmental and consulting services. Of the selected agencies, the Mint was the only one engaged in a competitive sourcing initiative involving most of its human capital functions.

The selected agencies approached their management of ASD in similar ways and shared similar lessons learned about the process. The approaches and lessons are consistent with those we have identified as part of our larger body of work on sourcing practices.⁶ Agency officials generally agreed that any human capital activity that did not require an intimate knowledge of the agency, oversight, or decision-making authority could be a suitable ASD candidate. In practice, however, there were differences in their choices of activities for which they used ASD. A lesson learned about making ASD decisions included the need to understand the complexity and requirements of an activity prior to making a decision. Human capital officials said that they used a number of different methods to develop their ASD contracts and select their providers, and several emphasized specifying flexible terms with measurable performance standards in their contracts as essential requirements for meeting ASD objectives. Agencies used both formal and informal ways of monitoring their contracts. They noted using similar types of performance measures to assess their ASD use depending on the type of activity. For example, several said they used customer satisfaction surveys to check the effectiveness of their ASD efforts for their employee services and used established models to evaluate their training efforts. Agency officials said that finding an ASD provider with whom they could build a relationship was an important aspect of monitoring. Agencies noted that they used the Office of Personnel Management's (OPM) Training and Management Assistance (TMA) program to aid their management of ASD, which provided them with access to a pool of professionals who could help them select providers and negotiate and monitor agreements. As the President's agent and adviser for human capital activities, OPM also has a central role

⁶See, for example, U.S. General Accounting Office, *Information Technology: Leading Commercial Practices for Outsourcing of Services*, [GAO-02-214](#) (Washington, D.C.: Nov. 30, 2001).

in agencies' management of ASD through its authority to oversee management of human capital activities.

Agency officials pointed to the need for partnering with other federal agencies to learn from each other about effective ways to use ASD for their human capital activities. OPM sees as part of its role the need to develop tools and provide support to agencies in their human capital transformation efforts and to assist in making the federal government a high-performing workplace. In addition, OPM has expressed a desire to improve oversight of human capital contracts. In light of this, this report contains a recommendation to the Director of OPM to work with the Chief Human Capital Officers (CHCO) Council⁷ to serve as a resource in sharing and distributing information, such as metrics and lessons learned, about agencies' use of ASD for human capital activities.

We provided a draft of this report to the Director of OPM and the departments representing the eight agencies for their review and comment. We received written comments from OPM and the Department of the Interior, which are included in appendixes III and IV. OPM stated that the report contained a good model for looking at human capital ASD use and that the recommendation was consistent with the agency's concern for human capital contracting, for which OPM has the lead. However, they expressed concerns that the report did not address the efforts of their human capital officers in helping agencies improve their human capital practices or how agencies ensure that their ASD providers comply with regulatory and statutory requirements. We did not assess the actions of the OPM human capital officers because their role did not surface in our interviews with agency officials. Regarding the concern of ensuring functions provided through ASD meet appropriate federal regulatory and statutory requirements, we agree with OPM's concern and believe our recommendation can help address this important issue OPM raises. The Department of the Interior suggested that GAO or OPM conduct an additional study that would examine the quality and value of various ASD products and providers to allow agencies an objective comparison of providers for similar services. The other agencies generally had no comments on the report or technical corrections.

⁷The CHCO Council, headed by the Director of OPM, is responsible for advising and coordinating agencies' efforts concerning modernization of their human resources systems, improvement of the quality of human resources information, and legislation on human resources operations and organizations.

Background

Recent research on private sector companies indicates that many companies are using ASD, generally referred to in the private sector as “outsourcing,” as an integral and permanent part of their human capital strategies. Along with extensive use of technology and consolidation of service delivery units, outsourcing accompanies the desire of many human capital offices to move their focus from transaction-based activities toward becoming more of a strategic partner. A 2002 Conference Board study, based on responses from 125 surveyed companies, found that two-thirds currently outsource a major human capital activity and most of these companies are seeking to expand their outsourcing activities.⁸ The study reported that pressure to cut costs, improve the quality of human capital services, gain access to specialist expertise and technology, and free staff to concentrate on core business activities drove the companies’ outsourcing decisions. Slightly more than 50 percent of survey respondents reported that they had fully achieved their outsourcing objectives, 42 percent had partially achieved them, and less than 1 percent of outsourced human capital functions had been brought back in-house. A December 2003 study from the Corporate Leadership Council found, from a survey of 162 of its member organizations, that most human capital activities continue to be largely performed in-house, although aspects of almost every activity are outsourced.⁹

The research on the private sector’s use of outsourcing also indicates that the range of human capital activities outsourced is increasing. According to a 2003 report from the University of Southern California, the large corporations they surveyed were most likely to outsource employee assistance and benefits administration.¹⁰ This report noted that compensation, benefits, employee training, human resource information systems, recruitment, performance appraisal, affirmative action, and legal affairs all showed statistically significant increases in the use of

⁸Lisa Gelman and David Dell, *HR Outsourcing Trends* (New York: The Conference Board: 2002).

⁹Corporate Leadership Council, *Strategic HR Outsourcing: A Quantitative Assessment of Outsourcing Prevalence and Effectiveness* (Washington, D.C.: Corporate Executive Board: December 2003).

¹⁰Edward E. Lawler III and Susan Albers Mohrman, *Creating a Strategic Human Resources Organization: An Assessment of Trends and New Directions*, Center for Effective Organizations, Marshall School of Business, University of Southern California, Stanford University Press (Stanford, Calif.: 2003).

outsourcing from 1995 to 2001. No activity was less likely to be outsourced in 2001 than it was in 1995. In addition, some organizations are following a path where they transfer the majority of their human capital activities to a single contractor.

Research on the federal government's use of human capital ASD includes a 1997 NAPA report that was intended to provide federal managers and human capital staff with a practical guide to the issues that must be addressed in approaching ASD for human capital functions.¹¹ The report recommended that because of the risks involved with ASD, including a potentially negative effect on the general workforce, agencies must recognize that its use requires careful planning. It maintained, however, that as in the private sector, federal government executives were in a position of managing a decrease in resources along with increased performance expectations and that ASD was a viable approach to help meet this challenge.

