	NATO	NORTH ATLANTIC COUNCIL
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25 July 2016

DOCUMENT
C-M(2016)0042-AS1 (INV)

**IBAN SPECIAL REPORT TO COUNCIL ON THE NEED FOR ACTION TO ENSURE THE
NATO COMMUNICATION AND INFORMATION AGENCY'S TRANSITION PROGRAMME**

ACTION SHEET

On 22 July 2016, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)21-REV1 attached to C-M(2016)0042 (INV) and agreed the recommendations contained in the RPPB report.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0042 (INV).

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DOCUMENT
C-M(2016)0042 (INV)
Silence Procedure ends:
22 Jul 2016 16:00

**IBAN SPECIAL REPORT TO COUNCIL ON THE NEED FOR ACTION TO ENSURE THE
NATO COMMUNICATION AND INFORMATION AGENCY'S TRANSITION
PROGRAMME**

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) Special report to Council on the need for action to ensure the NATO Communication and Information Agency's (NCIA) Transition Programme.
2. The IBAN has assessed the planning, management and governance of six projects and the overarching NCIA Transition Programme with the objectives of improving the overall performance of the NCIA and transforming it into a service-based organisation.
3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided its own report with conclusions and recommendations to Council, also taking into account the ongoing work in the Resource Committees to improve NCIA governance and delivery of common funded capabilities within approved cost, scope and schedule to meet the military requirements of the Alliance.
4. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 16:00 hours on Friday, 22 July 2016**, I shall assume that the Council has noted the IBAN report IBA-AR(2014)21-REV1 and agreed the recommendations contained in the RPPB report.

(Signed) Jens Stoltenberg

3 Annexes

Original: English

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**IBAN SPECIAL REPORT ON THE NEED TO ENSURE THE NCI AGENCY'S
TRANSITION PROGRAMME IMPROVES AGENCY PERFORMANCE**

Report by the Resource Policy and Planning Board

References:

- (a) IBA-A(2015)194-REV1 & IBA-AR(2015)21-REV1
- (b) BC-D(2016)0012-FINAL
- (c) AC/4-N(2016)0005-FINAL

Introduction

1. The present report by the Resource Policy and Planning Board (RPPB) contains the RPPB's assessment and recommendations concerning the International Board of Auditors for NATO (IBAN) *Special Report to Council on the Need to Ensure the NCI Agency's Transition Programme Improves Agency Performance* (reference (a)).
2. The report takes full account of the reviews of the IBAN report provided by the Budget Committee (BC) (reference (b)) and the Investment Committee (IC) (reference (c)).

Aim

3. The aim of this report is to provide the Board's position on the IBAN observations; also taking into account the ongoing work in the Resource Committees to improve NCIA governance and delivery of common-funded capabilities within approved cost, scope and schedule to meet the military requirements of the Alliance.

Background

4. The NATO Communications and Information Agency (NCIA) was set up in 2012 by combining several entities responsible for delivering communication and information system capabilities and services. In the same timeframe, awareness grew that the NCIA performance, particularly for capability delivery, should be improved, to ensure that projects are delivered within approved scope, cost and schedule.
5. The NCIA initiated a Transition Programme (the Programme) in 2012. The Programme includes projects designed to improve capability and service delivery by addressing recognised shortfalls, such as:
 - a lack of documented business processes,
 - inconsistent programme, project and portfolio management, and
 - multiple financial and project management systems with limited capabilities.
6. The NCIA implements the Programme under strict guidance from Nations to continue delivering critical services and capabilities. Programme activities take place

simultaneously with other priority activities such as technology acquisition programmes, support of ongoing military operations and activities to enhance Alliance readiness.

IBAN report summary

7. In their subject Special Report to Council, the IBAN assessed the planning, management and governance of six projects and the overarching Transition Programme with the objectives of improving the overall performance of the NCIA and transforming it into a service-based organisation. The report points out four major areas where improvements are needed in the Transition Programme to improve NCIA performance:

- projects are too limited to fully improve performance;
- projects are significantly delayed;
- the Transition Programme was not managed effectively; and
- Governing bodies provided insufficient oversight.

8. The IBAN make the following recommendations:

8.1. To make meaningful improvements in organisational performance, the NCIA should reassess current Programme planning. In this planning the specific steps, additional scope and realistic time frames (to include milestones and targets) for achieving the full benefits of all Programme projects should be stressed.

8.2. To better implement the Programme in accordance with best practices in change management, the IBAN recommends the NCIA take a more strategic and holistic approach to managing risk, dependencies, resources and benefits achievement. Steps to ensure critical business process and technology enabler work progresses at the best possible speed should be prioritised.

8.3. To improve decision-making and accountability, the IBAN recommends that the NCIA make its Programme reporting more complete, balanced and transparent. The IBAN further recommend that the NCIA governing bodies take a more active oversight role by agreeing clear roles and responsibilities, enforcing regular, consistent reporting requirements and providing direction and guidance when needed.

Discussion

9. Moving to customer funding has not proven easy for the NCIA or its customers. It requires a change in culture and procedures that takes time and resources, which the IBAN points out as having been underestimated. The ability to incorporate different models and organisations into a single Agency and the designation of the NCIA as the principal supplier of CIS services to NATO in a customer funding model has made a transition period (and need for a Transition Programme) inevitable and there are areas of the transition that could have been done better and need improvement going forward. The Board recognises and fully supports the need for improvement, while recalling that throughout the stand up and transition of the NCIA, the Resource Committees have stressed the need for operational continuity given the crucial role the Agency provides in meeting Alliance goals, including in Operations and the Readiness Action Plan (RAP).

10. The Board continues to emphasise the need for support transitional tools to be in place in transitioning different models and organisations into a single Agency. The lack of such tools for the NCIA, including Enterprise Business Applications (EBA), was recognised early in standing up the NCIA and will continue until at least 2017. The availability of a transparent, verifiable and auditable (financial and performance) cost model/cost accounting system is one of the most critical success factors for an effective and efficient customer funding framework in NATO and for proper budget allocation. The Board, taking into account also the BC report, considers that the delays in the acquisition and implementation of support transitional tools has been an important factor in not achieving full financial transparency and has impacted all areas of the Transition Programme. The Board therefore sees the need for the continued use of mitigation measures as critical if the Transition Programme is to succeed and the customer funding model for NCIA to achieve its full potential.

