

The Provider of Choice for Quality and Value in Shared Services

Business Plan

The Road to Tomorrow

2004



U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
Office of the Assistant Secretary for Administration and Management

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1.0 Executive Summary

1.1 Mission

To provide a full range of program support services to all components of HHS and other Federal Agencies, primarily in the areas of Human Resources, Health Resources, Acquisition Services, Administrative Services, and Financial Management.

1.2 Vision

The PSC strives to be a customer-driven organization that will earn us a service-delivery reputation that is second to none.

1.3 Keys to Success

The PSC's guiding principles are an integral aspect of our strategy for the future and are key to successfully providing quality products and services as we strive for satisfied customers served by a committed workforce:

Customer Service

We are committed to building partnerships with our customers that will enable us to deliver quality products and excellent service and to meet their evolving program support needs.

Workforce Excellence

We are committed to developing a workforce composed of talented employees who have the proper tools, clear organizational vision, training, and incentives to foster a commitment that guarantees outstanding product and service quality.

Cost Management

We are committed to ensuring the "price is right" by operating a "fee-for-service" business based on cost control, cost transparency, good governance, leading practices, economies of scale, and market-driven prices.

(Continued)

Keys to Success (Continued)***Business Strategy and Innovation***

We are committed to exploring new ideas and delivery methods through collaboration with our customers, ongoing continuous process improvement, and reengineering.

Communication

We are committed to engaging in ongoing dialogue with our customers, seeking honest feedback and constructive criticism to enable us to improve our product and service quality and reduce costs.

2.0 Organizational Summary

2.1 Legislative Basis

The formation of the PSC was a direct result of the Reinventing Government (REGO) II Initiative, which reviewed the organization, financing, and governance of the Department's common-use administrative services. The REGO II analysis determined that the most efficient and effective method of organizing the Department's administrative and logistical service providers should be a single organization dedicated to the provision of cost-effective, responsive, and qualitative services. Thus, the PSC was created to streamline the provision and minimize duplication of traditional administrative support services.

The activities and services of the PSC are supported through the HHS Service and Supply Fund (SSF), a working capital, or revolving fund, whose authority was established by 42 U.S.C. 231. The fund provides consolidated financing and accounting for business-type operations involved in providing common services and commodities to customers. The SSF is a funding mechanism, whereby PSC receives budget authority to earn revenue for services rendered.

The Fund is governed by a Board of Directors, who approve the PSC's annual rate structure for each product/service line. The Board is chaired by the Deputy Secretary, with the Assistant Secretary for Budget, Technology, and Finance serving as Vice-Chair. The Board includes representatives from each HHS Operating Division, the PSC Service Directors, and the Inspector General, ex officio.

2.2 Organization History

The Program Support Center was created in 1995 to provide a wide range of administrative support within the Department of Health and Human Services, allowing the Department Operating Divisions to concentrate on their core functional and operational objectives. As the first true shared service enterprise at HHS, the PSC provides products and services on a competitive, "fee-for-service" basis to customers throughout HHS, as well as to approximately thirteen other Executive Departments and eighteen independent Federal agencies.

Designed to reduce Government spending and duplication of efforts in the realm of administrative support services, the PSC is able to capitalize on its operational expertise to realize significant savings whether through partnering, standardization, streamlining, prudent acquisition strategies, reorganization, economies of scale, or consolidation and an overall sound business approach to the delivery of products and services.

Over the past eight years the PSC has added and eliminated products and services in order to address customer needs. In addition, market pressures and opportunities have helped drive the creation or cessation of various services. For the past two years the PSC has undergone an intensive period of workplace modernization, marked by in-depth analysis of product offerings, reengineering of work processes, changes in business management practices, and staff restructuring, resulting in a more efficient and focused organization. Today the PSC offers more than fifty products and services to government entities across the nation.

2.3 Locations and Facilities

The PSC headquarters is located in Rockville, MD, with support staff located in Washington, DC, Silver Spring, MD, Perryville, MD, and Bethesda, MD. Additionally, the Federal Occupational Health Service is located nationwide with 10 area office locations. In addition, the Finance Division of Cost Allocation has satellite offices in New York, NY, Dallas, TX, and San Francisco, CA. PSC is also the host Agency for the Kansas City CASU, and finally, AOS provides contracted regional support in the following cities:

Atlanta, GA

Dallas, TX

New York, NY

Seattle, WA

Boston, MA

Denver, CO

Philadelphia, PA

Chicago, IL

Kansas City, MO

San Francisco, CA

3.0 Products and Services

3.1 Service Areas

The Program Support Center provides a centralized approach to administrative services and products for the customers, allowing them to focus on their core missions. This array of services has been grouped into five delivery organizations—Human Resources, Financial Management, Administrative Operations, Health Resources, and Strategic Acquisition Services.

Human Resources

The Human Resources Service (HRS) provides an extensive array of personnel systems administration and management, training, and payroll services to the Department of Health and Human Services. The mission of HRS is to provide high-quality human resource services at competitive prices to a multi-customer base of HHS components and other Federal agencies. These services include automated personnel and payroll systems support, equal employment opportunity, and workforce development. In addition, HRS provides compensation and medical benefits to active duty and retired Commissioned Corps officers. HRS manages the Department's payroll operations, providing pay services to all HHS employees, serving more than 63,000 employees every pay period. In addition, HRS manages the HHS University, which provides opportunities for skill development and common needs training across the Department.

Financial Management

The Financial Management Service (FMS) serves as a major part of the foundation of the Department's finance and accounting operations through the provision of payment management services, accounting and fiscal services, debt and travel management services, and rate review, negotiation, and approvals for departmental and other Federal grant and program activities to HHS and other Federal Departments. Fiscal advice and technical and policy guidance are also available to assist in implementing new initiatives toward assuring compliance with regulatory requirements.

Administrative Operations

The Administrative Operations Service (AOS) provides a wide range of administrative and technical services to customers within the Department and other Federal agencies. The major service areas include: real property management, which includes facilities management,

leasing and disposition of surplus Federal property; personal property management including state-of-the-art warehousing and inventory control; technical support and communications management which includes telecommunications, visual communications, printing and publications, reprographics, conference room/training facilities, and mail and messenger services; and management of regional contracts for administrative support to HHS customers outside the Washington area. In FY 2004 AOS will also oversee the business functions of the PSC, to include cost/pricing guidance, centralized Service Level Agreements, competitive sourcing, and the agency performance management. AOS will also take on the management of the Freedom of Information Act and Records Management Office.

Health Resources

The Federal Occupational Health Service (FOHS) provides comprehensive, high-quality, customer-focused occupational health services in strategic partnership with Federal agencies and organizations nationwide to improve the health, safety, and productivity of the Federal workforce. Services include health and wellness programs, employee assistance, work/life, and environmental health and safety services.

Strategic Acquisition Services

The Strategic Acquisition Service (SAS) is responsible for providing leadership, policy, guidance, and supervision to the procurement operations of the Program Support Center and improving procurement operations within HHS. The SAS Division of Strategic Sourcing investigates innovative government and industry procurement practices and brings these innovations into strategic planning, design, and implementation. The Division of Acquisition Management provides direct acquisition services to HHS and other federal and non-federal customers. The Supply Service Center supports HHS health facilities and other organizations worldwide by providing pharmaceutical, medical, and dental supplies to federal agencies and other related customers. SAS is part of the PSC effort to accomplish a part of the Secretary's "One Department" initiative by consolidating procurement operations in HHS through activities such as the elimination of duplicative contracts within HHS, by leveraging HHS' purchasing power through the use of consolidated contracts, and by fostering the implementation of new procurement practices designed to provide higher quality procurement services at reduced cost.

3.2 Future Product and Service Enhancements

In FY 2004 the Program Support Center will continue to work with Department leadership to implement the President's Management Agenda, the Secretary's "One Department" initiative, and the goals of the Assistant Secretary for Administration and Management. This will be done in concert with individual goals of the PSC, which include:

- ❖ Develop a Marketing Strategy that focuses on core PSC strengths and viable markets and on expanding those core services in areas where the PSC is clearly the leader.

- ❖ Identify areas where the PSC can offer further strengths for Departmental consolidation such as the Acquisition initiative.
- ❖ Support contract awards to small and/or disadvantaged businesses.
- ❖ Reduce costs through implementation of best business practices.

The PSC is constantly looking for ways to improve our product and service offerings. To that end, we plan to implement the following product and service enhancements during 2004.

HHS University

HHS University has been established within HRS to consolidate common training presently being offered throughout the Department. The purpose of this consolidation is to obtain efficiencies and improve the effectiveness of training being provided to the Department's employees while reducing costs, achieving economies of scale, and eliminating redundancies.

HHS University serves as the entryway to open enrollment training and e-learning opportunities. The mission of HHS University is to provide consistent and equitable learning opportunities for all employees, through consolidation of common services, while leveraging innovation in information technology to achieve a management-driven learning organization.