Federal agencies have a number of ASD options available to them. Examples include human capital services offered by other federal agencies, contracts with private sector and nonprofit organization providers, and partnerships with other organizations. USDA's National Finance Center is an example of an interagency service provider, supporting a number of other federal agencies, including GAO, with automated information systems services for personnel and payroll. Private sector providers of human capital services have increased in both their number and the range of their services geared toward the federal human capital community. For instance, in 2000 the General Services Administration (GSA) introduced a new schedule of contracts from more than 50 different contractors for activities such as recruitment and position classification. Another ASD option includes the use of partnerships with other organizations, which may not necessarily involve exchanges of funds. The Bureau of the Census, for example, partnered with national, state, and local organizations to help the agency recruit census takers for the 2000 Census.¹² Appendix II has more detail on ASD options available to federal agencies.

¹¹National Academy of Public Administration, *Alternative Service Delivery: A Viable Strategy for Federal Government Human Resources Management* (Washington, D.C.: November 1997).

¹²U.S. General Accounting Office, *2000 Census: Review of Partnership Program Highlights Best Practices for Future Operations*, [GAO-01-579](#) (Washington, D.C.: Aug. 20, 2001).

Selected Agencies Reported Using ASD for the Full Range of Their Human Capital Activities

Human capital officials from the selected agencies reported using ASD for a variety of specific human capital activities that we grouped into “tiers,” a construct we created to discuss how agencies use ASD for similar types of human capital activities; they are not discrete categories, but rather groups of activities that overlap. All of the agencies used ASD for at least some tier I activities, such as payroll and employee assistance programs, and tier II human capital activities involving the implementation of human capital policy and strategy. Most of the agencies had contracted for assistance, generally with the private sector, for tier III activities, such as special projects involving workforce planning and organizational assessments. Of the eight agencies, the Mint was the only agency currently engaged in a competitive sourcing initiative involving most of its human capital functions.

Agencies Regarded ASD Use for Tier I Activities as a Way to Reduce Costs in Some Cases and to Free Staff to Focus on Core Activities

Similar to private sector experience, agency officials regarded the use of ASD for some of the tier I activities involving transactional human capital functions, the acquisition and maintenance of technology, and specialized services as a way to reduce or avoid costs. Agencies have been using ASD for these activities for a number of years, and updated cost savings estimates were not available. In general, however, using ASD for more standardized, transactional activities allows human capital offices to make use of high-volume providers’ investments and capabilities that realize economies of scale. For instance, OPM is leading the effort to collapse the operations of 22 executive branch agencies that currently run payroll systems into what will eventually be only two systems at a projected savings of \$1.1 billion through fiscal year 2012.¹³ We reported that it is evident that cost savings can be found by reducing the number of payroll systems operated and maintained by the federal government and avoiding the costs of updating or modernizing those systems, but have noted the significant challenges in realistically estimating the financial savings from this initiative.¹⁴ Likewise, although cost savings estimates were not available, agency officials regarded consolidating the purchase of human resource information systems and specialized services that would be

¹³The e-payroll initiative is one of OPM’s five e-government initiatives aimed at transforming the way human capital functions and services are carried out in the federal government.

¹⁴U.S. General Accounting Office, *Electronic Government: Progress and Challenges in Implementing the Office of Personnel Management’s Initiatives*, GAO-03-1169T (Washington, D.C.: Sept. 23, 2003).

expensive to duplicate internally, such as purchasing commercial-off-the-shelf software or using a specialized provider of employee assistance programs, as a way to reduce individual costs to the agency. In prior work on how companies were taking strategic approaches to acquiring services, we noted one tactic involved using a companywide approach to procuring services. When the companies analyzed their spending on services, they realized that individual units of the company were buying similar services from numerous providers, often at greatly varying prices. In some cases, after this analysis, thousands of suppliers were reduced to a few, enabling the companies to negotiate lower rates.¹⁵

Common examples of the types of tier I activities for which the eight agencies used ASD are

- payroll processing,
- components of human resource information technology,
- employee assistance programs,
- health screening and wellness services,
- employee fitness programs, and
- drug and alcohol testing.¹⁶

As previously noted, federal agencies have used ASD for tier I human capital activities for a number of years. NAPA reported in 1997 that human capital outsourcing by federal agencies was already substantial in these areas.¹⁷ All of the agencies used ASD for some of their tier I activities, and most of the agencies reported using ASD for their payroll administration and at least some component of their information technology. NGA, for example, partnered with another agency to share contracts for human capital information technology development and maintenance. NGA said that the arrangement allowed it to access expertise not resident in-house

¹⁵U.S. General Accounting Office, *Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services*, GAO-02-230 (Washington, D.C.: Jan. 18, 2002).

¹⁶GAO analysis of agency data.

¹⁷NAPA, *Alternative Service Delivery*.

and promoted knowledge transfers between the two agencies. Using ASD for traditional employee services was also common among the selected agencies. Many of them used ASD for their employee assistance programs, wellness and fitness centers, health units, or drug and alcohol testing, often using interagency services to provide these functions. By going to outside providers for these specialized services, agency officials believed that they were able to focus more on core activities in addition to gaining efficiencies by joining other agencies' efforts. A DOE official, for example, said that the department used ASD for its fitness centers to avoid liability issues so that, for example, if an employee were injured using the center it would not be the responsibility of the department. DOE also reported joining another department's large contract for drug and alcohol testing to reduce its workload by not having to commit resources to contracting for the service itself. Officials also said they gained the benefit of having a neutral third-party provider, which was believed to be important because employees may be less likely to use services such as employee assistance programs when internally provided due to confidentiality issues.

Agencies Regarded ASD Use for Tier II Activities as a Way to Free Staff to Focus on Core Activities

All of the selected agencies used ASD for at least one of their tier II activities, which involve the implementation of human capital policy and strategy, including advisory services. Common examples of the agencies' ASD tier II activities are

- training development and delivery,
- classification and staffing support,
- classification appeals and reviews,
- equal employment opportunity (EEO) and administrative investigations,
- recruitment, and
- mediation.¹⁸

Many of these activities entail services dealing with recruiting, developing, and retaining employees, and they occupy the middle ground between the

¹⁸GAO analysis of agency data.

primarily technical work in tier I and the increased strategic focus needed for tier III activities. Drivers for this tier of activities included freeing staff to focus on core activities and supplementing a lack of staff to perform the activity. Tier II activities often involve partial outsourcing, using ASD for only a component of the human capital function, whereas a tier I activity such as drug testing may be completely outsourced. NGA's Training and Doctrine Directorate, for example, used OPM's TMA program to select and evaluate providers for its Leadership Program. The agency used a combination of in-house expertise and contractors to design and deliver the leadership training.