11. The Board is aware that particularly implementation of the EBA portion of the Transition Programme, as the largest single project and important technology enabler, as also highlighted by the BC in its report, continues to be significantly delayed from 2Q 2016 to December 2017. Further that the NCIA is currently preparing a cost overrun request of 14 M€ related to the EBA system for consideration by the IC before the 2016 summer recess.¹ The Board expects to see a renewed Agency commitment and appropriate internal prioritisation and leadership to ensure that the EBA project proceeds on the basis of well-defined requirements and that the expected overall efficiencies, benefits and savings from the NATO Agencies Reform materialise. Full NCIA commitment to the timely completion of the EBA portion of the Transition Programme is considered of key importance. Particularly, the consolidation, rationalisation and optimisation of core business units within the NCIA and establishing processes that follow industry best practice across the NCIA should lead to reduced costs due to improved efficiency.

12. The customer funding model for CIS capabilities and support presents the peculiarity that the NCIA operates as an effective monopoly supplier to the NATO HQ, the NCS, and a number of other entities. Over 90 % of NCIA revenue is derived from common funded customers. The NCIA continues to improve its customer relationships and financial transparency and accountability. However, there is still room for further improvement and the need to reach and use stable methodologies is important for inter-year comparisons and mature customer relationships, as well as the need for the BC to start to establish a meaningful benchmarking mechanism.

13. The NATO Agencies reform aimed at maximising effectiveness and efficiency in the delivery of capabilities and services, in support of NATO's objectives and priorities. The set-up of the NCIA has so far not resulted in a discernible improvement in the delivery of common funded capabilities. This is an element of concern to the Board. While the impact of delays or cost overruns (or both) on individual capabilities is a concern in its own right, there is a broader dimension in that around 60 % of the NSIP and a significant element of the MB are implemented by the NCIA and so even modest growth in the cost of CIS capabilities and support has a distorting effect on other requirements. It is a significant

¹ OC/IC(2016)0016

cause of the pressure on Military Budgets ceilings, as also highlighted recently by Military Customers of CIS services.² The Board remains highly engaged on this issue.

14. The Board notes that on financial grounds NATO Reform progresses slowly, with a prospect for savings below original expectations. Transition costs prevail over cost reductions, although reductions have an annual recurring nature which should offset transition costs eventually. The Board has concluded that there is still potential for further savings, and it would be prudent to focus effort on the completion of the NCIA Transition Programme, thereby enabling current targets to be achieved.³ To note regarding the NCIA transition is also that the originally estimated transition costs do not include provision of common funded support for the rationalisation of the NCIA geographic footprint since no requirements were identified at that stage. Besides the significant Host Nations' capital investment for the construction of new facilities, there is as well an investment by the NCIA, which has now been identified, for the relocation of personnel and assets.⁴ The implementation of the geographic footprint is now a 40 M€ charge against the NSIP.⁵

15. The Board has long stressed the criticality of completing and verifying the handover/takeover (HO/TO) of inventory and Property, Plant & Equipment (PP&E)⁶, in particular in the context of the NATO Agencies Reform.⁷ Sufficient management priority needs to be given to the transfer, recording and maintenance of PP&E. The need for further and better cooperation between NCIO and other NATO entities is clear, including the implementation of improved policies/agreements and control mechanisms. The Board notes that the delay of the EBA until 2017 means no one system is yet able to contain all NCIA inventory and asset management, which is required. Revisions to the NATO Accounting Framework⁸ have far reaching implications for how NCIA accounts for CIS assets. Transitional arrangements have been agreed until 2018 to allow the application of these changes which represent a major step forward in dealing with audit observations on PP&E.

16. The Board recalls that the lack of an agreed ESPE and military manpower has been highlighted as an area of concern since the creation of the NCIA in 2012. In fact, the implementation of the Transition Programme has been made more difficult by a lack of clarity regarding military manpower without an agreed ESPE, and has contributed to the NCIA ability to manage its many priorities well. The ESPE, albeit submitted later than planned, should allow the NCIA to achieve a stable military manpower baseline from which to continue transition. Also the continued concern of not having an agreed civilian personnel manning remains a concern. The RPPB considers such resource shortfalls should be addressed through internal measures, rather than viewed as costs to be passed on to customers.⁹ While the IBAN report highlights the difficulty that insufficient staffing has caused, the Board, taking also the BC report into account, concludes that the problem of NCIA manning is only

² 8000/TSC-MXX-0030/TT160401/Ser:NR; and SH/CCD/J6/PTA/090/16-313260; both dated 30 March 2016.

³ AC/335-N(2016)0031-REV2

⁴ C-M(2014)0054

⁵ AC/335-N(2016)0026-REV1

⁶ International Public Sector Accounting Standards (IPSAS). IPSAS 17 -Property, Plant and Equipment.

⁷ E.g. C-M(2016)0019

⁸ C-M(2016)0023

⁹ PO(2015)0750

likely to be fully dealt with once manpower is analysed and incorporated in the Savings and Benefits Plan in 2016 and actioned as a result.

17. The Board appreciates the full reviews of the IBAN report provided by the BC and IC, which are taken into account in the Board's own report. The Board notes that the BC has provided specific comments on three areas highlighted in the IBAN report: the lack of support transitional tools (including EBA Systems); the need to improve project cost estimation to allow for realistic customer rates; and the need for adequate staffing support. The IC has focused its input on the importance that it attaches to the timely completion of the Transition Programme and on clarifying the IC's role in overseeing the implementation of the investment elements of the Transition Programme.

18. The Board notes the IC view that due oversight is provided by the IC on the NCIA Transition Programme and appreciates the clarifications provided by the IC regarding this point in the IBAN report; also on, in many respects, the exceptional nature of the investment portion of the Transition Programme among NSIP projects. Since authorisation as a single NSIP project in December 2013, the IC has been following the progress on the implementation of the Transition (NSIP funded portion) on the basis of regular updates by the NCIA. The Board invites the IC to strengthen further its monitoring of progress on implementation, building on the quarterly reporting by the NCIA which has been initiated for this programme.