Asset Management

The Asset Management business line in AOS has developed a three-phase plan for modernizing the asset management process. The first phase, already completed, ties asset management software into the Division of Acquisition Management's procurement software. Records for those items qualified for asset management tracking are automatically generated in the asset management system, as a result of an electronic data file transfer from procurement. With the automatic transfer of data, errors are virtually eliminated and the multiple keystrokes required to enter redundant data are no longer required.

The second step, very close to activation, is an electronic interface into financial management software. This file transfer, when complete, will enable financial records, changed as a result of property management actions, to be updated automatically, eliminating a wide opportunity for critical mistakes.

The third phase of this initiative will require the development of an electronic HHS property disposal form that is tied to the asset management system. When an office disposes of surplus or excess equipment, the Asset Center Representative for that office will only need to enter the bar code of the item being disposed; every other field will be populated electronically. The user will then enter the recommended disposition for the piece of equipment. All records will be updated electronically, the pick-up for the material will be scheduled, and an email indicating receipt will be sent to the property holder—all electronically.

This “cradle to grave” approach to property management will eliminate many hours of entering redundant data by transferring the data from one file to the next, reduce the time to reconcile records, and will result in customers having to invest less of their time in this highly documented system. We believe this will add value to our customers’ operations while concurrently adding value to the PSC.

One-Stop Shop

In FY 2003 the AOS Division of Property Management established a One-Stop Shop service as the single point for developing space designs, coordinating renovations and moves, assisting with set-up of phones and computers, and supporting the acquisition of furniture and carpet. Initially, this service was rolled out within the PSC while the processes and procedures were refined and areas for improvement were determined. Moving into FY 2004, these services will be expanded to include all customers making the process for moving into a new space less labor intensive for them. The One-Stop Shop will assume responsibility for coordinating all aspects of the move.

In addition, the focus of the One-Stop Shop has been on smaller, less complicated jobs. However, the service is looking to take on more significant, large-scale projects in the next year. For example, the One-Stop Shop hopes to attract business related to consolidation efforts, such as the HR Service Centers, as they prepare to relocate to centralized spaces.

Strategic Sourcing

As part of the Department’s efforts to reduce operational costs and drive efficiencies across all OPDIVs and STAFFDIVs, the SAS’ Strategic Sourcing Group is conducting a Strategic Sourcing “Center of Excellence” pilot project for the purchase of office supplies. The purpose of this pilot is to leverage the purchasing power of HHS and reduce the purchase costs associated with office supplies.

After an in-depth analysis, the Strategic Sourcing Group has established Blanket Purchase Agreements (BPAs) with Corporate Express and Office Depot for the purchase of office supplies. These competitive contracts will provide an average savings of 21% to 27% over current HHS office supplies purchasing vehicles, including GSA schedule. In addition, each vendor has developed a website that can be used for the purchase of office supplies online. The contract websites will be available for HHS use beginning November 13, 2003, and the pilot is expected to last through March 2004. All HHS Purchase Card Holders and anyone who uses a Purchase Order (PO) are encouraged to utilize these contracts for their office supplies purchases. If the pilot is a success, strategic sourcing deals will be negotiated for other supplies and equipment needed by the Department.

Telecommunications

The Telecommunications Improvement Project (TIP) Steering Committee tasked a subcommittee composed of customer representatives from NIH, FDA, HRSA, SAMHSA, and PSC to fully review the GSA WITS2001 telecommunications contract for requirements and cost. The Subcommittee spent many hours meeting with GSA and current WITS customers (including the Department of Defense) as part of the information-gathering, review, and analysis process. In addition, Mitretek Systems performed a comparative analysis (technical, management, programmatic, and cost) of TIP and WITS2001 at the request of the Steering Committee. Mitretek concluded that the WITS2001 contract could meet HHS requirements and cost with the successful negotiation of several items.

In December 2002 the subcommittee presented its findings to the full TIP Steering Committee and recommended joining the WITS2001 contract. A number of factors contributed to the recommendation, the most significant being budget. It was estimated that by moving to WITS2001, a cost avoidance of \$5.5 million (cost of recompeting the contract and a new telecommunications management system) would be achieved.

The TIP Steering Committee members voted unanimously to accept the recommendation and move to the WITS2001 contract. Several months of intense negotiations between GSA and the TIP Project Office followed. Key negotiated items included:

- ❖ Grandfather existing lines and features at no cost for those lines fundamental to the HHS Host or Optical Remote Module (ORM).
- ❖ Eliminate installation charges for those lines fundamental to the HHS Host or ORM.
- ❖ Minimal transition costs; only for special customized items.
- ❖ Dedicated service technicians would operate as they do currently to enable the TIP community to maintain its level of service.
- ❖ A reduction of \$2 per line from the advertised WITS prices.
- ❖ TIP Customers would retain their current voice mail system, minimizing disruption to the end users and saving current customers over \$43,000 monthly.

A memorandum of agreement was signed by PSC and GSA in March 2003. The actual move to the WITS2001 contract and services occurred December 1, 2003.

Supply Service Center

In FY 2004 the SAS' Supply Service Center (SSC) is providing medical supply support to our nation's warfighter during a critical period of our nation's history, combating terrorism and supporting the war effort. This support is being provided through Memoranda of

Understanding with the U.S. Army Medical Materiel Agency (USAMMA) and the Naval Medical Logistics Command (NAVMEDLOGCOM) in Fort Detrick, MD, and the Naval Fleet Hospital Support Office in Williamsburg, VA. Projects include the Army's Combat Support Hospital Program, the Army Surgeon General's Medical Nuclear, Biological, and Chemical (NBC) Defense Materiel Program, and their Medical Assemblage Program. In addition, SSC is procuring the pharmaceutical and medical supplies needed to build the revised Fleet Hospitals that each contain four stand-alone modules for NAVMEDLOGCOM and the Fleet Hospital Program.

SSC's customers in the State Department, Peace Corps, Department of Homeland Security's Office of Emergency Response, Metropolitan Medical Response Systems, and Office of Foreign Disaster Assistance are also being supported with customized medical, dental, and diagnostic kits as well as pharmaceutical and medical supplies that are being pre-positioned in the event of a chemical or biological weapons of mass destruction event. These products and kits are distributed to Embassies and Peace Corps posts in over 60 countries in addition to Combat and Medic Units, the National Guard, and Emergency Relief and Response Programs.

This fiscal year SSC is continuing to serve as the unit-of-use repackager for pharmaceuticals needed by the Department of Veterans Affairs (VA) Centralized Mail Out Pharmacies (CMOPs) throughout the country. Also, SSC is beginning a new program in FY 2004 with the VA National Acquisition Center, where SSC will be the sole-source supplier for their annual usage of pharmaceutical items that are their largest requirements, as well as those on nationwide supply shortages. The VA's initial estimate is to repackage 3 to 4 million bottles per year of the first drug, Omeprazole, in various strengths and package sizes. This program will eventually be offered to other government agencies such as Department of Defense and Indian Health Service.

Federal Occupational Health

FOH is expanding its work related to lead-based paint and lead poisoning in children. This work is being performed in cooperation with the Centers for Disease Control and Prevention at the request of the U.S. Department of Housing and Urban Development (HUD). All of these activities are being performed in relation to a specific mandate of both HUD and HHS that strives to meet the goals and objectives of the Secretaries of both Departments. Specifically these goals and objectives are identified in the Healthy People 2010 Report, Section 8-11, involving Elimination of Elevated Blood Lead Levels in Children. Both of the projects have a direct effect on the agenda of the current administration.¹

FOH began a pilot project with HUD during FY 2003 to perform lead inspections and assessments in HUD-subsidized multi-family housing properties located throughout the country. The purpose of this work was to identify and establish control mechanisms for

¹ A copy of the report can be found at www.healthypeople.gov/document/HTML/Volume1/08Environmental.htm.

all lead-based paint in these HUD-subsidized units, thereby eliminating lead poisoning in children. In conducting this pilot effort, FOH completed inspections and assessments of 100 properties. As the effort moves into FY 2004, it is planned that FOH will begin conducting inspections and assessments on approximately 100 properties annually. This work will continue over the course of several years, as there are approximately 3,000 properties in need of evaluation.

3.3 Technology

In the first quarter of FY 2004 the HHS Information Technology Consortium implemented the first phase of consolidation of services for the IT needs of the small Operating Divisions (OPDIVs) across the Department. This first phase involved the implementation of a new organization, referred to as the Information Technology Service Center (ITSC). The ITSC will provide infrastructure support for all small OPDIV customers, including the PSC. As a result, PSC will no longer offer desktop support, email support, and LAN/WAN services.

The Program Support Center has established the Office for Business Technology Optimization (BTO), which will provide oversight for information technology investments and strategic direction for the PSC Services. BTO's mission is to maximize the value of business technology by ensuring new technology solutions support PSC's strategic business goals.