Within tier II activities, components of training development and delivery were the most frequently cited human capital activities for which the agencies used ASD. NAPA's 1997 report also noted outsourcing of training by federal agencies as substantial.¹⁹ As one example, USDA turned to a private sector contractor to help develop the design for a corporate leadership development program to prepare upper-level managers for future leadership roles at USDA. One of the rationales for relying on a contractor was that the contractor had the research edge on best practices gleaned from completing needs assessments with other organizations. In addition to using the private sector, several agencies used the training services of providers such as the USDA Graduate School and the Federal Executive Institute. OPM is also working on another training tool for federal agencies to use. E-Training, one of OPM's e-government initiatives, is designed to create a governmentwide e-Training environment to support the development of the federal workforce and provide a single source for on-line training and strategic human capital development for all federal employees. OPM expects that its initiative will allow agencies to focus their own training efforts on unique needs, thus maximizing the effectiveness of their expenditures on workforce performance.

Agencies also used ASD for tier II activities such as investigations, mediation, classification and staffing, and recruiting. FWS, for example, contracted for classification appeals and studies, EEO and administrative investigations, and mediations. The agency maintained that ASD was useful in this case because, given the sporadic nature of some of these activities, it could contract for services only when it needed them. MMS contracted with a retired employee to perform staffing, classification, and employee relations functions. Two of the agencies used ASD for some component of

¹⁹NAPA, *Alternative Service Delivery*.

their recruitment function. For example, although the contract is new and NGA has not yet directly tracked changes due to this initiative, the agency anticipates that contracting for some of its recruitment activities will provide better customer service and help confront reduced human capital staffing.

Agencies Regarded ASD Use for Tier III Activities as a Way to Gain Access to Expertise

Tier III activities, which involve the formulation of human capital strategy and policy support, represent a more recent application of ASD for human capital activities. Examples of the agencies' tier III ASD activities are

- strategic workforce planning,
- skills gap analysis,
- strategic human capital management planning,
- organizational assessment survey,
- performance management system,
- pay compensation, and
- benchmarking.²⁰

These activities involved expanding their base of expertise and gaining access to new ideas and methodologies. All but one of the agencies reported using ASD for some activities within tier III, often using private sector providers.

Several agencies noted that the use of ASD for tier III activities enabled their human capital offices to obtain access to the right mix of skills quickly in order to meet critical deadlines, thereby providing the agency with new tools and capabilities. USITC, for example, through OPM's TMA program, contracted for initiatives in strategic workforce planning. The agency used contractors to help define its human capital vision and models and to develop occupation guides and a human capital plan. USDA teamed with a contractor to conduct a skills gap analysis to identify critical workforce

²⁰GAO analysis of agency data.

skills and analyze skills gaps. USDA reported that the contractor provided third-party objectivity in retrieving and assessing information, used its own technology to analyze data, and produced a model based on its own scientific expertise that assisted USDA managers in determining workforce skills needs for closing the gaps in the next 5 years. USCG contracted for the use of OPM's Organizational Assessment Survey after sporadic, unsatisfactory in-house attempts to manage the survey development, administration, data collection, analysis, and required reporting. Instead of investing in three full-time employees supplemented by six part-time employees that USCG believed would be needed to manage an annual survey, it reduced the resources needed to manage the survey effort to one full-time employee supplemented by two part-time employees. According to an agency official, the estimated annual cost for the project was reduced by approximately \$300,000.

The Mint Is Engaged in a Human Capital Competitive Sourcing Initiative

All of the above examples of ASD for the three tiers of activities concerned were specific activities that were outsourced to a variety of different providers. Within private sector human capital offices, however, there is a beginning trend toward aggregating multiple human capital activities into one ASD contract. The 2002 Conference Board report on human resources outsourcing trends found that although most of the companies they surveyed used more than one source provider, 12 percent of the companies surveyed outsourced the bulk of their human capital functions to a single provider and 9 percent were in the process of doing so or plan to over the next 3 years.²¹ Aggregating activities into one contract can result in better contracting leverage. This is riskier, however, in terms of the complexity of the arrangement and the assumption that one vendor can deliver and maintain the same level of service previously provided in-house or by a variety of different providers.

The Mint was the only one of the eight selected agencies currently considering using one ASD provider for the majority of its human capital activities through a competitive sourcing initiative governed by the Office of Management and Budget's (OMB) Circular No. A-76. The initiative involves all of the Mint's human capital functions except employee and labor relations and policy, and the agency expects to complete the competitive sourcing study no later than February 2005. Although a Mint

²¹Gelman and Dell, *Outsourcing Trends*.

official reported challenges maintaining morale and staff during the formal cost comparison, the agency expects that the study will eventually result in reduced costs. Our work looking at the progress selected agencies were making in establishing competitive sourcing programs also found that ensuring and maintaining morale was a challenge for those agencies.²² NAPA reported that trust between agency leaders and employees can be shaken by the consideration of nontraditional staffing.²³ In addition, employees may suffer stress-induced illness, increased absenteeism, hostility, and depression, other symptoms of changed organizations. The report noted that providing an authoritative source for employees to get accurate information minimizes the unknown and helps control rumors and miscommunication.

Selected Agencies Approached Their Management of ASD in Similar Ways and Shared Similar Lessons Learned

We examined the agencies' management of ASD by looking at their approaches to three phases of contract management. The phases included (1) making the sourcing decision, (2) developing the contract and selecting the provider, and (3) monitoring the provider's performance. Our review also identified some of the lessons the agencies learned and the role that OPM plays in assisting agencies with their management of ASD.