RPPB Conclusions

19. The Board welcomes this IBAN Special report to Council which provides a new focus on shortfalls in the NCIA Transition Programme. The issues raised in the report are important to the Alliance as part of the NATO Agencies Reform and capability delivery. While many of the audit observations and comments are not new, the grouping and analysis by the IBAN within the Transition Programme gives them a new focus and allows weaknesses to be identified as part of the overall process of reaching a mature Agency end state.

20. The Board notes with concern the IBAN conclusion that the NCIA management has not effectively directed and overseen the Transition Programme implementation. As a result, priority Transition Programme tasks, including process design, remain unperformed. Also, that there has been a lack of oversight of the Transition Programme from the Agency Supervisory Board (ASB). The Board shares the view that in order to remedy this, there is a need for the NCIA to reassess current Transition Programme planning; and for the ASB to take a more active oversight role by agreeing clear roles and responsibilities, enforcing regular, consistent reporting requirements and providing direction and guidance when needed. The Board urges the NCIA to properly prioritise and manage the implementation of the remainder of the Transition Programme. Further, the Board expects all NCIA governing bodies¹⁰ to closely monitor the implementation of the Transition Programme.

21. The NATO Agencies reform aimed at maximising effectiveness and efficiency in the delivery of capabilities and services, in support of NATO's objectives and priorities. In this

¹⁰ C-M(2012)0049

regard, the Transition Programme is a key enabler to increased Agency effectiveness and efficiency in delivering common funded capabilities and to further benefits and savings from the NATO Agencies Reform. The Board is therefore very concerned with the delay and the cost growth in implementation of the Transition Programme. The Board recalls that successful implementation of the Transition Programme is critical to improving NCIA project cost estimation, overall transparency and accountability and for the customer funding model for the NCIA to achieve its full potential. The Board recalls that that around 60 % of the NSIP and a significant element of the MB are implemented by the NCIA; and therefore the high impact NCIA performance has on common funded customers. The Board has consistently highlighted the need for more efficient and effective capability delivery by the NCIA.

22. The Board notes that the provisions of the Customer Funding Regulatory Framework for the NCIA¹¹, agreed in July 2015, will aid the Transition Programme. The Regulatory Framework is a fundamental part of the governance of the NCIA, along with the NCIO Charter provisions. The Board will undertake a review of the Regulatory Framework and current customer funding arrangements by 1 July 2017.

23. The Board has already concluded that it intends to continue to seek periodic updates on the impacts of the NCIA manning, implementation of the NCIA financial plan and evolution of customer rates and the effect on customers by the resource implementing committees.¹²

24. The Board recognises that many of the corrective actions recommended by the IBAN fall to the ASB and the Agency structures to implement. In doing so, the Board notes that the NCIO ASB has stressed the need to make the most of the IBAN findings and recommendations, from both a management and governance perspective.¹³ The NCIO ASB, as NCIA governing body, is monitoring the implementation of the IBAN findings and the Transition Programme. The Board further notes the concurrence of the NCIA General Manager, in his formal comments to the IBAN report, and his statement that major efforts to resolve the identified issues have occurred. Further that the NCIA in response to the IBAN report has put in place five change management priorities for immediate implementation.¹⁴ The Board expects to see credible achievements by no later than end 2016, noting that the full benefits are expected by end 2017. Nevertheless, the Board notes that significant challenges and risks remain before the NCIA will reach a mature customer funding steady state. The Board will closely follow the implementation of the IBAN recommendations and other improvement measures with the expectation that they will produce the anticipated results. In this regard, the Board considers it of critical importance that the NCIO ASB continues to closely monitor the implementation of the Transition Programme and said recommendations and measures.

25. With regard to public disclosure, the Board concludes that the IBAN Special Report to Council and its own report do not contain information which, according to the NATO Policy

¹¹ PO(2015)0394

¹² PO(2015)0750

¹³ AC/337-D(2016)0008

¹⁴ IBA-AR(2015)21-REV1, page 51

on Public Disclosure of NATO Information¹⁵, should be withheld from public disclosure, and therefore, in line with the agreed policy in PO(2015)0052, recommends that the Council agree to the public disclosure of the subject IBAN report.

RPPB recommendations

26. The Resource Policy and Planning Board (RPPB) recommends that Council:
- (a) note the present report along with IBA-AR(2015)21-REV1;
 - (b) endorse the conclusions outlined in paragraphs 19 through 25;
 - (c) invite the NCIA to implement the IBAN recommendations as soon as possible; noting that the RPPB expects to see credible achievements no later than end 2016;
 - (d) invite the NCIO Agency Supervisory Board, as the NCIA governing body, to continue to closely monitor the implementation of the IBAN recommendations and the NCIA Transition Programme; including the five NCIA change management priorities identified in the NCIA comments to IBA-AR(2015)21-REV1;
 - (e) in line with the agreed policy in PO(2015)0052, agree to the public disclosure of IBA-AR(2015)21-REV1 and this report.

¹⁵ C-M(2008)0116; AC/324-D(2014)0010-REV1

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**Summary note for Council
by the International Board of Auditors for NATO
on the need for action to ensure the NATO Communications and Information
Agency's Transition Programme improves Agency performance**

Context

In 2012, the nations created the NATO Communications and Information (NCI) Agency by combining several entities responsible for delivering communication and information system capabilities and services. In the same timeframe, awareness grew that Agency performance, particularly for capability delivery, should be improved, to ensure that projects are delivered within approved scope, cost and schedule.

The NCI Agency began a Transition Programme (the Programme) in 2012. The Programme includes projects designed to improve capability and service delivery by addressing recognised shortfalls, such as:

- a lack of documented business processes,
- inconsistent programme, project and portfolio management, and
- multiple financial and project management systems with limited capabilities.

The NCI Agency implements the Programme under strict guidance from the nations to continue delivering critical services and capabilities. As a result, programme activities take place simultaneously with other priority activities such as technology acquisition programmes, support of ongoing military operations and activities to enhance alliance readiness.

