UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP CLUSTERING PROCESS

Assessment of Progress and Follow-up of OAI Report No. 1912 dated 1 June 2018

Report No. 2166
Issue Date: 7 February 2020

Table of Contents

Report on Assessment of Progress and Follow-up Audit of UNDP Clustering Process
(Previous OAI Report No. 1912,1 June 2018)
Executive Summary

From 25 November to 19 December 2019, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an on-site follow-up audit of the UNDP Clustering Process. This on-site follow-up audit was undertaken, in addition to regular desk reviews, to assess UNDP's progress in implementing the recommendations contained in the Audit Report No. 1912. The follow-up audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing.* In addition to reviewing the implementation of audit recommendations, OAI has also assessed UNDP's progress in implementing the clustering process.

Audit scope and approach

The follow-up audit reviewed the implementation of 10 audit recommendations contained in OAI report No. 1912 issued on 1 June 2018. Specifically, the objectives were to:

- determine if recommended corrective actions were properly taken to address the issues noted in the previous audit;
- assess those recommendations that remained outstanding and obtain a revised timeframe for full implementation from the Bureau of Management Services (BMS).

OAI conducted appropriate tests of activities and interviewed management and staff concerned to determine whether the reported corrective actions were indeed implemented, as reported by the office in the Comprehensive Audit and Recommendation Database System (CARDS).

Audit results

UNDP has made progress in implementing the clustering process, and this was mainly due to senior management involvement and patronage of the process.

The Executive Group (EG) of UNDP has approved the establishment of a Project Team for Global Shared Services (Project Team) to develop a business case for UNDP's clustering initiative. The EG has approved the clustering business case, including the finance and procurement components of the proposal, while reserving the opportunity to revisit the human resources (HR) component.

The first Global Shared Services Project Board meeting took place on 20 November 2019. The project manager was hired, and most of the team member positions were already filled or under recruitment when this follow up audit was performed (Nov-Dec 2019).

Of the 10 audit recommendations, the Bureau for Management Services (BMS) had fully implemented 5 and initiated action on 5, resulting in an implementation rate of 50 percent as per CARDS on19 December 2019.

Implementation status	Number of recommendations	Recommendation No/s.
Implemented	5	1, 2, 3, 7, 8
In progress	5	4, 5, 6, 9, 10
Total	**10**	**10**

The detailed implementation status of the 10 recommendations has been updated by OAI in CARDS.

Section I summarizes the 10 recommendations that are in progress and implemented. OAI encourages BMS to continue to take appropriate actions to address the remaining recommendations. OAI will continue to monitor the progress of the implementation of the recommendations as and when updates are provided by the Office in CARDS.

Section II presents additional audit issues, which were identified following the additional work done by OAI, as well as the visit to the Global Shared Service Centre in Kuala Lumpur (Malaysia) in December 2019.

OAI noted three additional audit observations and raised four recommendations, of which one was rated high priority. For the high (critical) priority recommendation, 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. The high (critical) priority recommendation is presented below:
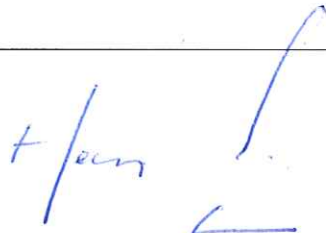
Uneven/siloed implementation of the clustering process (Issue 1)	Though the Clustering business case proposed an end-to-end/integrated clustering plan for all streams, the audit noted that clustering was still done in separate tracks/streams. Moving a service line from the Country Offices to a shared service center in isolation from other service lines would still require Country Offices to maintain more or less the same capacity. Additionally, with a significant investment in a large number of new positions to staff following the clustering, there is a risk to the organization of the cost savings not materializing Recommendation: The Executive Office, in coordination with the Bureau for Management Services should ensure that the clustering process is implemented in an integrated way and not in silos.