In FY 2004 BTO has six primary goals and initiatives. The first is leading the electronic Official Personnel File (e-OPF) implementation which will transition 65,000 employee official personnel files from paper to an electronic medium. The second initiative is to lead Department-wide implementation of GSA's e-Travel program. Thirdly, BTO will be participating in the development of a shared services concept of operations for the operation and maintenance of the Department's Unified Financial Management System (UFMS). The fourth initiative will be working with the Enterprise Human Resources and Personnel team to develop enhancements to the system. The fifth program will be working with the HHS University to implement a learning management system (LMS). Finally, BTO will support the Commissioned Corps Support Services in replacing the personnel and pay system for active duty officers, retirees, and annuitants.

BTO will also work closely with the PSC Business Office in reengineering efforts to ensure that the PSC technology supports the business changes.

4.0 Market Analysis Summary

4.1 Market Segmentation Strategy

All HHS OPDIVs currently use the PSC as a provider of choice for many products and services. However, some utilize PSC offerings for all of their needs, while others maintain administrative functions in-house and come to PSC for their remaining service needs. It is the goal of the PSC to offer the most attractive products and services at the best price for all customers within HHS, as well as other Federal agencies, allowing them to concentrate on their core mission.

HHS customers include:

- *Administration for Children and Families (ACF)*
- *Administration on Aging (AoA)*
- *Agency for Healthcare Research and Quality (AHRQ)*
- *Agency for Toxic Substances and Disease Registry (ATSDR)*
- *Centers for Disease Control and Prevention (CDC)*
- *Centers for Medicare & Medicaid Services (CMS)*
- *Food and Drug Administration (FDA)*
- *Health Resources and Services Administration (HRSA)*
- *Indian Health Service (IHS)*
- *National Institutes of Health (NIH)*
- *Office of the Secretary (OS)*
- *Substance Abuse and Mental Health Services Administration (SAMHSA)*

In addition, the PSC offers an extensive range of administrative support services and products to the following Executive Branch agencies:

- *Department of Agriculture*
- *Department of Commerce*
- *Department of Defense*
- *Department of Energy*
- *Department of Housing and Urban Development*
- *Department of the Interior*
- *Department of Justice*
- *Department of Labor*
- *Department of State*
- *Department of Transportation*
- *Department of the Treasury*
- *Department of Veterans Affairs*

Other Federal Organizations the PSC supports include:

- *Consumer Product Safety Commission*
- *District of Columbia Government*
- *Environmental Protection Agency*
- *Federal Deposit Insurance Corporation*
- *Federal Emergency Management Agency*
- *General Accounting Office*
- *Internal Revenue Services*
- *National Aeronautics and Space Administration*
- *Office of Personnel Management*

(Continued)

Other Federal... (Continued)

- *Peace Corps*
- *Railroad Retirement Board*
- *Securities and Exchange Commission*
- *Small Business Administration*
- *Social Security Administration*
- *U.S. Agency for International Development*
- *U.S. Postal Service*

The expanding list of customers reflects the commitments that the PSC has made to our customers and the capabilities of our workforce to address the needs of a diverse customer base. Whether responding to embassies worldwide, ships at sea, national emergencies, or processing payroll and grants and contracts payments, the PSC maintains high standards for performance.

4.1.1 Market Needs

The range of products and services that the PSC has developed and cultivated in response to customers' needs has enabled us to begin to expand our core customer network while investing in our own workforce and infrastructure. The PSC has spent the past two years determining what those core services are. In-depth studies examined where we could expand our customer base, where we could partner with other organizations in order to gain the strength of other leaders, whether our costs were correct, and whether our prices were competitive in the market. All of this was done with our customer in mind. While our primary focus is on our HHS customers, we realize that there are benefits to be gained by expanding to include other Federal agencies, such as economies of scale and lower prices through higher demand.

We have taken steps to ensure that the level of customer satisfaction increases. The key to our success in meeting our customer's expectation is to measure our performance. As a result, in FY 2004 we have implemented performance standards for each product/service line that provide the customer with a service expectation of timeliness and quality.

4.2 Industry Analysis

The ability to provide cost-effective and quality services to customers is essential to maintain market leadership as a shared services provider within HHS. More competition is anticipated as organizations seek to capitalize on ways to save administrative costs and budgets continue to decrease.

4.2.1 Industry Overview

The PSC operates in the administrative services industry supporting the Federal Government. Administrative service centers provide a comprehensive suite of support services to government entities and typically focus on a wide variety of products in all administrative areas such as Human Resources, Financial Management, Media Arts, Information Technology, Facilities, Supply and Logistics, and Acquisition Management.

Although only a handful of true fee-for-service organizations, franchise funds, and CASUs operate in today's environment, shared services is transforming the very nature of internal staff and support structures in organizations. Shared services takes the idea of centralizing functions one step farther. Centralized organizations often bring together similar types of activities and consolidate them into one department or group. However, shared services organizations not only consolidate, but they reengineer their business process, workforce, and culture to create a focus on customer service in the most effective and efficient manner possible. The PSC is at the forefront in designing this shared services concept for government.

The environment in which the PSC operates is constantly evolving and faces many challenges. The intense focus on and shifting of resources to Homeland Security, coupled with the increasing climate of fiscal constraint in government, has forced all federal entities to "do more with less." The PSC continues to examine ways to reduce costs while striving for greater operational efficiency.

Moreover, the PSC, like the entire Federal government, is faced with the proliferation of retirements, in addition to competition from private-sector companies for talented staff, is dramatically reducing the workforce pool, especially persons in management/leadership positions. The PSC continues to refine its succession planning methods.

Another aspect of the Federal administrative services industry is the increased focus on competitive sourcing and A-76 studies. As conducted in the Federal Government, competitive sourcing is the process by which the cost of an in-house commercial activity is compared with the cost of having the same activity performed by an outside source. Competitive sourcing provides the impetus for administrative service providers to focus on becoming the most efficient and customer-centric organizations. Though there is constant debate in Congress as to the future of competitive sourcing targets, it has motivated many agencies in the Federal Government to look internally to determine whether they have the most efficient organization (MEO), and if not, what they can do to get there. The PSC, through the integration of a robust business model, is working toward a continuous process that constantly refines "most efficient."

Finally, there is a push for organizations, in both the private and public sectors, to embrace the concept of transparency. This goes beyond disclosure of financial information. More than ever, organizations need to deliver product and service value, good governance, and consideration for employees. They need to have integrity and abide by their commitments. Customers need to see value in what they are paying for and trust in the organization

providing the service. They expect service providers to be transparent and disclose any and all information before a customer has the opportunity to ask for it. The PSC, through the implementation of automated business systems and published performance standards, has already implemented methods of providing this information.

4.3 PSC Capabilities Analysis

4.3.1 Strengths and Weaknesses

In order to become the transparent organization demanded in the marketplace, the PSC must be fully aware of our position and reputation among current and potential customers. In order to do this, we must understand the areas where we excel and those where we face challenges.

One of the PSC's greatest assets is the technical expertise, experience, and dedication of our employees. They provide our customers with high-quality services in our business lines and have specialized knowledge of their business practices. Many of the staff possess industry certifications in their various fields of expertise.

Furthermore, the PSC is able to leverage economies of scale to offer our customers consolidated product and service offerings at competitive rates. If we are not staffed with a specific capability, we have the expertise and flexibility to partner or outsource the required task to meet scalability needs. Through our reengineering efforts, the PSC intends to focus on streamlining, allocating costs properly, and implementing best business practices. We will lead where we are the experts and will outsource or partner those capabilities that are led by others.

Over 75% of the PSC executive team has been with the PSC less than two years, and these leadership changes have brought a renewed focus and energy to the organization. Their past experience, combined with a strategic vision, has created an environment of innovation and high performance. The executive team encourages the creation of new ideas and "out-of-the-box" thinking, which will help the PSC drive forward to create a fresh culture, focused on quality and cost management.

In addition to these many strengths within the organization, there are also several potential weaknesses that, if addressed, could propel PSC even further in the pursuit of becoming the leader in administrative services. One area that must be addressed is that of impending retirements and successions planning. Like most of government, a large percentage of our workforce will be eligible for retirement in the next five years. However, the PSC has made a concerted effort at succession planning through more strategic hires, better recruiting strategies, standardization, streamlining, and better curriculum packages that include such things as simulated training in order to provide the employees a comprehensive standardized path in their jobs and decrease on-the-job training time and methods.

Another potential issue facing the PSC is that of continuous customer focus which has not always been consistent across all services. In order for the PSC business lines to continue to be successful, there must be a focus on providing a positive experience for the customer 100% of the time. This is not to be at the expense of good business practices, but rather on a balance between the two. If the PSC does not keep customer satisfaction at high levels, they run the risk of losing market share, as customer perceptions drive the market. An improved mechanism for monitoring customer satisfaction levels will be implemented in 2004.