Audit objectives

In this report we assessed the planning, management and governance of 6 projects and the overarching Programme with the objectives of improving the overall performance of the Agency and transforming it into a service-based organisation. We identified factors that, if not addressed, will hinder the Agency from achieving project and Programme benefits and improve performance.

Projects are too limited to fully improve performance

The NCI Agency included in its projects descriptions of performance shortfalls, objectives for improvement, benefits and products. However, additional work will be needed in two main areas to fully realise the projects' benefits. First, the Agency did not sufficiently plan to incorporate project products into its daily business. This is necessary to increase operational efficiency, improve decision-making and achieve other benefits to Agency performance. Second, the individual projects do not include all the elements needed to fully realise these benefits. For example, projects included elements of design, but not implementation or the complete technical solutions needed.

Projects are significantly delayed

The projects we reviewed are delayed by an average of 17 months. The need to perform additional work will delay full benefits achievement even more. Programme activities most at risk include the implementation of complex technology projects. Other vital activities affected by major delays include business process design; the NCI Agency has yet to begin actions to design nearly one third of its business processes. Without the results of essential technology projects and functioning business processes in place, the NCI Agency will face serious difficulties improving its performance.

Transition Programme was not managed effectively

The NCI Agency did not effectively implement the Programme as planned. It adhered to important project management principles, but did not mitigate risks that cross project boundaries, sequence project work or sufficiently prioritise activities. NCI Agency management did not explicitly direct a rebalancing of effort, as required by internal guidance, when it became clear that competing demands could not all be fully met at the same time. As a result, priority Programme tasks, including process design, remained unperformed. Personnel shortfalls within the Programme and Agency-wide also hindered the conduct of important change activities. For example, a 2014 NCI Agency internal audit found major shortcomings in Programme management. It took the Agency over a year to begin addressing the specific audit recommendations.

Governing bodies provided insufficient oversight

The information the NCI Agency reports to its governing bodies was insufficient for decision-making. For example, it did not deliver promised monitoring tools and results, nor did it provide complete assessments of known challenges and transparent cost reporting. At the same time, neither body with responsibility for external governance of the Programme (the Agency Supervisory Board and the Investment Committee) took steps to enforce NCI Agency commitments or provide direction and guidance in line with their remits. This includes input that would have aided the Agency in prioritising its activities. The resulting gap in Programme oversight limited the timely implementation of corrective actions.

Recommendations

1. To make meaningful improvements in organisational performance, the NCI Agency should reassess current Programme planning. In this planning the specific steps, additional scope and realistic time frames (to include milestones and targets) for achieving the full benefits of all Programme projects should be stressed.
2. To better implement the Programme in accordance with best practices in change management, we recommend the NCI Agency take a more strategic and holistic approach to managing risk, dependencies, resources and benefits achievement. Steps

to ensure critical business process and technology enabler work progresses at the best possible speed should be prioritised.

3. To improve decision-making and accountability, we recommend that the NCI Agency make its Programme reporting more complete, balanced and transparent. We further recommend that Agency governing bodies take a more active oversight role by agreeing clear roles and responsibilities, enforcing regular, consistent reporting requirements and providing direction and guidance when needed.

In his formal comments, the NCI Agency General Manager concurred with our recommendations. He also recognises our findings and conclusions. He provided an overview of corrective actions underway to improve the Transition Programme.

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12 November 2015

International Board of Auditors for NATO

Special report to Council on the need for action to ensure the NATO Communications & Information (NCI) Agency's Transition Programme improves Agency performance

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1. Background

1.1 Context

1.1.1 At the 2010 Lisbon summit, the NATO nations made the political decision to commit to several reforms. These included Agencies Reform, which aimed to improve governance and increase effectiveness, efficiency and savings of the NATO agencies. Among other things, Agencies Reform offered the opportunity to modernise communications and information systems (CIS) service provision and capability delivery while improving performance in these areas.

1.1.2 In June 2012, based on limited evidence supporting the reform¹, the nations combined previously separate NATO bodies (NATO Consultation, Command and Control Agency, NATO Communication and Information System Services Agency, NATO Air Command and Control System Management Agency and smaller constituent elements) into one entity, the NCI Agency. The NCI Agency was established as NATO's principal CIS service provider and developer of CIS capabilities to NATO bodies and military commands. To govern NCI Agency activities, the nations established a committee of their own representatives, called the NCI Agency Supervisory Board. Appendix 3 discusses this Supervisory Board in more detail.

1.1.3 To deliver on the goals of Agencies Reform, the NCI Agency embarked on an internal change programme it referred to as the Transition Programme (the Programme). Through this Programme the NCI Agency intends to transform itself into a service-based organisation responsible for all aspects of the CIS lifecycle. Major components of this programme included a series of Transition Implementation Projects (projects). Initially, the Programme included 45 projects organised into different categories (business cases, organisational transition, process/activity transition and enablers for transition) and workforce changes (such as loss of job indemnity)².

1.1.4 In its early planning documents the NCI Agency tied each project to a specific transition goal so that together they incorporated all planned activities needed to increase efficiency, effectiveness and savings. The Agency justified the projects as necessary to successfully merge the legacy entities by streamlining and standardising processes and procedures. At the same time, improving the Agency's performance became increasingly important as nations recognised the need to ensure that critical CIS capabilities are delivered within agreed costs, scope and schedule.

1.1.5 NATO's senior resource committee, the Resource Policy and Planning Board, agreed to fund the Programme using primarily common funding³ from the NATO Security Investment Programme. The NATO Security Investment Programme is a group

¹ See our prior report on Agencies Reform, C-M(2012)0051.

² NCI Agency Transition Programme Resource Requirements 2013-2014 as submitted to the Agency Supervisory Board.

³ Funds provided by the NATO nations and managed collectively by NATO.

of capital investments to get military capabilities⁴ that exceed the national defence requirements of individual nations⁵.

1.1.6 The Investment Committee supported and funded 22 of 45 requested Programme projects. The Investment Committee, like the Resource Policy and Planning Board, is a committee of representatives from the 28 NATO nations. It authorises NATO Security Investment Programme projects, among other responsibilities⁶. The Investment Committee considered that work for 13 additional projects could be performed with existing Agency resources. It did not support the remaining 10 projects. Unfunded projects included those targeted towards removing barriers to successfully implementing organisational transformation by changing the NCI Agency's organisational culture.