Management comments and action plan

The Assistant Administrator and Director, Bureau of Management Services provided the revised implementation dates for the outstanding recommendations. She also accepted all four new recommendations and is in the process of implementing them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   Details of recommendations in progress and implemented

Rec No.	Issue title	Recommendation	Implementation status reported by the Bureau of Management Services (BMS)	OAI assessment
1	Lack of implementation of the Executive Group's decision on corporate clustering	**High (critical) priority** In coordination with the Executive Group, the Bureau for Management Services should prepare a proposal to the Executive Group to revisit the design of the corporate clustering process. The Executive Group decision should be clearly communicated to the business units.	**Implemented** BMS and the Executive Office presented to the Executive Group the implementation plan for the Clustering Workstream in July 2018. The plan was approved, and a project team was appointed to develop the Business Case for corporate clustering.	**Implemented** UNDP contracted a consulting firm to develop a business case, which was subsequently reviewed and approved.
2	Lack of project management	**High (critical) priority** The Bureau for Management Services should establish a project management structure and follow well-established project management principles for its corporate clustering. The project set-up would benefit from following good practices from other agencies (e.g., funding needs to be provided, and cross-cutting team with members from different Bureaux).	**Implemented** A dedicated project manager, project management structure and team are in place, as well as an established budget and project board. The project manager manages the global clustering project and the optimization of shared service center and country level operations, activities in close consultation with the Director of the GSSU. The project manager also manages stakeholder relationships across Regional and Central Bureaux, Regional Hubs, country offices and GSSU.	**Implemented** • Project management structure established, and the project manager was in place. • Governance Board set up with clear terms of reference and membership across the organization. Though the business case required the Governance board to be chaired by the Associate Administrator; the Board was chaired by the Executive Office's Senior Advisor. • First meeting of Governance Board took place on 20 November 2019.
3	Absence of end-to-end cross-functional analysis of business processes	**High (critical) priority** The Bureau for Management Services should, as part of the proposal to the Executive Group, define clearly all the business processes in the clustered services.	**Implemented** All business processes in the clustered services are defined in the business case and the Internal Control Framework (ICF) has been updated to reflect these.	**Implemented** • Key clustered processes were defined in three groups (Finance, Human Resources and Procurement) • The ICF was updated to reflect new processes

4	Criteria for successful clustering not adequately defined	**Medium (important) priority** The Bureau for Management Services should develop a comprehensive list of KPIs, baselines and targets for tracking continuous process improvement and client satisfaction. These should be monitored on an ongoing basis and reported to clients.	**Implemented** As part of the process for preparing the Business Case for clustering, a comprehensive list of KPIs was prepared and will be implemented within the project. For the current services of GSSU, KPI's and monitoring mechanisms with the clients are already in place.	**In progress** • A set of service delivery performance measurements / metrics was set out in business cases across areas of accounts payable, expense claims, accounts receivable, general ledger, procurement, recruitment, training and development, and payroll. • Although the measurements to be tracked were set out, actual quantitative targets were not agreed. Thus, the recommendation remains in progress. Agreed revised implementation date: BMS informed OAI on the following planned actions and dates to complete the implementation of the recommendation: • Using existing RBAP KPIs as the benchmark, updated KPIs will be developed for the mature service lines (B2B, Deposits, Vendor, Local Payroll, T&E, Pay Cycle and Accounts Payable) by the end of September 2020. • For each new service line, KPIs will be defined 9 months after completion of regional rollout. • A review of the KPIs for each service line will be conducted 18 months after they have been developed.
5	Absence of clear costing methodology for services provided to COs	**Medium (important) priority** As part of the overall project planning for the next steps of the clustering process, the Bureau for Management Services should clearly articulate and communicate the costing approach and methodology to be used for the provision of clustered services.	**Implemented** As part of the clustering implementation plan, a project team will be put in place to recommend an approach/ method to be adopted on the funding and costing element for the clustered services.	**In progress** • A costing methodology was not in place at the time of the follow-up audit • Developing a costing methodology will be part of the project team's remit Agreed revised implementation date: September 2020
6	Poorly defined role of Global	**High (critical) priority** The Bureau for Management Services	**Implemented** The Global Shared Services Unit (GSSU)'s role is defined in	**In progress** • The strategic role of the GSSU within the organization had not been defined.