Additionally, as a fee-for-service organization, the PSC is required to charge full cost for all products and services. However, many of the PSC's competitors are appropriated organizations that are not bound by the same requirements and, if selling their services, are only able to charge the additional direct costs not already covered by their appropriation. Moreover, the PSC's prices are not always competitive with private-sector competitors because the PSC has no flexibility in offering discounted pricing, using loss leaders, or subsidizing services, which are common practices in the private sector. This presents a weakness for the PSC that needs to be addressed in creative ways, such as identifying ways to lower overhead costs, or increasing demand for services, better buying methods, and better supplier venues which result in lowering cost.

4.3.2 Opportunities

The PSC is positioned to leverage its strengths to create new business opportunities. For example, the PSC already provides services to many of the organizations scheduled to transition into the new Department of Homeland Security (DHS) and has provided administrative advice during stand-up. Fostering this relationship provides the potential to leverage our current business within this agency to create new or increased business with the DHS.

In addition, all Federal agencies are being pressed to reduce spending and manage costs more tightly. The PSC has the opportunity to reach out to potential customers and show them the value of utilizing the services and products of the PSC as a method of controlling their expenses and reducing the amount of administrative overhead across their organization.

Internally, there has been a directive by Department leadership to reduce the amount of administrative functions in each individual agency. This has resulted in the PSC being named the shared services provider for the Department. One initiative currently underway aimed at fulfilling this vision is the consolidation of acquisition services across the Department into the PSC's Strategic Acquisition Service. Additionally, the PSC is being considered a possible future parent organization for the new IT Service Center. The PSC is uniquely positioned to play an integral role in these consolidation efforts due to our leadership role in administrative services, centralized support structures, and the economies of scale already garnered.

Finally, as part of the President's Management Agenda and e-Gov initiatives, three providers of travel management systems have been selected to support Federal travel needs. Traditionally the HHS OPDIVs have maintained their own systems and travel support

organizations; however, HHS has the opportunity to centralize travel management needs across the Department by selecting a single vendor to support all HHS agencies. The PSC is also well positioned to assume this role, and BTO is assisting in leading this effort.

4.3.3 Threats and Risks

There are several threats and risks that could adversely impact business expansion for the PSC. Although not yet demonstrated, there is concern that there may be decreased funding available in customer budgets for support services. Competition for limited dollars may lose out to increased defense and homeland security budgets and consolidation efforts. To mitigate this risk, it is imperative that the PSC continue to examine ways to reduce costs and become a scalable organization that can easily adapt to changes in the fiscal environment and continue to meet customers' needs.

Although competitive sourcing could be considered a risk, the PSC is continuously aligning itself into the most efficient organization in order to win competitions, as outlined in Circular A-76.

In addition, the PSC and HHS as a whole have worked diligently to centralize administrative operations in accordance with the President's Management Agenda and Secretary Thompson's One HHS initiative. However, should there be any significant leadership changes or shifts in the political environment, there is a risk that centralization will not be well received and a move toward decentralizing functions could occur.

4.3.4 Benchmarking/Best Business Practices

It is essential that we stay abreast of changes in the way products and services are being delivered in the marketplace. Being innovative and researching best practices are a must in today's environment. It is critical that we understand what is a fair and reasonable price for a service or product in the industry—in both the public and private sectors. With this information, the PSC is able to assess where our prices fall relative to competitors. Traditionally customers have stated that our prices are too high; however, we have not been diligent in researching whether or not this is the case. In FY 2004 we will begin to consistently use benchmarks to ensure that our prices are, in fact, comparable to, if not better than, those of the competition. In turn, we will be able to educate our customers about what costs contribute to our pricing and where we stand in relation to the market. These benchmarking results will be available to our customers.

In addition, research into best business practices contributes to our continuous improvement efforts in our business lines. Not only can we realize enhancements to our processes, but we will also be able to determine where we are a leader in the industry, where we can improve to become one, and where we may wish to seek a partnership with other organizations.

5.0 Strategy Summary

5.1 PSC Strategy

As a fee-for-service entity, the PSC is charged with providing value-added products and services at competitive prices. In this challenging environment, it is necessary to adopt business practices that make the organization more efficient while fully leveraging the skills and talent of the PSC workforce. The PSC strategy focuses on the following areas: Customer Service, Cost Management, Communication, Business Strategy and Innovation, and Workforce Excellence.

5.1.1 Customer Service

The PSC strives to provide products and services that contain inherent value for our customers and are delivered with exemplary customer service. To that end, the following customer service strategies have been implemented to further this goal.

Improve customer relationships by understanding and addressing their concerns, expectations and needs – One way the PSC will truly be able to provide consistent, exemplary service to our customers is to have an intimate knowledge of their expectations. The PSC plans to accomplish this is by forming partnerships with our customers and consistently requesting feedback, both positive and negative. By fostering relationships, we can collaborate with our customers to gain a better understanding of their needs and use this information to enhance our product and service offerings. This also includes understanding the customer demand, history, uniqueness, and challenges.

Develop and provide customer service training for all employees – An integral aspect of the PSC's customer service strategy is to ensure that all employees receive customer service training. To that end, the PSC has implemented an enhanced Customer Service Training Program for all new and existing employees.

The PSC solicited input from our customers and employees in order to develop a program that is specifically tailored to our business and addresses the specific needs of our customers. The PSC Customer Service Training Program focuses on the following customer service key elements:

- ❖ Know Your Job
- ❖ Know Your Customer

- ❖ Communicate
- ❖ Be Responsive
- ❖ Follow Through and Follow Up

Following a pilot of the Customer Service Training Program in January 2003, the training was fine-tuned and rolled out to every PSC employee. PSC employees will receive updated training on an annual basis. In FY04 PSC will begin an interactive continuous customer service training approach. Customer service training will occur quarterly and will be based on actual case studies received from each of the Services. The training will be classroom based and will be mandatory. Regional employees will be allowed to view a video-tape of the classroom instruction. HHSU will be assisting in the development of this training. Customer service expectations will also be addressed as part of the PSC hiring and performance evaluation processes.

Provide responsive, best-value services consistently to our customers – As the PSC strives to form partnerships with our customers, we will become more effective in addressing our customers' needs, which will enable us to more proactively develop solutions to customer issues. We have published a comprehensive Directory of Products and Services which is available in hard copy or on our Internet site to provide up-to-date information on our offerings. Included are service descriptions and performance standards that define what our customers can expect with regard to levels and timeliness of service. We will be measuring our performance and implementing enhancements to our processes in order to become even more reliable and consistent in the way we deliver. Customers will be able to hold us accountable to these standards.

Develop a Customer Relationship Program – The PSC is constantly redefining our customer relationships to further address customer needs. As a direct, more meaningful dialogue with senior leadership of customer organizations, the PSC Executive Team has each taken responsibility for each one of our OPDIVs. As a customer account representative, each member of the Executive Team will be responsible for addressing issues across the PSC and will be coordinating with their SSF Board counterpart. There will be a baseline established and a process put in place for continuous dialogue. These results will be tracked and monitored. In addition, the PSC is designing several coordinating mechanisms that will help ensure that consistent customer information is evaluated and addressed and will be moving to establish a robust Customer Relationship Management Program that will bring all customer data together for a global view of all customers.

5.1.2 Cost Management

The U.S. economy has experienced a significant downturn over the past several years. This, coupled with the government reengineering efforts and the PMA, puts significant pressure on the Federal Government to manage tighter budgets and "do more with less." The PSC understands that customers want products and services that offer the best quality at the lowest cost.

To that end, the PSC has developed the following financial resource management strategy in order to meet our financial goals.

Effectively and efficiently manage PSC resources to create the best customer value – As a fee-for-service entity, the PSC is charged by its stakeholders with managing a cost-effective business while delivering quality products. As a result, the PSC seeks to set the standard for judicious and prudent use of financial, capital, and personnel resources in the performance of our mission. The PSC recognizes that unless we can offer the best-value goods and services to our customers, they have the right and responsibility to go elsewhere—hence we will continue an unrelenting effort to optimize the quality of our services and minimize the cost. In FY 2003 we conducted extensive studies of over 80% of our business lines. As a result, we have begun to transition and implement better business practices with a workforce that is skilled with relevant competencies at the appropriate grade levels, which helps to ensure that the best cost structure is in place. We plan to complete our studies of the remaining business lines in FY 2004.

Meet government-wide and commercial accountability standards – The PSC provides financial services to the HHS Office of the Secretary and six of HHS OPDIVs—SAMHSA, HRSA, ACF, AoA, and AHRQ. One of the PSC’s Key Performance Indicators is to achieve unqualified (clean) audit opinions for the PSC and its customers and have achieved this over the last two years. This continues the PSC work toward our objective of improving financial performance and assuring budget and performance integration. It has been a challenge to produce the accelerated financial statements on a monthly basis, as opposed to the previous mandate of producing them quarterly. However, we have been successful in meeting this challenge.