1.2 Transition Programme overview

1.2.1 The overarching Programme, of which the projects we reviewed are a critical part, aims "to bring NATO's CIS capabilities and provisioning into the 21st century, while delivering efficiency, effectiveness and savings in line with the expectations of the Nations through reorganisation and modernising infrastructure and services"⁷.

1.2.2 Several financial targets underpin the Programme. These include 5% savings in overhead costs by the end of 2012, and subsequently 20% of the agency's running and personnel costs, less programme execution costs (EUR 72 million in 2010) and to identify further opportunities for greater savings while preserving capability and service delivery⁸. The 20% savings target amounts to EUR 14.4 million per year⁹. The Agency plans to achieve savings through the Programme, its constituent projects and a series of separately funded activities referred together as IT Modernisation¹⁰. The Agency currently plans to reduce its operating costs by EUR 49.3 million – significantly more than the mandated 20% savings target – after all its Transition Programme and other activities conclude in 2020.

1.2.3 Beginning with the NATO Agencies Reform report to the Lisbon summit in November 2010, the Nations made clear that they expected these savings to occur

⁴ A capability is defined within NATO as "the ability to perform action(s) to achieve (a) desired objective(s)/effect(s)". See PO(2011)0210.

⁵ We reviewed NATO Security Investment Programme project implementation in detail, see C-M(2015)043 and IBA-AR(2014)35.

⁶ Appendix 3 provides further information on the roles and responsibilities of the NATO resource committees to oversee the Programme.

⁷ AC/335-N(2013)0085.

⁸ PO(2012)0159.

⁹ AC/335-N(2013)0003-REV2.

¹⁰ The main feature of IT Modernization is the creation of 3 data centres that will provide services NATO-wide to all of NCI Agency's customers. The project will modernise and rationalise NATO's information technology infrastructure and is urgently required to allow the NCI Agency to provide improved services with fewer people. The relevant projects are included in capability packages 9C0150 and 0A0201 with a current cost estimate of around EUR 175 million.

without any impact to capability and service delivery¹¹. The objectives for the NCI Agency General Manager reiterated this principle in 2011¹². This direction and guidance remains valid to the present time. As a result, Programme activities, including making savings and improving performance, took place simultaneously with other priority activities. These include conducting major technology acquisition programmes, supporting ongoing military operations in Afghanistan and elsewhere and supporting activities to enhance alliance readiness¹³.

1.2.4 In February 2013, the NCI Agency submitted the Programme resource requirements to its Agency Supervisory Board. Between August and December 2013, the Resource Policy and Planning Board and the Investment Committee agreed to fund the Programme's implementation for a total of approximately EUR 35.5 million. The approved amount included approximately EUR 8.5 million in internal NCI Agency funding (to be drawn from an Operating Fund surplus), EUR 17.0 million in investment and project service costs to be funded through the NATO Security Investment Programme, and EUR 10.0 million in loss of job indemnity (based on rough estimates) to be funded through the Military Budget. The Agency planned all project activity to occur in 2013-2014.

1.3 Audit objectives

1.3.1 The audit objective was to determine whether the NCI Agency adequately planned and implemented selected Transition Programme projects to improve performance. Our 4 sub-objectives were to determine:

1. whether the NCI Agency adequately planned its projects to deliver the expected benefits,
2. the factors which may hinder the NCI Agency from achieving the desired project benefits,
3. whether NCI Agency management effectively directed the projects' implementation and
4. whether the NCI Agency's governing bodies provided effective oversight, monitoring and control.

1.3.2. Our conclusions against these objectives and recommendations are found in Section 6.

1.4 Scope and methodology

1.4.1 We focused the audit on the Programme and specific projects that support improved performance in project and service delivery. We examined 3 primary areas: (1) NCI Agency planning and current status of the Programme, (2) analysis of specific

¹¹ PO(2010)0159.

¹² AC/281-N(2011)0172-REV3 (R).

¹³ The Readiness Action Plan, see PO(2015)0075.

projects and (3) roles and responsibilities of governing bodies in overseeing the Programme's implementation. We did not assess the merger of the previously independent bodies into the NCI Agency. We also did not assess the validity of the Agency's savings targets or the overall results of the reform to date, except as they relate specifically to our findings on project and Programme planning, management and governance.

1.4.2 We selected 6 of the 22 approved Programme projects to review in detail. Criteria for selection included their relevance to improving effective and efficient NCI Agency operations, particularly for capability delivery. Two of these projects, NCI Agency business process design and Enterprise Business Application (EBA), are particularly important in this regard. The selected projects comprise 46% of the EUR 25.5 million in Programme funds (not including loss of job indemnity authorization) authorised by the nations in the Investment Committee¹⁴. We validated our selection of these projects during a meeting with the NCI Agency General Manager and other senior Agency staff held on 27 February 2015. We also validated our detailed project assessments, included in Appendix 2, with the relevant project managers.

1.4.3 We summarise the sample projects below and in more detail in Appendix 2. Table 1 shows funds requested and authorised for these projects.

1. **NCIA Agency business process design:** This important enabling project will create the process, tools and guidance for the NCI Agency's business units to create and implement their business processes. By standardising business processes, the agency will more effectively merge its different cultures so that all staff can work in a coherent and consistent manner to meet customer needs and the goals of Agencies Reform.
2. **Business intelligence (management information) and 'engine control room':** This project combines 2 projects initially planned separately. It aims to provide senior agency leadership and other stakeholders the tools that they need to effectively support decision-making and run the agency. The capability includes measuring, analysing, reporting and making the necessary adjustments to meet performance targets.
3. **Programme, project and portfolio management:** This project aimed to improve long-standing weaknesses in project management such as milestone and cost reporting.
4. **Enterprise Business Applications:** This project will consolidate and rationalise existing management systems into one integrated suite of business support tools. The integrated system would cover NCI Agency enabling services such as finance, human resources, procurement, logistics, customer relationship management, programme / project management, time accounting

¹⁴ AC/4(PP)D/27275-ADD1 and AC/4-DS(2013)0033.

and business intelligence. Among the projects we reviewed, this project is the most important technological enabler for improved performance.