		Shared Services Unit	should, in its submission to the Executive Group, define the role of the GSSU and ensure that it has the right capacity to support the corporate clustering.	the business case with the right capacity to support the corporate clustering. The GSSU reports to the BMS Director.	• There was no delegation of authority to the GSSU Director to conduct operations BMS informed OAI on the following planned actions to complete the implementation of the recommendation: • GSSU would play an administrative and compliance role in the processing of transactions in line with UNDP's rules and regulations. • The delegation of authority to the GSSU Director is currently being finalized. • Capacity requirements will be aligned to the adjusted rollout plan on a rolling basis. <u>Agreed revised implementation date</u>: June 2020
7	Incomplete Operational Guide of the Internal Control Framework for GSSU	**Medium (important) priority** The Bureau for Management Services should update the 'Operational Guide of the Internal Control Framework for UNDP' with the list of all services provided by the GSSU, including a clear division of roles and responsibilities.	**Implemented** The ICF has been updated and published in the POPP with the list of all services provided by the GSSU, including a clear division of roles and responsibilities. 14 (of the 15) business process services listed that can be provided by the GSSSU now include division of roles and responsibilities between Country Offices and the GSSU in the updated ICF. This update is in line with the OPG's decision of 18 April 2019 which approved the approach for the ICF revision for the clustering implementation.	**Implemented** • The 'UNDP Programme and Operations Policies and Procedures' referred to a change in the ICF in October 2019 reflecting the division of roles and responsibilities between Country Office and GSSU. However, the Operational Guide of the Internal Control Framework (v11) was dated July 2018. The Guide included a list (in Table 5.1) of services provided by the GSSU as well as another table (5.2) setting out the CO/HQ vs GSSU responsibilities for different processes. • Processes handled by the GSSU were still in the process of being re-designed, with many of the redesigns expected to conclude in 2020. The ICF will have to be updated to reflect the redesigned processes before these are rolled out across the organization.
8	Inadequate ICT tools	**Medium (important) priority** The Bureau for Management Services should address the	**Implemented** UNDP is clustering many back-office processes and functions by removing their execution locally and have	**Implemented** • Progress was made in terms of addressing issues with Oracle CX and the phasing out of DMS.

		identified weaknesses in the submission and processing of requests, integration with other systems, and reporting.	them performed by UNDP's Global Shared Service Unit (GSSU) located in Cyberjaya, Malaysia. During the remainder of 2019 and for all of 2020, the scope of services performed, and the countries and regions covered will be increasing gradually. To support this effort and ramp-up, numerous changes to the corporate systems landscape are required. In August 2019, OIMT and GSSU identified and prioritized the set of items to be delivered by October 2019.	There was an ongoing work to address issues raised by OAI in areas of submission of requests, processing of requests, integration with other systems, and reporting. However, GSSU remained dependent on the availability of OIMT. The Business Case required UNDP to ensure GSSU Kuala Lumpur has the right IT support and recommended that a dedicated IT Unit be set up in the GSSU, which reports directly to the GSSU Director with a matrix reporting line into OIMT as the functional owner. However, OAI recognizes that OIMT cannot be on a standby mode to respond to all requests from GSSU, particularly that many service lines were not yet mature (Ref. Rec 10).
9	Number of transactions per GSSU staff can be increased	**Medium (important) priority** With the completion of the financial clustering in the Regional Bureau for Asia and the Pacific, the Bureau for Management Services should update its time-motion study to identify how it can improve staff utilization.	**Implemented** The clustering teams were reorganized based on the revised time-motion studies: For example, for voucher creation the team has been reduced by 8. This has been done based on the assessment of the capacity required to process the number of 2018 cases and the minutes spent per case. The clustering teams were rationalized and reorganized as follows: Voucher team headcount reduced by 8; Local Payroll team headcount reduced by 1; B2B team headcount increased by 1; Deposit team headcount increased by 1; Vendor team headcount increased by 3; A new Quality Assurance team was created (3 positions). With the current structure and capacity, GSSU will be able to continue its service offer to 24 Country Offices in RBAP and will also be able to start offering B2B, Deposit, Vendor Management and Ticket reconciliation services to 27 Country Offices in RBLAC.	**In progress** • A transaction volume analysis and a time motion study were performed and opportunities for efficiency gains were identified. • The time motion study was limited to the voucher creation and voucher approval steps of invoice processing as well as vendor management. It did not extend to other processes undertaken by GSSU. • OAI's walk-through showed that the time motion study was not detailed enough and did not cater for manual/complex processes. • BMS informed OAI that the time and motion study for the remaining service lines provided to RBAP (Ticket reconciliation, B2B, Deposits, Pay Cycle) will be performed by June 2020. And the time motion studies for AP Voucher and Vendor Management for RBAP will be updated to include manual/complex transactions by June 2020. Agreed revised implementation date: June 2020