Agencies Approached Sourcing Decisions in a Similar Way on a Conceptual Level but Showed Differences in Practice

To make a sourcing decision, organizations need to determine whether internal capability or external expertise can more effectively meet their needs. The Commercial Activities Panel, chaired by the Comptroller General of the United States, noted that determining whether the public or the private sector would be the most appropriate provider of the services the government needs is an important, and often highly charged, question.²⁴ The report also stated that determining whether internal or external sources should be used has proved difficult for agencies because of systems and budgeting practices that (1) do not adequately account for

²²U.S. General Accounting Office, *Competitive Sourcing: Greater Emphasis Needed on Increasing Efficiency and Improving Performance*, [GAO-04-367](#) (Washington, D.C.: Feb. 27, 2004).

²³NAPA, *Alternative Service Delivery*.

²⁴Commercial Activities Panel, *Improving the Sourcing Decisions*.

total costs and (2) inhibit the government's ability to manage its activities in the most effective manner possible. In prior work examining the competitive sourcing initiatives of selected agencies, we reported that several agencies had developed strategic and transparent sourcing approaches.²⁵ The approaches included the comprehensive analysis of factors such as mission impact, potential savings, risks, current level of efficiency, market conditions, and current and projected workforce profiles. To make good human capital sourcing decisions, NAPA's ASD report also suggested identifying constraints on the process, such as the lack of capacity within the organization to manage the ASD contract and the legal, regulatory, and ethical issues related to the governmental nature of the work.²⁶

The selected agencies reported similarities on a conceptual level in how they made their sourcing decisions. Officials generally agreed about which human capital activities were suitable candidates for ASD. Their considerations were consistent with the Commercial Activities Panel sourcing principles. For example, agency officials recognized that some activities are inherently governmental²⁷ or are functions that should be performed by federal workers and that both quality and cost factors should be considered.²⁸ The general consensus was that virtually any activity could be an ASD candidate as long as it did not require an intimate knowledge of the agency or involve oversight or decision-making authority that should belong with the agency. There was also general consensus that ASD should be considered in situations where it could improve quality without increasing costs or keep the same quality at a lower cost and in situations where activities cannot be accomplished with the agency's current skills and resources. Some of the agencies excluded from ASD any activity directly related to policy, while one official maintained that policy development, as opposed to policy decision making, was appropriate for ASD.

²⁵GAO-04-367.

²⁶NAPA, *Alternative Service Delivery*.

²⁷An "inherently governmental" activity is an activity that is so intimately related to the public interest as to mandate performance by government personnel.

²⁸Commercial Activities Panel, *Improving the Sourcing Decisions*.

Notwithstanding the broad conceptual agreement among the agencies, they showed differences in their choices of human capital ASD activities. This may be partially due to differences in the activities they deemed to be essential to the agency or to the human capital office. The USITC Human Resources Director, for example, noted that USITC staffing was a function that required intimate knowledge of the agency and one that it would not consider for ASD. Private sector research also indicates that some companies are reluctant to outsource activities such as employee communications, assessment, and recruiting because they are critical to the company's corporate culture and provide a "personal touch."²⁹ The differences may also be due to variations in existing capacity and in how ASD was used in the agencies' overall human capital strategy. FWS, for example, noted that as the agency continues to identify areas for consolidation and efficiency, it sees its use of ASD increasing as a means to provide better customer service and supplement human capital skills not present in the current workforce. Several of the agencies, NGA and USITC in particular, remarked that ASD was integral to their overall human capital strategy. In fact, an NGA official said that the agency was established in 1996 with a design that encouraged the use of ASD. On the other hand, USDA stated that it used ASD primarily to meet critical deadlines.

Lesson learned: Understand the complexity and requirements of the activity prior to making an ASD decision. In order to strategically and objectively make a sourcing decision, several agency officials emphasized the importance of laying out ASD requirements and goals and letting these expectations guide the process. In order to do this and to manage for results, they underscored the importance of knowing as much as possible about the complexity and requirements of the activity before making an ASD decision. As a USCG human capital official expressed it, throwing a "problem" over the transom to a provider and waiting for a "solution" to be thrown back is not a viable model. Similarly, a human capital official from MMS said that in cases where ASD did not work well, there was a lack of a clear vision about the work to be done, and a NAPA panel report examining human capital outsourcing experiences noted that from the contractor's viewpoint, poorly defined requirements are a major flaw in government management of outsourcing.³⁰ To help solve this problem, one of the

²⁹Gelman and Dell, *Outsourcing Trends*.

³⁰National Academy of Public Administration, *Advancing the Management of Homeland Security, Lifting the Winner's Curse and Avoiding Buyer's Remorse: Lessons from HR Outsourcing Experiences* (Washington, D.C.: June 25, 2003).

leading commercial practices for outsourcing of information technology (IT) services includes incorporating lessons learned from peers who have engaged in similar sourcing decisions.³¹

Agencies Approached Developing Their Contracts and Selecting Their Providers Similarly

The ASD contract defines the legal terms of the relationship between the agency and the provider and sets the expectations for service levels and delivery of essential services. These critical requirements are captured in the contract as fundamental expectations. The development of the contract is the foundation on which the relationship with the provider is built, and once the agency understands the essential contractual requirements, it can begin to identify providers that can meet its needs.³² According to the NAPA human capital ASD report, the scope of the activity being converted to ASD and its relative criticality to the agency mission should determine the level of effort needed to develop the contracts and select the providers.³³

Human capital officials from the agencies reported using similar methods to develop their ASD contracts and select their providers. Officials said that they followed the guidance provided by the contract and procurement office representative who solicited the bids and awarded the contract. NGA stated that its general strategy was to rely on agency subject matter experts who created detailed statements of work. For example, the agency expert in the interpreting field provided the expertise needed for cost comparison, evaluation, and program management for NGA's interpreting services. Officials listed reputation and experience of the provider as important factors in the selection process. Some agencies noted using the panel award approach to select providers. To select its employee assistance program provider, for example, NGA assembled a panel comprised of agency officials who conducted interviews with each of the candidates and required the finalists to make presentations. Some officials stressed the importance of using established contract vehicles, such as GSA's contract schedule or OPM's TMA program, because it made the procurement process easier. Agencies also noted that joining other agencies' contracts

³¹GAO-02-214.