5. **Customer relationship management:** This project aims to facilitate better interactions with customers and their accounts through new tools, processes and means of monitoring and reporting customer satisfaction.
6. **Project cost estimation:** This project focuses on improving Agency cost estimates through repeatable methodology using a database of historical project costs.

Table 1: Sample Programme project funds requested, and authorised (in EUR)

Project	Funds requested	Funds authorised
Business process design	1,148,880	1,078,117
Business intelligence and engine control room	1,834,532	1,801,199
Programme, project and portfolio management	300,382	278,256
Enterprise Business Applications	14,986,862	13,971,774
Customer relationship management	833,714	673,684
Project cost estimation	309,800	298,367
<u>Total</u>	<u>19,414,170</u>	<u>18,101,397</u>

Source: NCI Agency.

1.4.4 Our work included over 20 structured interviews with NCI Agency personnel accountable and responsible for Programme oversight and project implementation. These included work package leads, project managers, directors, and staff responsible for Programme management. They represented the NCI Agency Application Services, Demand Management and Service Strategy directorates and the Organisational Development Office. We also spoke with the officials responsible for chairing and supporting the NCI Agency Supervisory Board.

1.4.5 We also examined nearly 300 documents relevant to authorisation, implementation, monitoring and control of the Programme and its constituent projects. These included the Managing Successful Programmes and PRINCE2 methodology. These methodologies, which can be tailored to meet a wide range of situations, include best practices for planning, initiating, implementing, closing, and monitoring the results of projects and Programmes. The NCI Agency requires its project managers to use PRINCE2 for all projects. In our review, we also assessed minutes and presentations of 3 internal and 2 external senior-level management committees during Programme planning and implementation. We reviewed reported expenditure figures but did not examine the accuracy and reliability of the data in any system.

1.4.6 We conducted the audit between March and September 2015 in accordance with international auditing standards.

2. Planning is too limited to deliver significant improvements

2.1 Incorporation of project products into daily business was inadequately planned

2.1.1 The NCI Agency planning documentation for the projects we reviewed identified shortfalls needing to be addressed. These shortfalls hinder the NCI Agency's performance in delivering services and capabilities to its customers. The detailed project background information presented in Appendix 2 describes these shortfalls, which we summarise briefly as follows:

- Lack of documented business processes.
- Incoherent monitoring and control.
- Inconsistent programme, project and portfolio (P3) management.
- Multiple financial and project management systems with limited capabilities.
- No single point of entry for NCI Agency customers.
- Limited application of cost analysis and use of cost data across the Agency.

2.1.2 To address these shortfalls, the NCI Agency planning described project objectives, stated in terms of benefits, or positive changes, to be achieved. In general, the intended project benefits show the potential for improved Agency performance in several important areas. We summarise relevant benefits below and discuss them in more detail in Appendix 2.

- Increasing operational efficiency (do more with less) and achieving savings.
- Improving cohesion and compliance with rules and regulations.
- Making better, evidence-based decisions.
- Estimating project costs more accurately.
- More effectively managing project cost, schedule and performance.
- Increasing transparency and internal control.
- Improving customer satisfaction.

2.1.3 Planning for the projects we reviewed also included deliverables, or products. The NCI Agency intends these products to enable the achievement of the specific benefits and objectives stated above. The products may include tangible and intangible components. For example, the projects we reviewed will deliver workshops and web-based tools. They will also deliver policies, process designs, approaches, roadmaps, assessments and requirements. Appendix 2 provides further details. On their own, these products will not produce the desired benefits. Additional actions are needed to incorporate them into daily business. Organisations use a particular tool, called benefits realisation planning, to define these actions, together with the resources and time needed to conduct them.

2.1.4 The project and programme management frameworks used by the NCI Agency (PRINCE2 and Managing Successful Programmes), stress the importance of measuring, assessing and reporting the achievement of benefits. Effective benefits realisation planning will align project outcomes with business strategies. Benefits realisation (or review) plans ought to describe the specific ways in which benefit owners (officials responsible for managing benefits achievement at the cost centre level) will use project products, such as those we summarise in paragraph 2.1.3, to achieve discrete benefit targets. This planning typically includes clear roles, responsibilities and milestones for monitoring and management. It also identifies the resources needed to achieve benefits. Benefits realisation plans apply to both financial benefits, such as savings, and non-financial benefits such as improved performance.

2.1.5 Programme documentation indicates that the NCI Agency intended benefits realisation planning to occur at the Programme level. As such, NCI Agency planning included some information needed for benefits realisation. For example, the Programme Benefits and Savings Plan included financial benefit targets for 2 of the 6 projects we reviewed¹⁵. It also includes “strategic benefits” in the areas of people, process, technology and business. These objectives align with the project-specific objectives we summarise in paragraph 2.1.2. They include improved relationships with customers and users, reduced transaction processing times, ability to react faster to new requirements and improved management information quality, among others. According to NCI Agency officials, benefits realisation will be the responsibility of the Agency directors.

2.1.6 However, NCI Agency planning insufficiently describes benefits realisation. Neither the Benefits and Savings Plan nor information collected to support it¹⁶ provide further details on the strategic performance-oriented objectives. For the projects we reviewed, the NCI Agency did not formally document roles and responsibilities, establish realistic targets and milestones to allow measurement of progress, and identify the resources needed to achieve benefits. In addition, few NCI Agency officials are aware of the limited planning which does exist. Further, required detailed planning is absent. For example:

- The 2015 NCI Agency Business Plan established a target for 80 percent of Agency processes to achieve a specific level of maturity by the end of 2015¹⁷ but this goal is not a formal project goal against which progress is tracked, nor is it realistic.

¹⁵ The NCI Agency forecasts that EUR 11.0 million out of EUR 49.3 million in planned yearly savings will come from centralising core functions from the former organisations into single business units operating unified business processes. The Agency also forecasts EUR 5.4 million in annual savings to accrue following EBA implementation. See AC/335-N(2013)0085.

¹⁶ AC/337-D(2015)0003 and NCIA/DT/2014/01003.