As an enhancement of this process, in FY 2004 the PSC will implement an internal Management Control Program which ensures that all resources are well managed and that assets are safeguarded against waste, loss, unauthorized use, or misappropriation. This program is a proactive, employee-driven internal audit program that identifies and controls those programs with a high risk for monetary loss, waste of government resources, or potential for high-level issues. The Management Control Program implements control techniques designed to reduce the potential risk for fraud or misuse of government resources. Auditors frequently rely upon this documentation.

Control the cost of operations and overhead expenses and reduce them when possible – Beginning in fall of 2002, the PSC Business Office began a project to re-cost and re-price each individual cost center within the PSC from a zero base, making sure that all products carried their specific allocation of cost. These efforts began with, and continue to focus on, identifying, justifying, and trimming the organization’s overhead costs to reduce the burden borne by the PSC’s business lines. Each cost center was studied, and individual costs were subjected to intensive study and considered for elimination if not identified as a leader and a core PSC service. The Business Office completed the project in March 2003, and the results formed the baseline for development of the FY 2004 rates prepared for submission to the Service and Supply Fund Board. This was the first year that the PSC was able to provide the customer a basis of fully burdened cost at every product line.

Market and expand our services to lower the overall unit price – The PSC recognizes that we can obtain economies of scale for our customers by spreading our overhead and fixed costs over a larger customer base and by fully utilizing any excess capacity through scalability. In addition to economies of scale, PSC uses a pass-through strategy in costing. Costs that can be identified as directly attributable to a specific customer are removed from the unit cost, thereby assessing cost to those customers who are driving it, rather than burdening the entire customer base. These practices reduce the unit cost to all our customers and ensure best value to the taxpayer. While the PSC plans to take advantage of some business growth opportunities, we will focus more this year on ensuring we are providing quality services to our existing customers.

5.1.3 Communication

Communication is an integral aspect of a successful business. It is essential to have effective communication strategies, tools, and channels both internally within the organization and externally with customers. Communication should not exist one-way, but rather as open dialogue between parties. The PSC is working hard to develop communication plans with messages and vehicles that are appropriate to the audience.

Develop and implement an internal communication strategy – The PSC initiated a study at the beginning of FY 2004 of the effectiveness of communication within the organization. The leadership team recognized that employees were struggling with the amount and the means of communication across the organization. As a result, an internal communications audit was conducted in addition to employee surveys, focus groups, and interviews, in order to assess the issues that exist today. Once the study team understood the issues, and analyzed potential solutions, a communication plan was developed. This plan outlines messages that need to be delivered, mechanisms for delivering these messages, frequency of communication, intended audience groups, and specific activities that the different layers of management can use to communicate with their staff. The Executive Team reviewed all recommendations and selected the top six initiatives that will be implemented in FY 2004. PSC will continue to measure its effectiveness.

Understand customer expectations by opening channels of communication through customer feedback programs – The PSC remains committed to providing quality products and services. As the PSC strives to continuously improve our service delivery, it is necessary to provide our customers with various avenues to offer feedback and communicate with us. One such avenue is the PSC Customer Comment Card Program. Boxes are strategically located in buildings where the PSC offers services and allow customers to provide anonymous feedback via a customer service survey that rates the PSC on the following areas:

- ❖ Responsiveness (timeliness of service)
- ❖ Courtesy of PSC employee(s) providing the service
- ❖ Quality of product/service

- ❖ Cost/value of product/service
- ❖ Overall satisfaction

There is also a section where customers can provide specific suggestions on ways the PSC can further improve our service offerings. Customers can also provide similar feedback on the PSC's product and service offerings via the PSC website. In addition, employees have included a link to the online feedback form in their email signature enabling any recipient to provide comments anytime.

Coordinate and schedule information-sharing events for employees – In order to support our employees in delivering the individual products and services to our customers, it is essential that they understand the “big picture” of where the work they do ties into other parts of PSC. As a result, we will be developing interactive sessions that employees may attend covering such topics as service-specific information sharing and an overview of the e-Gov initiatives and what the PSC's role is in the implementation.

5.1.4 Business Strategy and Innovation

To stay competitive, the PSC must leverage its talented workforce and continue to seek technological advances in order to find new, innovative ways to do business more effectively. The PSC will accomplish this in the following ways.

Standardize business processes and employ best business practices – PSC Business Operations is responsible for working with the Service areas to conduct business process reengineering activities that focus on identifying cost savings, operational efficiencies, and ultimately a way to offer PSC products and services more effectively and with greater value. Business Case Analysis (BCA) studies have been completed for over 80% of the PSC business lines, which included examination of the current operations/processes, benchmarking analysis, best business practice research to identify gaps in the current processes, and presentation of alternatives to successfully implement recommendations that have ranged from enhanced cost recovery to the elimination of a product/service line to enhanced delivery methods.

One crucial element included in all analyses is incorporation of best business practices from both the public and private sectors. This enables the PSC to identify and implement processes that will enhance service delivery, improve business operations, and reduce costs. Furthermore, the BCA recommendations have fostered the “One HHS” theme by identifying ways to consolidate operations throughout the Department.

Integrate the budget with performance measures for better decision-making – As part of the President's Management Agenda, the PSC is charged with ensuring that budgetary considerations are an important factor in determining which performance measures we implement. Moreover, the implementation of an automated costing model and billing system enables the PSC to ensure that our budget and performance measures are properly aligned. In FY 2004 the PSC will begin measuring ten Key Performance Indicators, which we believe will

concisely measure the health of our organization. These metrics will be consistent throughout the organization and will be compiled from statistics gathered at every product level. Goals were set high with the realization that while they may not be immediately attained, they are set at levels that will make us stretch for high achievement. This will also help us to identify those areas in need of assistance.

Provide leadership for the implementation and transition of a department-wide financial management system – HHS is implementing a Department-wide integrated financial management system that will serve as the cornerstone of the Department’s electronic business infrastructure. The Unified Financial Management System (UFMS) will replace the existing five accounting systems and will be web-based, utilizing modern electronic technologies. The system will be composed of two primary components—the first for CMS and its Medicare contractors (the Healthcare Integrated General Ledger Accounting System – HIGLAS) and the second for the remainder of the Department. Both components are being designed and implemented based on consistent technical and functional standards, and will feed into a Departmental financial reporting system.

UFMS is a critical component of the Department’s efforts to modernize its financial management systems and information technology infrastructure. It was initiated during FY 2001 at the direction of Secretary Thompson. The initiative is a critical element of HHS’ effort to improve its financial operations and supports the “improve(d) financial performance” initiative of the President’s Management Agenda.

During FY 2002 the Department established the governance and program management structure to guide and manage the initiative. The UFMS Program Management Office, in conjunction with its systems integrator, developed and received Departmental approval of the primary planning documents that are being used to manage the Program and measure performance against established milestones and parameters.

Representatives from the PSC and all other component agencies are participating in the UFMS project. The expected completion date is September 2007.

Optimize e-Government opportunities – The PSC will continue to seek opportunities to leverage our existing infrastructure, in addition to exploring new and innovative technologies, to provide value-added, customer-focused e-government services. The PSC plans to implement the following e-government initiatives:

- ❖ *The Human Resources Service* is actively participating with the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) on the e-Payroll initiative to transition payroll operations support to DFAS by September 30, 2004.
- ❖ *The Building Management Branch* plans to implement a self-service Internet model that will enable customers to enroll visitors over a secure server.

- ❖ *The Federal Occupational Health Service* plans to develop customized websites on which customers can access reports, marketing information, health and wellness material and online training.
- ❖ *The Financial Management Service* will be working with all OPDIVs to select one of the three e-Travel systems/providers and manage the contract from a single point within the Department.

5.1.5 Workforce Excellence

The PSC would not be able to deliver value-added products and services without the dedication and hard work of our employees. Thus, it is imperative that the PSC provide programs and services that effectively meet the collective needs of our employees and the organization while equipping them with the necessary tools to successfully perform their jobs. To ensure that our staff is satisfied with their work environment and continues to perform at an optimal level, the PSC has implemented an employee development strategy that focuses on the following goals.

Establish an employee feedback program across the organization – To ensure that the PSC work environment is as productive and supportive as possible, it is imperative that we provide our employees with a forum to provide feedback and communicate ideas to enhance the organization. The PSC has established suggestion boxes in the Parklawn and Humphrey buildings so that employees can submit anonymous comments and feedback to the Executive Management Team.

The PSC has also established a “Recently Asked Questions” email account where employees can anonymously pose questions directly to the Director of the PSC. The answers to these questions are periodically posted on the PSC Intranet site for all employees to view.

Additionally, the PSC has developed the Human Resources Management Index (HRMI) as one of its Key Performance Indicators in order to baseline specific issues as they relate to the workforce. The surveys are distributed on an annual basis in late August/September to coincide with the end of the fiscal and performance year.

Finally, the PSC has established an employee-run Innovation Council that provides a forum for employees to percolate good ideas up to the Executive Team for consideration. To date, the Council has submitted nine proposals and we are implementing two of these initiatives.