³²GAO-02-214.

³³NAPA, *Alternative Service Delivery*.

reduced the administrative effort needed on their part in terms of contract development.

Lesson learned: Articulating ASD contract terms that are flexible but include identified outcomes and measurable performance standards is an essential requirement for meeting ASD objectives. After determining what the use of ASD should accomplish, several agencies shared the importance of translating these expectations in the ASD contract into flexible terms with measurable outcomes. Accordingly, an essential part of the contract is to define the level and quality of service required of the ASD provider as well as specific evaluation criteria. A Mint official said that performance-based contracts with metrics and quality assurance plans helped the agency ensure that expectations were met. Congress and OMB have also encouraged greater use of performance-based contracting, which emphasizes spelling out the desired end result, while leaving the manner in which the work is to be performed up to the contractor. Other attributes of performance-based contracting include measurable performance standards; quality assurance plans that describe how the contractor's performance will be evaluated; and positive and negative incentives, when appropriate.³⁴ In developing contracts and selecting providers, leading commercial practices for acquiring IT services also suggest that the contract must be flexible enough to adapt to changes.³⁵ The practices note that the contract should include clauses for issues such as resolving disputes promptly, conducting regularly scheduled meetings, and declaring a significant event that can lead to a change in the contract. A Mint contract, for example, specified how the contract would be changed if access to desired data was not an option.

Agencies Also Approached Monitoring Performance in Similar Ways

The monitoring phase of ASD management involves ensuring that the ASD provider is meeting performance requirements. The previous phases addressed the extensive preparation that must precede the ASD provider's assuming responsibility for an activity. Monitoring includes examining performance data for specific activities and making sure that the overall objectives for using ASD are being met. According to commercial practices, organizations need to examine internal service levels as well as maintain an

³⁴U.S. General Accounting Office, *Contract Management: Guidance Needed for Using Performance-Based Service Contracting*, [GAO-02-1049](#) (Washington, D.C.: Sept. 23, 2002).

³⁵[GAO-02-214](#).

external view of the performance of other ASD providers to make certain that their current relationship is still advantageous to the organization.³⁶

The agencies reported both formal and informal ways of monitoring their ASD contracts. A contracting officer's technical representative (COTR) or a designee generally performed the formal oversight on an ongoing basis with line managers being in position to perform the informal monitoring. DOE, for example, described monitoring its human capital processing functions by having a COTR work in conjunction with the program or technical monitors, DOE's office of procurement, and the direct customers to ensure that problems were resolved and needs and expectations met. NGA looked at the measures built into its quality assurance plans, which included descriptions of the deliverables, performance standards, acceptable quality levels, and methods used to assure quality, such as random testing. The agency also noted that it periodically checks prices with outside service providers to make sure it is not paying more than the market rate for the contracted services. An MMS human capital official said that accountability for monitoring the overall success of the ASD strategy for a particular function belongs to the line manager responsible for that function, who determines if program goals are being met.

Many of the agencies said that they used performance measures as part of their ASD monitoring process. The types of metrics used varied with the types of ASD human capital activities, but generally included elements of quality or timeliness. For projects dealing with human capital strategy and policy support, agencies mentioned that along with quality, their measures included timely completion and evaluation of interim deliverables during the project. The USITC Human Resources Director stressed that when using ASD for a specific project, it was important to incorporate ongoing milestones into the contract as markers for how well the project is progressing. Agencies using ASD for training and development activities also reported using similar measures to monitor the success of the activities. For example, NGA and DOE stated that they used a multilevel training evaluation model³⁷ to assess the effectiveness of the methodology, media, and delivery mechanisms used by their ASD providers. Several of the agencies used client satisfaction surveys to gauge the quality of their

³⁶GAO-02-214.

³⁷U.S. General Accounting Office, *Human Capital: A Guide for Assessing Strategic Training and Development Efforts in the Federal Government*, GAO-04-546G (Washington, D.C.: March 2004).

employee services provided through ASD. USCG, for example, used surveys and had one-to-one contact with members who used its employee assistance program.

Lesson Learned: Creating a relationship with the ASD provider is key to resolving issues that may arise in addressing concerns and directing work. Human capital officials emphasized that smooth and constructive interaction between the agency and the ASD provider at an operational level is crucial to achieving the expectations of the ASD arrangement. Relationship management goes beyond the structure of the contract and if a good relationship exists between the agency and the ASD provider, many problems that may arise can be worked out. As the USITC Human Resources Director remarked, the agency needs to have the capacity to manage relationships, not just contracts, with ASD providers. In looking at leading commercial practices for outsourcing IT services, we included relationship management as one of three critical success factors contributing to successful outsourcing, a capability that must be present to implement good outsourcing practices.³⁸ The Director of OPM also emphasized the importance of program managers' ability to work inside partnerships and relationships to help develop a new paradigm of government-contractor relationships. She said that OPM plans to analyze human capital contracts that were poorly managed and use those lessons to improve the process.³⁹

OPM Has a Central Role in Assisting Agencies' Management of ASD

OPM has a central role in agencies' management of ASD by providing assistance and guidance in operating human capital programs. As the President's agent and adviser for human capital activities, OPM's overall goal is to aid federal agencies in adopting human resources management systems that improve their ability to build successful, high-performance organizations. The agency's five e-government initiatives are examples of this effort. In addition, several agencies used OPM's TMA program to help them manage their ASD efforts. The TMA contracting vehicle assists government agencies with training and human capital technical assistance projects. (See fig. 2 for more details.) OPM's TMA program may be appropriate when agencies have a need for (1) outside expertise to help

³⁸GAO-02-214.

³⁹Remarks by Kay Coles James, Director, U.S. Office of Personnel Management, Human Resource Outsourcing World Conference and Exposition, New York Hilton, July 30, 2003.

define human capital needs and frame requirements, (2) help doing something the agency has never done before, (3) short-term help to get a specific task accomplished because internal resources are not available, (4) long-term supplemental assistance to accomplish ongoing, mission-critical objectives and activities, and (5) plans to competitively source certain learning or human capital activities or functions. USITC, for example, used TMA to screen and qualify a select group of contractors to assist the agency in its workforce planning initiatives. The agency's Human Resources Director said TMA facilitated USITC's ability to appropriately identify a contractor that could work best in the agency's culture. She also noted that the TMA program assists smaller agencies in gaining clout with contractors because of the program's large volume of contracts.

