



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

DEPUTY DIRECTOR
FOR MANAGEMENT

May 18, 2007

MEMORANDUM FOR THE PRESIDENT'S MANAGEMENT COUNCIL

FROM: Clay Johnson III 
Deputy Director for Management

SUBJECT: Competition Framework for Human Resources Management Line of
Business Migrations

The attached memorandum provides guidance to agencies planning to upgrade or replace their agency's human resources (HR) management systems. The guidance builds on the existing OMB policy from FY2004, assisting agencies as they move to a Shared Service Center (SSC). It is a consensus recommendation from the Human Resources Line of Business task force, comprised of representative from your agencies and led by the Office of Personnel Management (OPM).

The policy ensures agencies receive the benefits from competition among all qualified parties. In addition, the policy reiterates that agencies should no longer invest development, modernization or enhancement (DME) funding into their internal HR management systems. The memorandum includes an attachment establishing a framework for the competitive selection of either a public or private SSC. This framework supports the task force's recommendation that when a current system reaches the end of its lifecycle the agency should transition or "migrate" to a SSC. This policy is intended to facilitate, not delay, agency migration efforts. The competitive selection of HR management systems offers an opportunity both to improve the cost, quality, and performance of shared services and to strengthen the federal workforce.

Should you have any questions with this policy, please contact Karen Evans, Administrator, E-Gov and Information Technology, at 202.395.1181.



May 21, 2007

MEMORANDUM FOR CHIEF HUMAN CAPITAL OFFICERS
CHIEF INFORMATION OFFICERS
CHIEF ACQUISITION OFFICERS
CHIEF FINANCIAL OFFICERS

FROM: LINDA M. SPRINGER 
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CLAY JOHNSON, III 
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OFFICE OF MANAGEMENT AND BUDGET

SUBJECT: Competition Framework for Human Resources Management
Line of Business Migrations

This memorandum provides guidance to agencies planning to upgrade or replace their agency's human resources (HR) management systems. The memorandum discusses the process agencies should use to select providers for these systems and associated commercial support services.

In 2004, the Office of Management and Budget (OMB) launched an inter-agency task force to set direction for the Human Resources Line of Business (HR LOB). The task force concluded that agencies should no longer invest in their own HR management systems. Instead, when a current system reaches the end of its lifecycle, the agency should transition or "migrate" to a Shared Service Center (SSC) that can meet the agency's needs with better service and lower risk.

OMB's policy is that, with limited exception, an agency seeking to upgrade to the next major release of its current HR management system or modernize to a different HR management system must migrate to a public or private sector SSC. OMB and the Office of Personnel Management (OPM) have designated five Federal agencies as public sector SSCs to host an HR system and offer associated HR support services for multiple customers. In addition, the General Services Administration (GSA), in close consultation with OPM and OMB, is expanding offerings on its HR schedule under its Multiple Award Schedules (MAS) Program to facilitate the consideration of contractors who qualify as private sector SSCs.

This guidance establishes a framework for the competitive selection of either a public or private SSC. The guidance is designed to ensure agencies preparing to modernize HR systems: (1) consider both public and private SSCs with a demonstrated capability, (2) conduct competition between SSCs in an impartial, structured, and transparent manner, and (3) hold the selected SSC accountable for results through an appropriate implementation structure.

OMB and OPM expect that the attached guidance will be used for migrations focusing on hosting, application management and other services that would not result in the migration of work performed by more than 10 full-time employee equivalents (FTEs). If an agency wishes to pursue a migration involving more than 10 FTEs, the agency shall consult with OMB.

It is OMB's intent to avoid costly and redundant investments in "in-house" solutions for common support services so that shared service operations may achieve their full potential and anticipated returns. A non-SSC agency may upgrade or replace its own HR management system only if the agency demonstrates that investment in a system limited to the agency's own use and associated support represents a better value and lower risk alternative than migration to an SSC.

There must also be a justification for using a limited form of competition, such as public-public competition. The justification shall be documented in the same general manner prescribed in Part 6 of the Federal Acquisition Regulation for the use of other than full and open competition. The forthcoming HR LOB Migration Planning Guidance will contain a template agencies may wish to use in developing this justification.

This policy is intended to facilitate, not delay, agency migration efforts. Nothing in this memorandum changes the expectation that agencies will continue to take all the necessary steps, in the earliest possible timeframes, to meet HR LOB objectives. OMB will work with agencies as revisions are made to the competition framework to determine how such revisions should be handled with respect to an ongoing migration.