Develop recognition and reward programs for excellence – The PSC has enhanced its formal awards program to recognize employees who constantly strive to further the goals and objectives of the PSC. Some of the highlights include On-the-Spot Awards, Group or Individual Special Recognition Awards, Time Off Awards, the Director’s Coin, the Service Director’s Coin, Quality Step Increases (QSIs), Customer Superstar’s Award, and non-monetary awards such as plaques, trophies, and gift certificates.

Create performance standards that measure how employees achieve organizational expectations

– As the PSC strives to provide value-added products and services to our customers, it is imperative that we provide our employees with a roadmap to success. Thus, in FY 2004, the PSC has developed a Logic Model that clearly defines the ten Key Performance Indicators that are needed to measure our success in meeting these outcomes. We have identified initiatives that must be put in place in order to successfully and consistently reach these goals to include standardized business practices, communication plan, marketing plan, management control program, blueprint architecture (process/organization/technology) and top-down accountability. This Logic Model has been cascaded throughout the services so that employees understand how their roles directly correlate to the measures collected at the summary level.

Ensure our workforce is enabled and empowered to deliver and sustain customer service excellence – It is important that PSC employees value our customers and understand their needs. The PSC Customer Service Training Program will provide our employees with valuable tools to better serve our customers and to foster valuable customer relationships that result in a win-win situation.

Moreover, if PSC employees do not have a good understanding of the PSC's vision, goals, and key success factors and how their roles and responsibilities fit into the organization, it will be very difficult for them to feel empowered to consistently perform and to make the necessary changes when it has been determined that a problem exists. Thus, the PSC will ensure that these key themes are consistently communicated from the Executive Management Team down to the line staff.

Assess our talent acquisition and management strategies and practices – Many government agencies are facing workforce competency challenges. The PSC is no exception and realizes that one of the keys to its success is the aptitude of our workforce. Thus, the PSC will regularly conduct a workforce analysis that includes the following:

- ❖ Document attrition rates by series/grade/location.
- ❖ Project attrition for the next five years.
- ❖ Provide a gap analysis of the types of skills that will be needed.

Based on the results of the analysis, the PSC will develop a plan to better recruit, retain, and develop our workforce to fill the identified gaps. To be successful, it is necessary that the succession plan focus on the following:

- ❖ Tailor training courses to address gaps in skill sets and develop a standardized curriculum to consistently address gaps.
- ❖ More effectively align individual competencies with specific jobs/functions.
- ❖ Provide a variety of training outlets for staff.
- ❖ Develop recruitment-and-retention strategies that focus on strategic job functions and building a “critical mass” of diverse, talented employees.

5.2 Value Proposition

The PSC intends to become the leading provider of administrative support for the Department of Health and Human Services, and potentially for a large portion of the Federal Government, allowing customers to focus on their core missions.

The PSC is defining its core architecture, which will serve as the foundation for achieving the two primary outcomes of excellent service delivery—improved quality and reduced cost to HHS.



No part of the architecture stands alone; rather, the components are dependent on one another and a focus must be placed on all parts in order to fully achieve all goals. The Architecture is composed of three major components that address **Technology, Workforce, and Business**.

The **TECHNOLOGY ARCHITECTURE** is a map of how all systems, databases, networking, and data interact, enabling us to create an efficient technical infrastructure. In turn, it gives the PSC a view across the organization used to identify opportunities to partner and streamline processes and technologies. The technical architecture includes maximization of e-Gov solutions and mapping of our development lifecycle, as well as execution and operations. The strategy examines our integration points across the PSC and outlines our communication interfaces, security architecture, and database architecture and includes the computation of life-cycle costs for all projects.

The **WORKFORCE ARCHITECTURE** ensures an integrated approach to human performance. It includes a comprehensive organization and workforce assessment to include performance needs assessments, performance requirements, workforce planning to include skill and competency matrixing, recruitment strategies, retention, performance management metrics, knowledge management, knowledge sharing, curriculum planning, and training development that include technical, business, and common skills.

The **BUSINESS ARCHITECTURE** is composed of the following:

- ❖ **Business Case Analysis** is the process used to study and evaluate product lines, investments, costs, technology, or risks on existing business lines.

- ❖ **Customer Relationship Management** is a comprehensive program that encompasses all aspects of the service provider’s relationship with the customer, to include collection of customer information from all feedback sources, definition of customer needs, demand, actual usage, billing, satisfaction, trouble calls, complaints, and compliments. This allows us to collaborate with the customer using information that provides a global view.
- ❖ **Benchmarking** is the process used to ensure key business elements such as prices, processes, service levels, delivery models, and organizational structures are within market and consistent with the best business practices of industry leaders.
- ❖ **Key Performance Indicators (KPIs)** are metrics that, when tracked and reported, are an accurate gauge of success or failure in areas that are directly tied to the organization’s primary goals and objectives. These measurements assist the organization in finding areas for improvement.
- ❖ **Capital Investment Planning** is the process used to conduct our long-range planning (five years) to map out which major investments are needed to remain competitive, ensuring that replacements are a result of good return on investment and that investments are looked at across the organization both monetarily and technically.
- ❖ **Cost Management** includes development of fully burdened business-line costing, with proper allocation of costs and equitable distribution of charges to customers. It also includes management of overhead and optimization of internal support costs.
- ❖ **Communication Planning** is used to communicate with employees at all levels through multiple avenues. It contains processes used to ensure that the organizational goals and strategic direction are cascaded throughout the organization and employees are kept apprised of major initiatives.
- ❖ **Marketing Planning** is the strategy used to reach new customers with product lines that we can ensure will bring a return on investment. It also includes analyzing our current customer base to see if we can assist the customers beyond current levels.

The PSC Architecture integrates these three components—technology, workforce, and business—into one fluid environment, allowing us to achieve our goals of providing high-quality service and efficient cost management. At the core of all of this is the customer, who ultimately is the reason we are in business today.

The anticipated results of bringing all of these things together—improved quality and cost efficiency—stem from our strategy of having the capability of measuring performance at multiple levels to guarantee the best value for our customers. The PSC has implemented the Logic Model to enable us to remain focused on our end outcomes. The Logic Model identifies resources, outputs, and outcomes in the business management cycle. We have established two “end outcomes” that the PSC, in essence, exists to achieve:

- (1) To improve quality of administrative support, measured by the percentage of customers expressing satisfaction with services in terms of timeliness, quality, courtesy, and costs; and

- (2) To achieve cost savings to HHS due to reduced costs associated with administrative services, measured by the total program overhead and PSC's share of that, and the change in cost per PSC service to customers. Achieving these end outcomes will allow HHS to focus on its core mission of health and social welfare. In order to achieve these end outcomes, we have developed a set of intermediate outcomes that will allow us to measure how well we are meeting our goals.

For FY 2004 these intermediate measures are:

| Intermediate Outcomes | Measures |
|---|--|
| Improve existing PSC services | <ul style="list-style-type: none"> • Timeliness <ul style="list-style-type: none"> – Percent of services achieving timeliness targets • Quality <ul style="list-style-type: none"> – Percent of services achieving performance standards |
| Pursue new business opportunities | <ul style="list-style-type: none"> • Expanded market share <ul style="list-style-type: none"> – Number of new customers acquired – Number of existing customers obtaining new or expanded services • Elimination of HHS duplication <ul style="list-style-type: none"> – Reduction in FTE/costs in administrative services Department-wide |
| Asset management (people, capital) | <ul style="list-style-type: none"> • Percent reduction in PSC overhead rate • Percent reduction in revenue consumed by PSC intra-service costs • Percent of products/services where cost is fully recovered by revenue • Number of material weaknesses found in financial and management audits • Percent job satisfaction among PSC employees |

Setting objectives such as the intermediate outcomes listed above is only part of our Logic Model. We have also identified a set of fourteen key activities that will allow each business line to contribute to our overall success in meeting these objectives. Examples of these tasks include standardizing business processes, establishing

baselines, conducting a workforce capability assessment, collaborating with our customers, and conducting risk assessments for internal control.

All of these activities and intermediate outcomes roll up and link to the anticipated end outcomes and with our strategic vision. We are taking steps to ensure that we are driving down costs so that the Department, as a whole, can dedicate more funds toward mission-critical business opportunities and less toward administrative services.

5.3 Marketing Strategy

5.3.1 Pricing Strategy

The PSC constantly strives to ensure the “price is right” and that means not only ensuring that prices are set at a break-even point, but that costs are within market and are aggressively controlled to provide best value for customers. This strategy includes allocating costs properly, applying marketing strategy by reviewing market price and spreading overhead, and finally, setting the final sales price if adjustments were made. In addition, the PSC’s goal over the last two years has been to simplify our costing methodology and rate structure so that the price of services is transparent and easily understandable to customers. As part of that effort, the PSC fielded PRICES, a new automated costing and billing system, in FY 2003. PRICES clearly identifies customer usage to price and cost. PSC managers use the costing/pricing module of PRICES to develop fully burdened rates by identifying true costs and ensuring that they are allocated across the proper business lines. General and Administrative (G&A) costs, which the PSC controls tightly, are assigned and included in the sales price. Costs are accessed directly to those cost centers driving them. The PSC has also performed Business Case Analyses (BCAs) on all cost centers to ensure that best practices are aligned with best cost. In FY 2004 the PSC will take this one step further and begin annual benchmarking with its competitors to ensure we keep abreast of the market. The results will be available to customers.