| 10 | Lapses in business process re-engineering | **High (critical) priority**

The Bureau for Management Services should undertake a thorough review of current SOPs and relevant business processes across all areas of financial clustering to streamline the process and to remove unnecessary overlaps and duplications. Additionally, areas such as external access to Atlas and the use of E-invoicing should be explored further. | **In progress**

A new SOP on Air Ticket Reconciliation for Country Offices in the Atlas Travel and Expense module has been revised and finalized. Work on the following remaining SOPs is in progress: B2B, AP voucher, Payment Cancellation, Pay Cycle, Bank Transfer, Deals, Deposit Creation and Application. | **In progress**

• BMS informed OAI that pending SOPs (B2B, AP voucher, Payment Cancellation, Pay Cycle, Bank Transfer, Deals, Deposit Creation and Application) will be completed by June 2020.

<u>Agreed revised implementation date</u>: June 2020 |

II.   Other audit issues

While checking the implementation status of the previous audit recommendations, OAI identified additional audit issues, as described below:

Issue 1   Uneven/siloed implementation of the clustering process

The clustering business case included three functions: human resources (HR), finance, and procurement. It built on data collected from 43 medium and large sized Country Offices (COs) and 89 processes related to HR, procurement and finance. This led to identifying 59 processes with a potential for clustering. Then data was collected as part of a workload study to understand the time and cost of those 59 processes and how these would be changed if they were delivered as part of a shared service solution rather than at the Country Office level. The results were extrapolated to the entire Country Office population and presented to the Executive Group, identifying potential savings of up to $30 million.

Though the clustering business case proposed an end-to-end clustering plan for the three streams, the audit noted that clustering was still done in separate tracks/streams. Moving a service line from the Country Offices to a shared service center in isolation from other service lines would still require Country Offices to maintain more or less the same capacity. Additionally, with a significant investment in a large number of new positions to staff the Global HR Service Centers in particular, there is a risk to the organization of the cost savings not materializing. as, In addition to all the additional staff recruited at the Global HR Service Centers, there will still be a significant operational capacity in certain Country Offices which would negate the entire clustering business model and its assumption on greater efficiency and better quality of operational services provided to the Country Offices.

As far as the clustering of HR services was concerned, the Office of Human Resources (OHR) adopted a different approach from the one recommended by the business case, by clustering location-independent services in Global HR Service Centers (GHRSCs), creating Regional Service Centers across the world to perform the recruitment of Service Contract holders, and keeping residual HR functions at the Country Office level. OHR's proposal identified new locations which had not been initially mentioned in the business case.

Finally, the audit noted that the Regional Bureau for Asia and the Pacific (RBAP) Clustering pilot was not closed, and no document capturing the main lessons learned was prepared. This would have greatly informed the clustering process.

The absence of a coordinated approach and plan taking into account any interdependencies between the three areas being clustered may result in delays, increased cost and inefficiencies in the clustering process. Additionally, lack of a dissemination of lessons learned from the RBAP pilot may result in the next steps in the clustering process not benefiting from insights gained during the pilot.

Priority	High (Critical)
Recommendation 1: The Executive Office, in coordination with the Bureau for Management Services, should ensure that the clustering process is implemented in an integrated way and not in silos.	

Management action plan:

The Executive Office, in coordination with the Bureau for Management Services, will ensure that the clustering process in respect of the three functions (finance, human resources and procurement) is implemented in an integrated way.