¹⁷ The goal calls for these processes to exist at level 2 maturity. According to the ITIL (formerly Information Technology Infrastructure Library) and Capability Maturity Model Integration frameworks used by the NCI Agency, at level 2 processes are “repeatable.” Basic processes are established and there is a level of discipline to adhere to these processes.

- NCI Agency Programme planning documents do not contain detail on the steps needed to achieve project goals. In particular, benefit owners have not completed required action plans to achieve expected gains in efficiency and resulting savings. This type of assessment is necessary because, as we reported in a previous audit¹⁸, elements vital to NCI Agency planning such as centralisation of functions do not automatically lead to savings or other benefits.

2.1.7 Without such information, there is no clear, formal indication for how the project benefits summarised in paragraph 2.1.2 will be realised. Unless it conducts realistic and detailed benefits realisation planning, the NCI Agency will be unable to provide assurance that it will achieve the benefits to performance it intends the project deliverables to enable.

2.2 Fully realising performance improvements will take more work than planned

2.2.1 The scope of the projects we reviewed is insufficient to realise the planned performance improvements. Overall, the deliverables for the projects we reviewed, as summarised in paragraph 2.1.3, are essential to realising the desired benefits. However, the NCI Agency will need to plan and implement additional products to be fully capable of realising these benefits.

2.2.2 The business process design project is the most significant project in which current scope will not be enough to achieve the desired benefits. A business process is a collection of related, structured activities or tasks that produce a specific service or product, or serve a particular goal. Clearly defined, commonly understood and repeatable business processes are central to an organisation's ability to effectively meet its goals. Effective business processes bring benefits in effectiveness, efficiency and savings. For example, they allow an organisation to produce products and services faster, better and with fewer resources.

2.2.3 The first NCI Agency Strategic Plan called for a fundamental redesign of the Agency's business processes¹⁹. In May 2013, a senior NCI Agency management board endorsed this approach as the basis for transforming the Agency into a service-based organisation and achieving benefits in effectiveness, efficiency and savings.

2.2.4 The business process design project we reviewed delivered an important 'roadmap' and tools to set the conditions for the NCI Agency to become a process-based organisation comprised of business units. A business unit is a logical element or segment of the NCI Agency which represents a specific business function and is normally an independent transaction-processing entity. The tools developed through the project reviewed included guidelines for two sets of activities that business units need to perform to make the NCI Agency a truly process-based organisation:

¹⁸ C-M(2015)0011 and IBA-AR(2013)22.

¹⁹ AC/337-D(2012)0002.

1. Setting up service lines. The project team defined a 22-step methodology for the 12 NCI Agency service lines²⁰ to transform themselves into fully-functioning business units. This process begins with identifying the customers and defining their successful outcomes. The business process design project scope did not include this methodology. Rather, project team members developed it on their own initiative.
2. Analyse and improve existing business processes and create new ones. The NCI Agency approved a 'Manage Business Processes' methodology with 5 steps: (1) analyse processes, (2) design processes, (3) establish enablers, (4) implement processes and (5) manage process quality²¹.

2.2.5 Programme projects, including 4 of the 6 we reviewed, include tasks related to business process design (steps 1 and 2). However, they do not include tasks related to business process implementation (steps 3 through 5). These later steps include the implementation of enablers (tools, people, skills and education) and the transition of processes to an operational state. They are more complex than analysing the current state of processes and designing new ones. In addition, no project includes implementing the 22-step process to set up service lines. As a result, achieving the benefits of fully-functioning service lines operating according to robust, repeatable processes will require additional, currently unplanned work and resources.

2.2.6 Every project we reviewed will need additional scope and resources to achieve the desired benefits. Table 2 summarises what the sample projects' scope includes and what additional work will be necessary to fully achieve the desired benefits. Appendix 2 provides further details.

²⁰ Service lines are multidisciplinary teams, processes, technology and governance put together under an accountable executive to deliver a bundle of related services on a life cycle managed basis including development of the entries in the Agency Service Catalogue.

²¹ Internal NCI Agency document, PDED 06.01.02, *Manage Business Processes*.

Table 2: Current project scope and additional work needed to fully achieve benefits