5.3.2 Expansion Strategy

The PSC’s expansion strategy is rather simple—we must pose four questions:

- ❖ Where do we excel?
- ❖ Where do others excel?
- ❖ What is the benefit for our customers?
- ❖ Does it make good business sense?

There are business lines where PSC is clearly the leader in providing the service; however, there are business lines where other government agencies or private industry deliver

the services faster, better, or cheaper. In those cases, we have looked to partner with the best providers to ensure that HHS is receiving the greatest value for the price.

In cases where PSC is clearly at the forefront in the industry, we must examine whether there are new business opportunities to pursue. It is then essential to determine our return on investment (ROI) of expanding the service to new and existing customers. If the analysis shows there is a potential for a viable business line, we develop a solid marketing strategy to inform potential customers about our offerings. Our key objectives will be to maximize our pricing, define our benefits, and to make it easier for customers to obtain services.

An essential element in expanding our business is to reflect on the true opportunities for growth. We are not in the business to grow for the sake of growing, rather to do so when it makes sense and is in the best interest of the Department and our customers. We must always keep the customers' interests at the forefront of these decisions, analyzing short-term and long-term needs, determining value, and understanding how the product or service will allow them to accomplish their mission while keeping costs at a minimum.

5.4 Workload and Revenue Forecasting

Although PSC has prepared and presented its budget to the SSF Board annually, this was done parallel to development of the Department budget. For FY 2005/2006 rate setting, the PSC has proposed beginning our costing/pricing cycle prior to that of the customers. This will allow us to work with the customer on their true demand, will make our rate setting much more accurate, and will allow our customers to accurately estimate their demand early enough to be used in their budget formulation activities. Prior to FY 2004 PSC Business Operations worked with each customer to educate them about their actual use of products and services from the previous year. Using this information, our customers were able to understand their forecasted usage for the coming year. Based on this forecast, managers are able to plan staffing needs to handle the volume of work. As a result, the PSC has been able to create a report of estimated demand compared to actual usage, which allows for analysis of what is driving the cost. Customers will be provided these statistics as part of their monthly bills.

The PSC has also developed a centralized Service Level Agreement process so that all services for customers are combined into one agreement that contains clear general provisions outlining the billing discrepancy process, payment expectations, cancellation notification, and cost methodology. The SLA includes provisions for each product or service that clearly outline the details of service and expected receiver requirements along with Performance Standards that clearly provide the service level expectations. This agreement contains estimated costs; however, billings are based on actual usage.

5.5 Milestones (Planned)

5.5.1 Performance Measures and Targets

The Program Support Center sets its goals in alignment with the goals of the Department, the Secretary, and the Assistant Secretary for Administration and Management. From these, the PSC sets expectations for its business lines and employees to carry forward the overall mission of the Department and its operating divisions and staff divisions.

Just as this top-down relationship exists at the Department to Agency level, so does the goal-setting within the PSC. Accountability across the organizational units from the Deputy Assistant Secretary down to the line staff ensures that the PSC is moving toward a common vision.

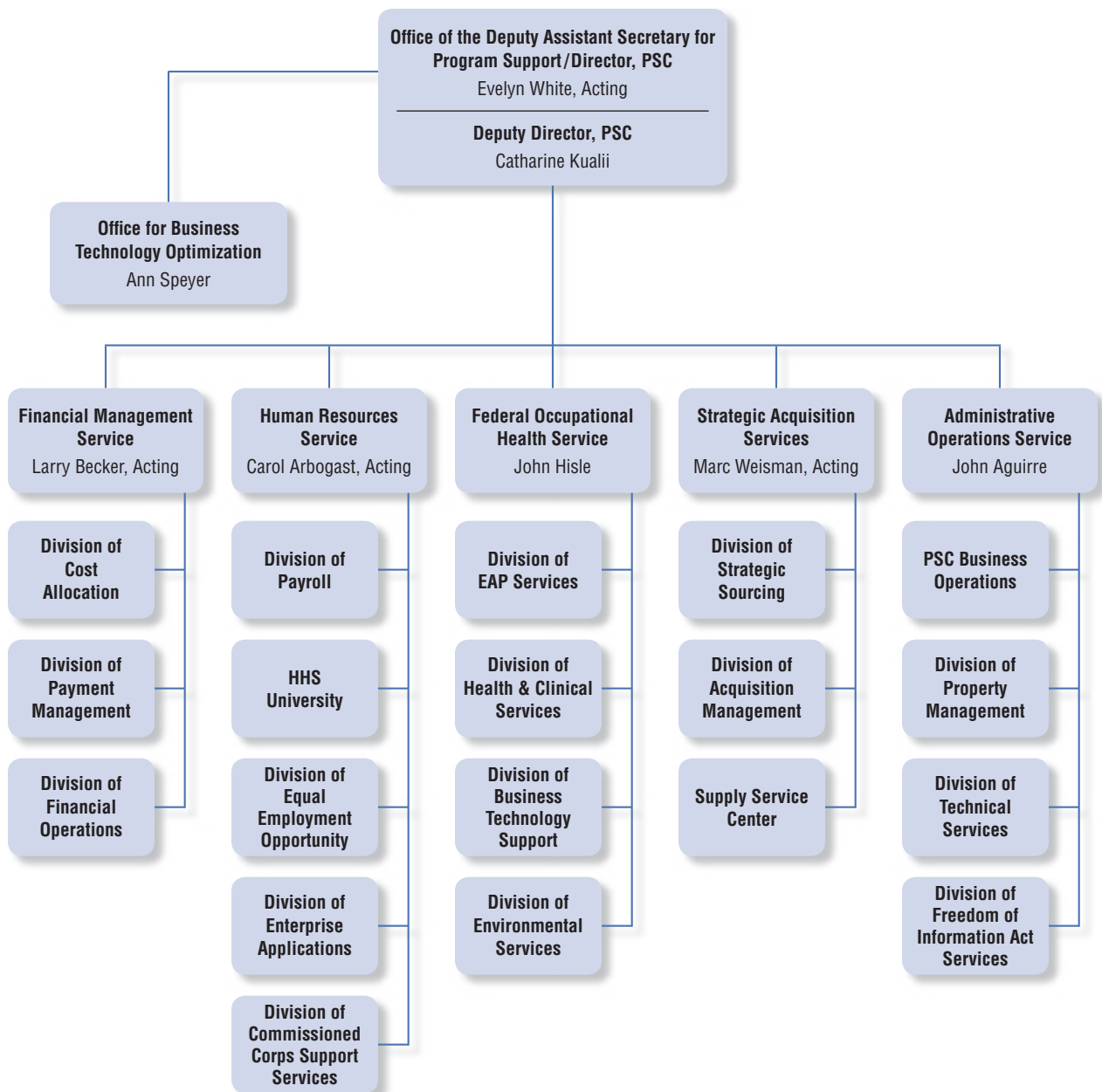
One of the components of this strategy is setting high-performance targets. We have set the expectation that we deliver services in accordance with our timeliness standards 100% of the time. In addition, we expect to increase our customer base by 5%. We have also set a target of reducing the overhead rate by 10%. These, and other targets, are ambitious and challenging to meet. We strive to always meet and exceed our targets. However, if we fall short, we use that as an opportunity to fix the elements of our organization that are preventing us from being successful.

From these organization-level targets, each business line has performance measures that have been identified during the Service Level Agreement process with the customer. Customers can hold the managers and employees accountable if standards are not met. The individual business lines are ensuring that methods to track and analyze these measures and metrics are in place.

6.0 Management Summary

6.1 Organizational Structure

The Program Support Center is composed of five distinct service areas, in addition to technology optimization and a customer advocacy program. The following diagram illustrates the services and divisions within each service.