Estimated completion date: June 2020

Priority	Medium (Important)
Recommendation 2: The Executive Office, in coordination with the Regional Bureau for Asia and the Pacific and the Bureau for Management Services, should close the clustering pilot phase and develop a lessons-learned document.	
Management action plan: Lessons learned from the Regional Bureau for Asia and the Pacific (RBAP) pilot were an important element that informed the design of the UNDP Clustering Business Case. The Executive Office, in collaboration with the Bureau for Management Services and RBAP, will now formally close the clustering pilot phase and develop a lessons-learned document. **Estimated completion date:** June 2020	

Issue 2   Absence of project document and implementation plan

Established project management methodologies such as PRINCE 2 outline the basic steps in successfully managing a project. They set out key principles that an organization should follow when planning and implementing a project, including developing a clear project document with key milestones, results to be achieved, roles and responsibilities, and workplan.

There was no consolidated project document for the clustering project. Though a project team had been established, a project document with key milestones, roles and responsibilities, annual workplan, budget, risk log, etc. had not been prepared. The EG decision required the GSSU to 'develop an implementation plan for the next phase of service consolidation, taking into account potential risks of implementation and feedback received by the Project Team with respect to programme structure and governance. 'No implementation plan was in place at the time of the audit.

Due to the large number of often concurrent activities set out in the clustering business case, an up-to-date action plan/timeline including all activities should be maintained to help ensure that delays are minimized, and activities are sequenced as needed.

Priority	Medium (Important)
Recommendation 3: The Executive Office, in coordination with the Bureau for Management Services should develop a consolidated project document and implementation plan, including clear milestones for all three streams of the clustering process.	
Management action plan: The Executive Office, in coordination with the Bureau for Management Services, will finalize the Project document including the implementation plan for the next phase of service consolidation. **Estimated completion date:** March 2020	

Issue 3   Insufficient communications around clustering

The 'Clustering Business Case' document identifies that a major contributor to the Shared Service Centre project implementation success is frequent, open, honest, and clear communication. To achieve this objective, the project team will need to work closely with the Regional Bureaux to manage expectations, to ensure key messages are conveyed and to facilitate buy-in among stakeholders. It further added that planning for communication and transition initiatives will require customization for each of the Regional Bureaux and Country Offices, to ensure that the respective organizational structures and business exigencies are considered. The GSSU retreat in October 2018 highlighted that clustering had a negative connotation in Country Offices as it was associated with job losses and suggested proper communication to staff of the objectives and the impact of clustering.

At the time of the audit, there was no strategy on how to address such concerns raised by Country Offices and Regional Bureaux. There was a need for further communication on how clustering was going to affect Country Offices and Regional Bureaux, particularly since they needed to make resourcing and staffing decisions for 2020 onwards.

Effective clustering requires constant communication within and outside the organization to ensure an inclusive and transparent process. Engagement of Regional Bureaux is critical.

Priority	Medium (Important)
Recommendation 4: The Executive Office, in coordination with the Bureau for Management Services should develop and implement a communication strategy to keep all UNDP staff abreast of developments regarding the clustering project and its implementation.	
Management action plan: Communication Plan: A Communication Plan was finalized; however, implementation was slightly delayed due to challenges faced recruiting a substantive Communications Specialist. Two candidates have been	

approached thus far, both of whom declined the offers made in January 2020. The Project Team will continue the recruitment process and ensure that implementation of plan proceeds accordingly to keep all UNDP staff abreast of developments regarding the clustering project and its implementation.

Impact on Country Office Staff: A Staff Transition Strategy is being developed by the Office of Human Resources and the Regional Bureaux to support Country Office staff impacted by the Project in transitioning to future roles that will be aligned to the new UNDP business model. The Director of the Office of Human Resources presented a draft plan to the Board on 20th November 2019. Messaging relating to the Transition Strategy will be included in the Communications Plan.

Estimated completion date: March 2020

ANNEX   Definitions of audit terms – implementation status, ratings and priorities

A. IMPLEMENTATION STATUS

- **Implemented**   The audited office has either implemented the action as recommended in the audit report or has taken an alternative solution that has met the original objective of the audit recommendation.

- **In progress**   The audited office initiated some action to implement the recommendation or has implemented some parts of the recommendation.

- **Not implemented**   The audited office has not taken any action to implement the recommendation.

- **Withdrawn**   Because of changing conditions, OAI considers that the implementation of the recommendation is no longer feasible or warranted or that further monitoring efforts would outweigh the benefits of full implementation. A recommendation may also be withdrawn when senior management has accepted the residual risk of partial or non-implementation of recommendation.

B. 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.

C. 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>.