**UNITED NATIONS DEVELOPMENT PROGRAMME**
**Office of Audit and Investigations**

**AUDIT**

**OF**

**MANAGEMENT OF OUTSOURCED ICT SERVICES**

**IN**

**UNDP**

**Report No. 2029**

**Issue Date: 1 February 2019**

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**Report on the Audit of Management of Outsourced Information and Communication Technology Services**
**Executive Summary**

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP's management of outsourced information and communication technology (ICT) services from 5 November to 11 December 2018. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) achievement of business and ICT requirements

(b) vendor selection

(c) contract management

(d) vendor management

The audit covered the activities regarding the management of outsourced ICT services from 1 January 2017 to 31 October 2018. This was the first audit of the management of outsourced ICT services.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

**Overall audit rating**

OAI assessed the Office as **satisfactory**, which means "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area."

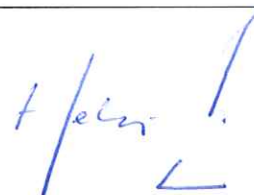**Key recommendations:** Total = **2**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are two medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP." These recommendations include actions to address: the lack of a formalized and documented risk assessment process of outsourcing of ICT services and weaknesses in the evaluation of the performance of service providers.

The two recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); and (b) effectiveness and efficiency of operations (Recommendation 2).

**Management comments and action plan**

The Officer-in-Charge of the Office of Information Management and Technology accepted both recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
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## I. About management of outsourced ICT services

The outsourcing of information and communication technology (ICT) services provides organizations with flexibility and cost savings by transferring the services, infrastructure or applications processing to a supplier. The scope of the outsourced activities can include:

- Operating infrastructure (and related processes) at the data centre of the customer or the supplier
- Processing of a proprietary application by the servicer (application services provider)
- Development or maintenance of applications
- Managing the information security infrastructure and supporting processes
- A combination of any of these and other business and technology processes

UNDP outsources the following ICT services:

| Service | Expenditure 2017 (in millions $) | Expenditure 2018 (until 31 October 2018) (in millions $) |
|---|---|---|
| | | |
| ERP system (Atlas) (Oracle) | 2.0 | 2.4 |
| Hosting of various systems (UNICC) | 8.9 | 5.3 |
| Office productivity tools (Microsoft) | 4.4 | 2.5 |
| Communications (e.g., VSAT) | 3.6 | 3.0 |
| System support and development | 8.0 | 4.1 |
| | | |

The outsourced ICT services are managed by the Office of Information Management and Technology (OIMT). Procurement of the outsourced services is done by OIMT through the Central Procurement Unit of the Bureau for Management Services.

## II. Audit results

Satisfactory performance was noted in the following areas:

(a) <u>Vendor selection</u>. The selection of vendors conducting outsourced ICT services was found to be adequate and in line with the applicable policies and procedures.

(b) <u>Contract management</u>. Contracts related to outsourced ICT services were properly managed.

OAI made two recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

**Medium priority recommendations**, arranged according to significance:
(a) Improve the evaluation of the performance of service providers (Recommendation 2).
(b) Formalize and document the risk assessment process regarding the outsourcing of specific ICT functions/processes (Recommendation 1).

The detailed assessment is presented below, per audit area:

## A Achievement of business and ICT requirements

**Issue 1**  Lack of a formalized and documented risk assessment process of outsourcing of corporate ICT services (processes and/or functions)

According to the Institute of Internal Auditors, risk assessment is fundamental to the initial decision of whether or not to outsource certain ICT services. Furthermore, to facilitate the monitoring and management of the risks associated with the outsourcing of ICT services, organizations should maintain documents and records on all aspects of the outsourcing, including risk analyses.

OIMT conducted and documented risk assessments of service providers as part of its normal procurement process. However, a formal and documented assessment of the ICT-related risks associated with the actual outsourcing of corporate ICT functions/processes was not part of the process, making it impossible to assess whether such an assessment had actually taken place, and if so, which risks had been assessed and what the results of the assessment were.

The absence of documented evidence regarding the assessment of risks of outsourcing specific ICT services could negatively affect the decision-making process of whether to outsource or not and could potentially lead to decisions outside of UNDP's risk tolerance.

| Priority | Medium (Important) |
|---|---|
| **Recommendation 1:**<br><br>The Office of Information Management and Technology should formalize and document its risk assessment process regarding the outsourcing of corporate ICT functions/processes. | |
| **Management action plan**<br><br>In general, OIMT agrees with this idea of having a risk assessment for outsourced services, but believes that it is more than just an ICT-specific issue. Outsourcing may be done by any unit in UNDP and may be for services that go beyond IT. In OIMT's opinion, the requirement for units to perform a risk assessment prior to outsourcing should be done centrally by the Central Procurement Unit and pertain to all units of UNDP for all outsourced procurement exercises. Nevertheless, OIMT will amend its procedures and will conduct and document a risk assessment regarding any future procurement regarding outsourcing of ICT functions and/or processes.<br><br>**Estimated completion date:** December 2019 | |

## B. Vendor management

**Issue 2**  Weaknesses in the evaluation of the performance of service providers

According to the Institute of Internal Auditors, the management of the performance of service providers should be monitored on a routine and frequent basis to ensure compliance with the contract/Service Level Agreement and to ensure value for money.

OIMT did not have an ongoing monitoring process to ensure that service provider's performances were aligned with the outsourcing contract. Generally, the performance of service providers was only evaluated in cases where the contract with the service provider needed to be extended. Moreover, service levels/key performance indicators used in the performance evaluation were limited to a few indicators (e.g., uptime, inputs and volume), making the effectiveness and efficiency of a service provider's performance difficult to measure.

Not measuring and monitoring (and poorly defining) service levels/key performance indicators can result in the inability to effectively manage and monitor service quality and price and delivery in line with outsourcing objectives, potentially leading to payments for services not in line with contractually defined qualities and quantities.

| | |
|---|---|
| **Priority** | Medium (Important) |
| **Recommendation 2:**<br><br>The Office of Information Management and Technology should improve evaluation of the performance of its service providers by:<br><br>(a)  regularly evaluating performance of all its service providers, regardless of contract extension; and<br><br>(b)  establishing performance indicators that support the assessment of the effectiveness and efficiency of service providers (e.g., indicators that can measure (i) quality of service provided to information users, (ii) actual cost of outsourcing versus forecasted cost, and (iii) responsiveness of service providers to questions/issues raised. | |
| **Management action plan:**<br><br>OIMT management agrees with this recommendation.<br><br>OIMT has already put in place a process to track metrics on the evaluation of service providers as part of the quarterly ISO management reviews. In doing so, OIMT aims to show meaningful improvement in rating the effectiveness of vendors no later than the date of June 2019.<br><br>**Estimated completion date:** June 2019 | |

**Definitions of audit terms - ratings and priorities**

## A.      AUDIT RATINGS

- **Satisfactory**

  The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory**

  The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

## B.      PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)**

  Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

- **Medium (Important)**

  Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.

- **Low**

  Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are <u>not included in this report</u>.