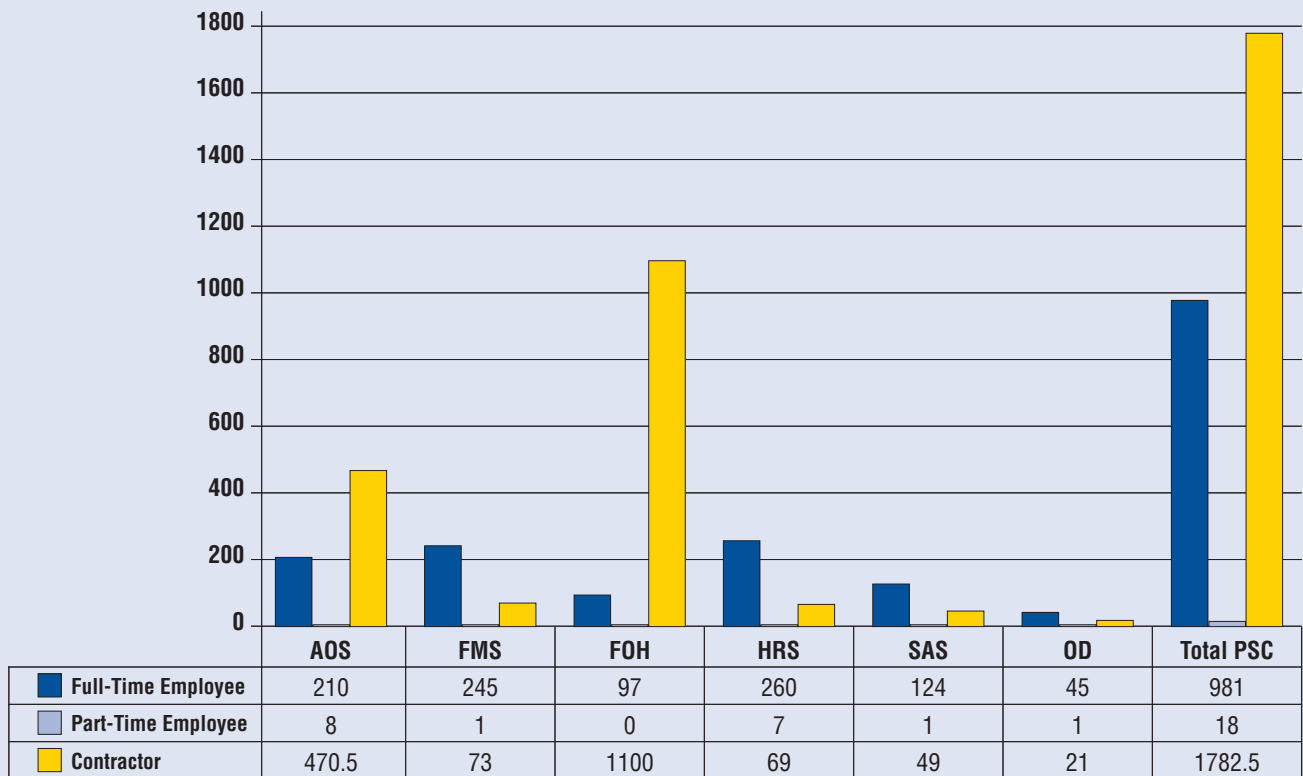


6.2 Personnel Plan

Over the past several years there has been a significant change in full-time equivalent (FTE) ceilings for the PSC. For example, between FY 2002 and FY 2004 the number of administrative FTEs decreased by 195, which resulted in labor savings of approximately \$3M. This was accomplished while still absorbing the 4.1% pay raise, within-grade increases, and promotions, in addition to continuing to take on additional workload. Through technology and process reengineering, efficiencies in providing services have been identified creating a decrease in personnel requirements. As a result, the PSC has offered buyouts in FY 2003 and FY 2004 in order to bring the total number of FTEs down and to begin to address our skill mix. However, even though there has been an effort to bring the number of employees into alignment with improved processes, there are a significant number of individuals who will be eligible to retire in the next five years. As a result, the PSC plans to use the documented business architecture to define jobs and roles of the future to ensure that we have an effective succession plan that identifies the proper skills and grade structures throughout the organization.

6.3 FTE Chart

The following graph illustrates the number of full-time employees, part-time employees, and contractors working in each service area, as well as a summary of the entire PSC.



It is important for us to include contractors when looking at our workforce numbers, as they are a critical part of our product delivery model. The PSC attempts to blend the right amount of contract support based on cost, scalability, and expertise.

6.4 Change Management

Change exists in every organization and can be seen in many forms. Regardless of size, change can be a difficult process to manage, and just like most Federal entities, the PSC must undergo continuous change. The PSC leadership realizes it must approach change as a constant, ongoing activity rather than just an ad hoc event or a requirement for a special project.

In order to assist employees in dealing with the changes, the PSC leadership recognized the need to bring in facilitators to conduct an open dialogue about what leading change entails. All employees were invited to participate in these sessions where topics such as the dynamics of change, behavioral and emotional responses to change, and methods of coping with resistance were covered.

It is now a part of the PSC culture to be open and honest about the effects change is having on employees and customers. Being educated about the change curve has helped employees in working through the change rather than resisting it. Though this can be a considerable challenge at times, the PSC Executive Team is working hard to become leaders of change rather than just managing change.

7.0 Financial Plan

7.1 Important Assumptions

- ❖ The PSC will work with customers earlier in the costing cycle to allow them to budget for actual demand.
- ❖ Customers will receive clear costing and pricing information.
- ❖ The PSC will have cost savings.

7.2 Key Financial Indicators

The PSC will use the following financial indicators to measure success:

- ❖ Achievement of 100% cost recovery in all business lines.
- ❖ A decrease of 17% in the revenue consumed internally through intra-service costs.
- ❖ Reduction of 10% in the PSC overhead rates.

7.3 Past Performance

For the past three years the PSC has received a “clean” financial audit opinion. In addition, we have been able to give back over \$16M to our customers in either credits or price reductions because of good cost management throughout the year. Finally, in FY 2003 all products and services fully recovered their costs.

7.4 FY03 Financial Statement

Below is a copy of the PSC Statement of Net Cost for FY03 representing past performance.

| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
|---|------------|------------|----------------|
| Program Support Center (PSC) | | | |
| CONSOLIDATED STATEMENT OF NET COST | | | |
| For the period ending September 30, 2003 | | | |
| (in thousands) | | | |
| | | Less: | Combined |
| | Gross | Earned | Net Program/ |
| | Cost | Revenues | Activity Costs |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Net Program/Activity Costs | | | |
| GPRAs Programs: | | | |
| Administrative Operations Service | \$ 203,358 | \$ 188,645 | \$ 14,713 |
| Financial Management Service | 48,438 | 59,275 | (10,837) |
| Human Resources Service | 58,896 | 68,402 | (9,506) |
| Federal Occupational Health | 152,735 | 159,616 | (6,881) |
| Net Cost of Operations | \$ 463,427 | \$ 475,938 | \$ (12,511) |

Appendix – Glossary of Acronyms

| | |
|------------|---|
| ACF..... | Administration for Children and Families |
| AFPS | Accounting for Pay System |
| AHRQ | Agency for Healthcare Research and Quality |
| AoA..... | Administration on Aging |
| AOS | Administrative Operations Service |
| AUSA | Assistant United States Attorney |
| BCA..... | Business Case Analysis |
| BPA | Blanket Purchase Agreement |
| CAMIS..... | Cost Allocation Management Information System |
| CASU | Cooperative Administrative Support Unit |
| DAM | Division of Acquisition Management |
| DCP | Division of Commissioned Personnel |
| DFAS..... | Defense Finance and Accounting Service |
| DFO..... | Division of Financial Operations |
| DOC | Department of Commerce |
| DOD..... | Department of Defense |
| DOL..... | Department of Labor |
| DOT..... | Department of Transportation |
| DPM | Division of Property Management |
| DTS..... | Division of Technical Support |
| EAP | Employee Assistance Program |
| EHRP..... | Enterprise Human Resources and Payroll System |
| GSA | General Services Administration |
| HHS..... | Department of Health and Human Services |
| HRS..... | Human Resources Service |
| HRSA | Health Resources and Services Administration |
| FARS | Financial Assistance Reporting System |

| | |
|--------------|--|
| FMS..... | Financial Management Service |
| FOHS | Federal Occupational Health Service |
| FOIA | Freedom of Information Act |
| FTE..... | Full-Time Equivalent |
| FY | Fiscal Year |
| IHS..... | Indian Health Service |
| IRMS | Information Resource Management Service |
| IRIS | Indirect Cost Rate Information System |
| ISS..... | Information Systems Security Division |
| KPI..... | Key Performance Indicator |
| LAN | Local Area Network |
| NIH..... | National Institutes of Health |
| NOR | Net Operating Results |
| OGAM..... | Office of Grants and Acquisition Management |
| OGC | Office of the General Council |
| OIG..... | Office of Inspector General |
| OIT | Office of Information Technology |
| OMB | Office of Management and Budget |
| OPDIVs..... | Operating Divisions |
| OPM | Office of Personnel Management |
| OS..... | Office of the Secretary |
| PSC | Program Support Center |
| PHS..... | Public Health Service |
| PMA..... | President's Management Agenda |
| PMS | Payment Management System |
| PRICES | PSC Revenue, Invoicing and Cost Estimation System |
| PRISM | Purchases Request Information System |
| REGO II..... | Reinventing Government |
| RPM..... | Resources Planning and Management Division |
| SAMHSA | Substance Abuse and Mental Health Services Administration |
| SSC | Supply Service Center |

SSF.....Service and Supply Fund
TIPTelecommunications Improvement Project
TSS.....Technology Support Services Division
UFMS.....Unified Financial Management System
WAN.....Wide Area Network