Figure 2: Description of OPM's Training and Management Assistance Program

<p>Background:</p>	<p>The Training and Management Assistance (TMA) Program, a fee-based interagency contract service program, provides comprehensive, end-to-end service that agencies can use for their training and human capital needs.</p> 
<p>Products and Services: Agencies can receive customized and integrated services in areas such as knowledge management, training, compensation, and performance management.</p>	<p>Process: TMA project managers work with agencies on:</p> <ol style="list-style-type: none">1. developing statements of work,2. completing interagency agreements,3. selecting providers,4. attending project kick-off meetings,5. reviewing and approving management plans, and6. monitoring projects to completion.

Source: GAO representation of OPM information.

OPM also plays a role in assisting agencies' management of ASD through its authority to oversee management of human capital activities. The Director of OPM has called for more rigorous oversight of federal contracts used to acquire personnel management services for agencies and their employees.⁴⁰ In addition, to ensure professional oversight of contracts, OPM has

⁴⁰Remarks by Kay Coles James, Director, U.S. Office of Personnel Management, Human Resource Outsourcing World Conference and Exposition, New York Hilton, July 30, 2003.

instructed the Federal Executive Institute and the management development centers to begin to train and retrain a new cadre of program managers with the skills necessary to manage relationships and establish partnerships with their peers in the procurement industry. The CHCO Academy, created by OPM to educate chief human capital officers about human capital management issues, included outsourcing human resource services as one of its agenda topics.

While OPM has made efforts to help agencies with their human capital ASD initiatives, there are additional opportunities to assist the agencies in compiling, analyzing, and disseminating information on federal agencies' use of ASD for human capital activities. Several agency officials noted that having a clearinghouse of ASD information, such as posting information on ASD projects and providers, and more communication sharing in general would help them manage their ASD projects. They observed that joining other agencies with existing contracts can be an effective strategy and that communication among agencies about the reputation of ASD providers plays a role in their selection process. An NGA official noted that (1) partnering with other federal agencies could provide a venue to learn from each other versus developing individually and (2) agencies could learn more from each other's ASD accomplishments and mistakes. OMB, for example, is developing a competitive sourcing data-tracking system to facilitate the sharing of competitive sourcing information by allowing agencies to identify planned, ongoing, and completed competitions across the government. The agency plans to use the system to generate more consistent and accurate statistics, including those on costs and related savings.⁴¹ The importance of sharing information about human capital ASD efforts has recently gained attention as a few agencies have signed large contracts for human capital services. Legislation creating the CHCO Council also highlighted the importance of this activity by detailing that one of the responsibilities of the Council is to advise and coordinate agency activities for improving the quality of human resources information.⁴²

Conclusions

Recent studies looking at private sector organizations suggest that ASD use for human capital activities is being leveraged to achieve a variety of

⁴¹GAO-04-367.

⁴²Title XIII of Pub. L. No. 107-296, Nov. 25, 2002, Chief Human Capital Officers Act of 2002, codified at U.S.C. ch 14.

strategic and tactical objectives within human capital offices. The range of human capital activities and the reported objectives for the selected agencies' use of ASD indicated the same. Although more evaluation needs to be done, the agencies' use of ASD for activities such as strategic human capital management and workforce planning showed that ASD provides access to new skills, expertise, and technology that can facilitate implementation of new human capital initiatives. Likewise, freeing human capital staff from transactional and administrative tasks such as payroll administration and training delivery pointed to cost savings and an improved ability to focus on mission-critical activities.

Given its potential benefits, it appears that, similar to its use in the private sector, the use of ASD for human capital activities will increase among federal agencies. There currently is not, however, a widely shared body of knowledge about federal agencies' use of ASD for human capital activities. By sharing experiences and lessons learned, agencies may be able to tap into the benefits of using ASD while avoiding some of the problems. Although OPM's TMA program appears to help agencies manage their use of ASD, OPM could supply another necessary link to the agencies by providing comprehensive information about how to use ASD for human capital activities. The CHCO Council could be an excellent vehicle to assist in this area.

Recommendation for Executive Action

Given the need expressed by agency officials about the importance of sharing data and lessons learned concerning the use of ASD for human capital activities and consistent with OPM's ongoing efforts in this regard, we recommend that the Director of OPM take the following action:

- Work with the CHCO Council to create additional capability within OPM to research, compile, and analyze information on the effective and innovative use of ASD and strengthen its role as a clearinghouse for information about when, where, and how ASD is being used for human capital activities and how ASD can be used to help agency human capital offices meet their requirements. OPM should work with the CHCO Council to disseminate the type of spending data that human capital offices could use to leverage their buying power, reduce costs, and provide better management and oversight of their ASD providers. Such data would include the types of human capital services being acquired, which ASD providers are being used for specific services, how results are being measured, and how much is being spent on specific ASD activities.

Agency Comments and Our Evaluation

We provided a draft of this report to the Director of OPM, the Secretary of Agriculture, the Secretary of Defense, the Secretary of Energy, the Secretary of Homeland Security, the Secretary of the Interior, the Chairman of the International Trade Commission, and the Director of the Mint. We received written comments from OPM and the Department of the Interior, which are included in appendixes III and IV. OPM stated that the report contained a good model for looking at human capital ASD use and that the recommendation was consistent with the agency's concern for human capital contracting, for which OPM has the lead. OPM expressed concern, however, that we had not addressed the role of its human capital officers in helping agencies improve their human capital practices or how agencies ensure that their ASD providers comply with regulatory and statutory requirements. We did not assess the actions of the OPM human capital officers because their role did not surface in our interviews with agency officials about their use of ASD for human capital activities. Regarding the concern of ensuring functions provided through ASD meet appropriate federal regulatory and statutory requirements, we agree with OPM's concern and believe our recommendation can help address this important issue OPM raises. In addition, the Department of the Interior suggested that it would be helpful if GAO or OPM followed this report with a further study that would examine the quality and value of various ASD products and providers to allow for comparisons of similar services. We believe that our recommendation will also help address this concern. Based on comments from DOE that we received by e-mail, we clarified our definition of core activities. DOE also suggested an alternative way to group human capital activities. We believe that the framework is adequate for the discussion and summary for which it was intended. The Department of Defense, USCG, and USDA noted that they had no comments on the report. USITC and the Mint had several technical comments that we incorporated.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after its date. At that time, we will provide copies of this report to other interested congressional parties, the Director of OPM, and the federal agencies and offices discussed in this report. We will also make this report available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions about this report, please contact me or William Doherty on (202) 512-6806 or at mihmj@gao.gov or dohertyw@gao.gov. Other contributors are acknowledged in appendix V.