This competition framework, and any supplements to the framework, will be incorporated into the HR LOB Migration Planning Guidance. The HR LOB guidance is designed to help agencies describe, prepare for, and manage migrations.

The competitive selection of HR management systems offers an opportunity both to improve the cost, quality, and performance of shared services and to strengthen the federal workforce. We appreciate your careful attention to this memorandum and look forward to working with you to achieve success on this important results-based initiative.

Human Resources Management Lines of Business Migration Guidelines

The Office of Management and Budget (OMB) and the Office of Personnel Management (OPM) have developed this guidance for agencies that are planning to migrate their agency's human resources (HR) management systems and services involving commercial activities. This guidance establishes a framework for the competitive migration of these needs to either a public or private (commercial) Shared Services Center (SSC) under the Human Resources Management Line of Business (HRLOB) initiative. Agencies acquiring new HR management systems shall comply with the guiding principles outlined below.

OMB plans to supplement this framework through related HRLOB projects undertaken to increase transparency and standardization of HR management business processes. Agencies shall consult with OMB and the HRLOB prior to initiating planning for an HRLOB migration.

Guiding Principles

1. Consideration of providers with a demonstrated capability.

- a. Migration shall result in the selection of an approved public or private sector SSC with a demonstrated ability to leverage technology, expertise and other resources to achieve best value for the taxpayer.
- b. Except as provided in subsection 1d., below, the customer agency's consideration of federal service providers shall be limited to those that have been designated by OMB and OPM as an SSC. As of January 1, 2007, the following organizations have been selected as SSCs for HR management:
 - i. National Business Center, Department of the Interior;
 - ii. National Finance Center, Department of Agriculture;
 - iii. HR Connect, Department of the Treasury;
 - iv. Civilian Personnel Management System, Department of Defense; and
 - v. Program Service Center, Department of Health and Human Services.

Agencies should consult with the HRLOB Program Management Office or OMB regarding any new SSC designations or changes in current SSC designations.

- c. The General Services Administration (GSA) is establishing new special item numbers for Schedule 738 (Schedule 738 Part X) under its Multiple Award Schedules (MAS) Program to facilitate agency consideration of HR solutions offered by private sector SSCs. When conducting migrations through public-private competition or private-private competition (if authorized), agencies are strongly encouraged to obtain private sector proposals using this schedule. Each of the schedule contract holders awarded has been determined by the HRLOB to be a qualified provider. Agencies shall consult with OMB if they intend to obtain

- private sector proposals other than through Schedule 738 Part X.
- d. A non-SSC agency may upgrade or replace its own HR management system only if the agency demonstrates to OMB that investment in a system limited to the agency's own use and associated support represents a better value and lower risk alternative than migration to an SSC.

2. Use of a competitive process.

OMB strongly favors competitive migrations through public-private competition. Public-private competition facilitates informed decision-making by customer agencies through the comparison of various solutions offered by SSCs and private sector providers. As described below, OMB and OPM anticipate public-private competitions between public SSCs and private SSCs on GSA's Schedule 738 Part X using the simplified procedures described in subsection a. For exceptions, see subsection b.

a. Migrations through public-private competitions.

The process described below is intended to facilitate simplified public-private competitions. This process is authorized only for hosting or other HRLOB activities that are supported by 10 or fewer FTEs in the customer agency. For migrations that may involve activities performed by more than 10 FTEs in the customer agency, agencies shall consult with OMB.

Customer agencies shall conduct public-private competitions that adhere to the following requirements.¹

- i. *Notice of intent to conduct a competitive migration.* Agencies shall publish a notice in FedBizOpps of their intent to conduct a public-private competition for HR management shared services.
- ii. *Single solicitation to both sectors.* Agencies shall issue a solicitation inviting offers from at least three public SSCs and at least three private SSCs on Schedule 738.X. The HRLOB Migration Planning Document contains a brief narrative description of each public SSC's offerings and a capability matrix linked to each SSC's self-evaluation against target requirements. Similar information will be provided on private SSCs on Schedule 738.X. Agencies shall consider this information in determining which SSCs should receive the solicitation. The solicitation shall:
 - A. identify the requirements for preparing offers, including any special

¹ This memorandum constitutes a deviation from Circular A-76 for migrations involving the transition of activities performed by 10 or fewer FTEs. An agency may, but is not required to, follow Circular A-76 for these migrations. However, if the agency wishes to include the in-house provider in the competition, the agency shall confer with OMB regarding the application of the Circular.

instructions (see subsection vi., below, for special instructions applicable to offers from public SSCs); and