A handwritten signature in black ink that reads "J. Christopher Mihm". The signature is written in a cursive, flowing style.

J. Christopher Mihm
Managing Director, Strategic Issues

Objectives, Scope, and Methodology

The objectives of this report were to

- identify the human capital activities selected agencies are accomplishing through the use of alternative service delivery (ASD) options and the basis on which they decided to use it and
- describe how the use of ASD is being managed and the lessons learned by the selected agencies.

To address these objectives, we first synthesized information from a literature review including articles, studies, and reports on the use of ASD for human capital activities in both public and private sector organizations. We also gathered information from a variety of sources, such as our past work on agencies' contracting efforts and other reports on federal agencies' use of ASD, to characterize the ASD options currently being used by federal agencies to accomplish their human capital activities.

On the basis of this work, we identified a set of federal agencies varying in size and mission that were using ASD for at least some of their human capital activities. We consulted with human capital experts from George Washington University, the National Academy of Public Administration, and a private sector consultant for federal contract management to assess whether they thought particular agencies in this set would yield examples of ASD use for human capital activities. On the basis of their suggestions and our previous research, we focused on ASD practices in eight federal agencies: the Department of Energy (DOE), the Department of the Interior's U.S. Fish and Wildlife Service (FWS) and Minerals Management Service (MMS), the National Geospatial-Intelligence Agency (NGA), the U.S. Coast Guard (USCG), the U.S. Department of Agriculture's (USDA) headquarters, the U.S. International Trade Commission (USITC), and the U.S. Mint's headquarters. The agency selection process was not designed to produce findings that could be considered representative of the use of ASD for human capital activities in the federal government as a whole, but rather to provide illustrative examples of how the selected agencies were using ASD.

We conducted semistructured interviews with human capital officials from the selected agencies to gather information on (1) the human capital activities for which the agencies were using ASD, (2) the basis of their decisions, (3) how they were managing the use of ASD, and (4) the lessons they had learned. Some agencies provided documents such as final ASD projects, project plans, interagency service agreements, and contracts,

which we reviewed. We did not verify the agencies' cost savings estimates. After reviewing and analyzing the agencies' material and responses to our interview questions, we developed a framework for organizing and discussing their use of ASD for human capital activities. (See fig. 1.) As shown in our framework, the activities are grouped into three overlapping tiers based on whether the activity had more of a technical or a strategic focus. We then identified the primary drivers and the primary ASD options used for each tier. Our work was conducted from August 2003 through February 2004 in accordance with generally accepted government auditing standards.

Examples of Alternative Service Delivery Options Available to Federal Agencies for Accomplishing Human Capital Activities

Federal agencies have a variety of types of ASD options available to help them accomplish their human capital activities. The options include mechanisms that provide reimbursable services from one agency to another and contracting with the private sector. Agencies also provide reimbursable services that help other agencies gain access to private sector contracts. The options listed below are some examples of ASD mechanisms used by federal agencies to accomplish their human capital activities.

Intragovernmental Revolving Fund Services

Intragovernmental revolving (IR) funds provide common support services required by many federal agencies. An IR fund conducts continuing cycles of businesslike activity within and between government agencies. It charges for the sale of products or services and uses the collections to finance its operations, usually without a requirement for annual appropriations. Each IR fund is established by law. Generally, the specific legal authorities creating IR funds authorize these funds to enter into intragovernmental transactions and provide flexibility by allowing the client agency's fiscal year funds to remain obligated, even after the end of the fiscal year, to pay for the goods or services when delivered.

One businesslike entity providing human capital services is the U.S. Department of Agriculture's National Finance Center (NFC) in New Orleans. NFC provides a variety of other federal agencies with automated information systems services for personnel, payroll, and voucher and invoice payment systems and services.

Franchise Fund Services

The Government Management Reform Act of 1994 authorized the Office of Management and Budget (OMB) to designate six franchise fund pilots to provide common administrative services on a fully reimbursable basis. Franchise funds are a type of intragovernmental revolving fund that were created to be fully self-supporting competitive businesslike entities within the federal government. The franchise fund pilots are located in the Departments of Commerce, Health and Human Services, the Interior, the Treasury, Veterans Affairs, and at the Environmental Protection Agency. The six pilots provide a variety of common services, such as acquisition management, financial management services, and employee assistance programs. The legal authorities creating the franchise funds are similar to those of other IR funds. However, most of the franchise funds have the specific authority to carry over into the next fiscal year up to 4 percent of

the annual income of the fund for capital equipment and financial management improvements. Most other IR funds do not have this authority.

The Treasury franchise fund service, for example, contains multiple business units operating under the brand name FedSource. FedSource offers various human capital services such as recruitment, employee assistance, position classification, and alternative dispute resolution through contracts with multiple vendors experienced in providing human capital services in the federal sector.

Cooperative Administrative Support Unit Services

Cooperative administrative support units (CASU) have provided services since 1986 and most operate under the authority of the Economy Act of 1932 as amended. CASUs are entrepreneurial organizations that provide the full range of support services on a reimbursable basis to federal agencies. Federal agencies in a local community identify services that they would like to share under the leadership of one or more host agencies. The host agency is reimbursed for all costs incurred in providing the services to customer agencies. Several CASUs provide services in conjunction with a franchise fund and operate under the authority of the franchise fund, which allows them to make use of provisions more expansive than those of the Economy Act, including permitting the customer agency's fiscal year funds to remain obligated to pay for services when delivered, even after the end of the fiscal year.

The Southeast Regional CASU (SER-CASU) is an example of a chartered unit within the National CASU Network. SER-CASU offers human capital services, such as employee assistance program support and training services.