B. describes the agency's basis for evaluating offers.

- iii. *Performance-based statement of work.* Agencies shall develop a performance-based statement of work giving potential providers sufficient latitude to offer the best and most innovative solutions to meet the agency's needs.
- iv. *Price/cost reasonableness.* Agencies shall ensure services are obtained at a fair and reasonable price/cost. Agencies shall require public SSCs to identify the full cost of performance to the government. Proposals from public SSCs must include sufficient detail to allow customers to understand the basis for proposed costs and evaluate price reasonableness.
- v. *Impartial evaluation of offers.* Agencies shall evaluate offers from public and private SSCs in accordance with the same set of criteria, a single evaluation panel, and a single selection authority. The source selection process should be transparent and ensure federal service provider and private sector offers are considered on a level playing field.
- vi. *Use of FAR policies and procedures.* Agencies shall generally use the policies and procedures of the FAR to guide their competitive migrations. For example:
 - Generally, use the procedures in FAR Part 8.4 related to the use of the MAS.
 - Offer debriefings to public and private SSCs in accordance with FAR 15.506.
 - Allow protests to the agency using the framework provided in FAR Subpart 33.103.

Certain FAR requirements are not applicable to public SSCs. For example, a public SSC is not required to include: (a) a labor strike plan, (b) licensing or other certifications, (c) a subcontracting plan, and (d) participation of small disadvantage businesses. Solicitations shall contain a special instruction to identify the FAR provisions that are not applicable to federal service providers.

Note: The solicitation shall make clear that if a public SSC is proposing to subcontract work to the private sector, the federal service provider must provide maximum practical opportunities for small businesses to participate in such subcontracting. In addition, requirements related to a labor strike

plan, licensing and other certifications may apply to work that is subcontracted.

b. Exceptions.

Agencies that wish to conduct a non-competitive migration or a migration based on private-private competition (if authorized) or public-public competition shall prepare a full justification, generally including the type of information called for by section 6.303-2 of the FAR. The justification shall be approved by the agency's Chief Human Capital Officer, Chief Information Officer, Chief Financial Officer, and Chief Acquisition Officer. Agencies may wish to refer to the template in the Migration Planning Guidance when developing this justification. Agencies shall confer with OMB prior to proceeding with a migration through other than a public-private competition. Direct conversions are not anticipated and are not authorized by this guidance absent appropriate justification approved in accordance with this paragraph and by OMB.

In the limited circumstances where a public-public competition is justified in accordance with this subsection, agencies shall describe to OMB the processes that will be used to evaluate potential providers. As a general matter, these processes should require (i) issuance of a performance-based statement of work, (ii) submission of offers that identify the full cost of performance to the government, and (iii) impartial evaluation of offers. Processes should also take maximum practicable advantage of the policies and procedures in the FAR.

3. **Implementation of an accountability structure.**

Irrespective of the source selected, the provider must be held accountable for achieving results and the customer agency must take appropriate steps to ensure good stewardship of taxpayer dollars. Accordingly:

- a. If the customer agency selects a private SSC, the customer must administer the contract in accordance with the FAR. In particular, the customer must: (i) have a quality assurance surveillance plan (QASP) and a team in place to implement the plan and (ii) evaluate the SSC's performance on an ongoing basis for consideration in future competitions for federal work.
- b. If the customer agency selects a public SSC, the customer and service provider will enter into an inter-agency agreement clearly identifying the workload, performance levels, the method of quality surveillance, and the cost for performance. A team must be in place to implement the QASP and the agency must also be prepared to evaluate the public SSC's performance on an ongoing basis for consideration in future competitions.

- c. Contracts and agreements will include performance metrics so that performance of core functions and other value added services can be periodically evaluated and adjustments made where necessary, including consideration of a new public or private SSC over the longer term if service is not satisfactory.
- d. Agencies shall incorporate appropriate performance periods into their agreements with public SSCs and contracts with private SSCs, considering the nature and risk associated with the service to be provided.
- e. Performance standards will include specific exit criteria whereby the customer agency may leave the agreement when there is a failure to perform.
- f. Agencies shall ensure inter-agency agreements with SSCs satisfy the requirements of the Economy Act, 31 U.S.C. 1535, or other authorities, as applicable.

4. Tracking results.

Customer agencies shall monitor performance, regardless of the selected service provider, for all performance periods stated in the solicitation. Performance measurement and reporting shall be consistent with OMB and FAR guidance on earned value management. See OMB Memorandum M-05-23, *Improving Information Technology (IT) Project Planning and Execution*; the *Capital Programming Guide* (supplement to OMB Circular A-11, Part 7); and FAR Subpart 34.2, *Earned Value Management Systems*.