Interagency Contract Service Programs

Federal agencies also use fee-for-service interagency contract service programs. The programs are being used in a wide variety of situations, from those in which a single agency provides limited contracting assistance to an all-inclusive approach in which the provider agency's contracting office handles all aspects of the procurement. The increased use of interagency contract service programs has come about as a result of reforms and legislation passed in the 1990s, which allowed agencies to streamline the acquisition process, operate more like businesses, and offer increasing types of services to other agencies.

Appendix II
Examples of Alternative Service Delivery
Options Available to Federal Agencies for
Accomplishing Human Capital Activities

The Office of Personnel Management's Training and Management Assistance (TMA) program is an example of an interagency contract service program. The TMA program operates under the IR fund established by 5 U.S.C. § 1304(e). It is an expedited contracting process for federal agencies seeking human capital management and development in areas such as knowledge management, training, and workforce planning. For a fee, clients access project managers, technology, and prequalified contractors with the intended result of time and cost savings compared to the agency undertaking its own procurement actions.

Contracting for Services

Contracting can be defined as the hiring of private sector firms or nonprofit organizations to provide a good or service for the government. In contrast to the use of IR funds, CASUs, and interagency contract service programs, the agency uses its own contracting authority to enter into a contract with a company and manages the contract.

For example, the Department of Homeland Security has awarded a contract to a company to help design a human capital strategic plan, which would assist the department in aligning its human capital requirements with its mission needs.

Partnerships

Partnerships can be defined as voluntary alliances with other organizations. They do not necessarily involve the exchange of funds. For example, the Census Bureau's Partnership and Data Services program continues and expands upon more than 140,000 organizational partnerships established during Census 2000. During the census, the Bureau relied on its extensive network of partners at the national, state, and local levels to help recruit employees for more than half a million temporary jobs.

Comments from the Office of Personnel Management



OFFICE OF THE DIRECTOR

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1000

JUN 09 2004

Mr. J. Christopher Mihm
Managing Director, Strategic Issues
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Mihm:

Thank you for providing the Office of Personnel Management (OPM) the opportunity to review and respond to your proposed report entitled Human Capital: Selected Agencies' Use of Alternative Service Delivery (ASD) Options for Human Capital Activities (GAO-04-679).

The report contains a good model for looking at three tiers of what GAO calls "Human Capital Activities," though the activities span the continuum from basic human resources management systems to strategic human capital planning. The descriptions and analyses of "Tier I, II, and III" are useful in imparting some order to the wide array of ASD arrangements that exist among Federal agencies.

The report recommends OPM work with the Chief Human Capital Officers Council to research, compile, and analyze information on ASD use in Government and strengthen its role as a clearinghouse for information about how ASD can best be used to assist agencies in leveraging buying power, reducing costs, and obtaining the highest returns on investments. This recommendation is consistent with my concern for the contracting workforce overseeing human resources/human capital contracts for which OPM has the lead. Additionally, OPM will continue to demonstrate our strong leadership role in setting policy and standards, and in providing guidance to agencies. A major outcome of this leadership role would be the identification of "best-in-class" providers for human capital activities and the identification of accepted industry-wide standards for such activities.

We are concerned, however, that the report does not reflect the ongoing efforts of our Human Capital Officers (HCO) to help agencies improve their Human Capital practices, regardless of the level of ASD involvement. Our HCOs work closely with agencies and expect their agencies to keep them fully informed as to their efforts in planning for ASD options. Additionally, the report does not address how agencies ensure that their ASD providers comply with regulatory requirements. In other words, while agencies may obtain the services through a variety of sources, agencies remain accountable for ensuring compliance with regulatory and statutory requirements, such as veterans' preference, merit system principles and prohibited personnel practices.

CON 131-64-4
September 2001

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

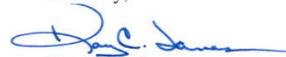
Mr. J. Christopher Mihm

2

As agencies consider outsourcing their HC programs, OPM is developing guidance to ensure non-Government entities perform these functions in ways that are accountable and transparent on behalf of the Government.

We appreciate this opportunity to respond to you in this matter. If you need further information, you may contact Marta Brito Pérez, Associate Director for OPM's Human Capital Leadership and Merit System Accountability Division by phone at 202-606-1575, or email at marta.perez@opm.gov.

Sincerely,



Kay Coles James
Director

Comments from the Department of the Interior



United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY
POLICY, MANAGEMENT AND BUDGET
Washington, DC 20240



JUN - 7 2004

Mr. Bill Doherty
Assistant Director, Strategic Issues
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

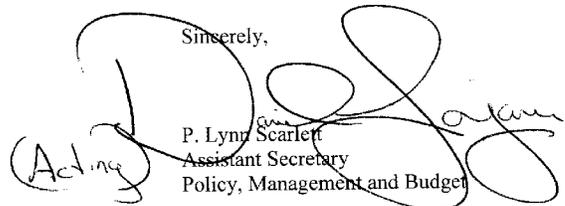
Dear Mr. Doherty:

We appreciate having the opportunity to review the Draft Report entitled, "Human Capital: Selected Agencies' Use of Alternative Service Delivery Options for Human Capital Activities" (GAO-04-679). Our general comments to the draft report are as follows:

We believe it would be helpful if the General Accounting Office or the Office of Personnel Management would follow up with a further study that examines the quality and value of various Alternative Service Delivery (ASD) products and providers. As the report mentions, the subject agencies are paying widely differing amounts for the same services; for example, use of expertise and use of technology. Also, the report mentions the quality of the services received varies greatly. At present, there is no mechanism that allows for an easy objective comparison of providers for like services.

Again, thank you for providing the opportunity to review and comment on this report. If you have any questions, please call Ms. Angela Herring, Minerals Management Service's Audit Liaison Officer, at (202) 208-3976.

Sincerely,

(Acting)

P. Lynn Scarlet
Assistant Secretary
Policy, Management and Budget

GAO Contacts and Staff Acknowledgments

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William J. Doherty, (202) 512-6806 or dohertyw@gao.gov

Acknowledgments

Judith Kordahl and Caroline Villanueva also made key contributions to this report.

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