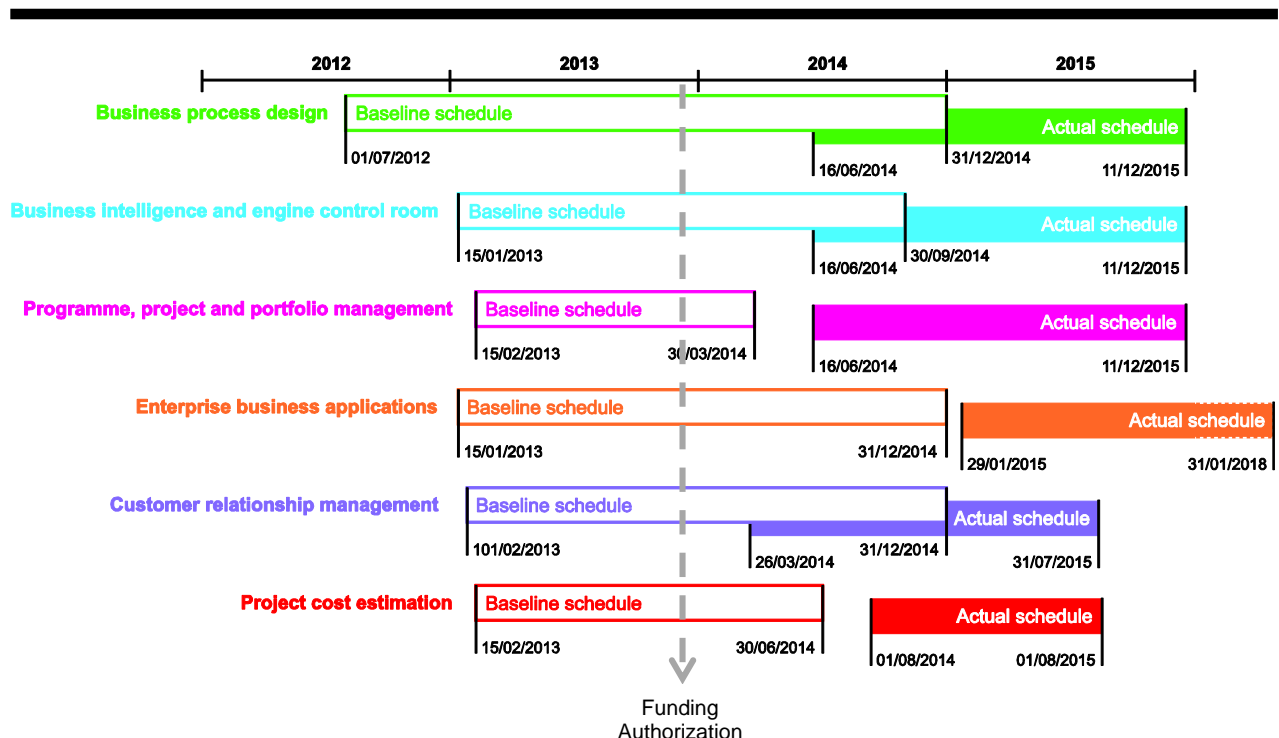
Project	Scope included	Additional work needed to fully achieve benefits
Business process design	<ul style="list-style-type: none"> Create tools and provide assistance to help business units design their processes. 	<ul style="list-style-type: none"> Implement business processes. Implement Agency-wide 22-step process to create 'business units'.
Business intelligence and engine control room	<ul style="list-style-type: none"> Define and agree key performance indicators. Create executive 'dashboards' Warehouse (bring together) data Map processes 	<ul style="list-style-type: none"> Build an 'engine room' in accordance with an agreed concept, tailored to strategic decision-making needs. Define and implement solution for EBA (enterprise business applications) business intelligence.
Programme, project and portfolio management	<ul style="list-style-type: none"> Develop and document standard operating procedures Implement time accounting system 	<ul style="list-style-type: none"> Create a technical solution for enhancing project management system, particularly for milestone tracking. Publish relevant processes. Integrate project management capabilities into EBA.
Enterprise business applications	<ul style="list-style-type: none"> Define requirements. Implement an integrated suite of applications to enable 38 critical Agency business functions. 	<ul style="list-style-type: none"> Integrate customer relationship management, business intelligence and programme, project and portfolio management. Still in requirements definition phase; uncertain what additional work, if any, will be needed.
Customer relationship management	<ul style="list-style-type: none"> Develop an interim, standalone customer relationship management toolset. Develop an interim customer service catalogue. 	<ul style="list-style-type: none"> Fully integrate customer relationship management toolset within EBA.
Project cost estimation	<ul style="list-style-type: none"> Assess life cycle costing capability. Create a roadmap to implement a full life cycle cost-estimating capability. Develop a project service cost model and data library. 	<ul style="list-style-type: none"> Coordinate and update Agency-wide directive. Implement pilot phase for project service cost model. Implement full life cycle costing capability roadmap to achieve desired maturity level.

Source: IBAN analysis.

3. Projects are significantly delayed

3.1 Completion dates for the projects we reviewed are currently delayed by an average of over 17 months compared with the latest project-level milestones approved by the nations in the Resource Policy and Planning Board²². Figure 1 shows delays in project completion and initiation for the 6 projects we reviewed.

Figure 1: Delays in completion of sample projects to improve NCI Agency performance



Source: IBAN analysis of NCI Agency data.

3.2 The resource committee Programme approval process delayed the start and completion dates for all projects we reviewed. The NCI Agency did not factor any time for project approval into its planning. Compared with initial plans, this lengthens the time needed to achieve project benefits. The approval delays were due to factors such as the following:

- The nations needed time to discuss and agree complex issues such as eligibility for common funding. Nations also made numerous requests for the NCI Agency to refine its plans. Between the first submission by the NCI Agency to its Agency Supervisory Board and for Programme approval by the Investment Committee, an average of 8 months of deliberation occurred. The NCI Agency also needed time to support the approval process and change its planning in response to nations' concerns, which took an additional 2 months.

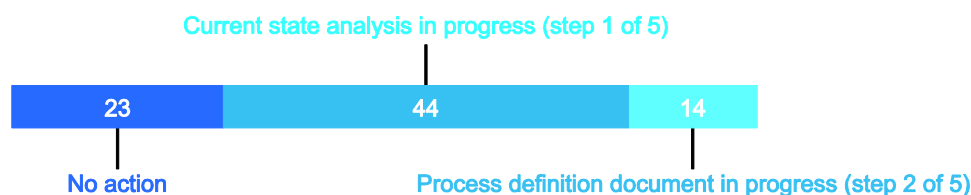
²² AC/335-N(2013)0044-REV2.

- After obtaining approval, the NCI Agency had to complete specific planning activities necessary to officially start the projects. Tasks included writing and approving project initiation documents. This work took an average of 7 months to complete.

3.3 At over 3 years late according to current forecasts, the EBA project, which is one of 2 critical technology enablers for improved Agency performance²³, is delayed the most among the projects we reviewed. A bid protest lodged by one nation contributed to this delay. Contract award for the NATO Command Structure's planned enterprise resource planning system did not occur until early 2015, over one year later than planned. This caused a delay in EBA implementation (and project spending) because the NCI Agency plans to use the same contractor for EBA. Because of this project's importance, its delays also significantly lengthen the time needed to achieve Programme benefits. We cannot determine whether additional work will be needed beyond what is currently planned, because the NCI Agency is still in the requirements-definition phase for the project.

3.4 A second Programme activity particularly at risk is the NCIA Agency business process design. As of May 2015, the Agency had taken no action to begin designing nearly one-third of its processes. It had begun but not yet completed analyses of the current state, which is the first of the 5 steps described in section 2.2, of only about half of its processes. As discussed in paragraph 2.2.5, these first two steps are easy compared to later work, which the NCI has not yet begun for any of its processes. In addition, only 1 of 12 service lines has begun the 22-step process required to become a fully-functioning business unit. As a result, the delay in achieving the benefits of business process design, which are critical to improving NCI Agency performance, will be greater than the formal 12-month project delay. This poses a major risk to transforming the NCI Agency to a service-based organisation. Figure 2 shows the current status in defining Agency business processes.

Figure 2: NCI Agency progress in implementing its business process design model (81 processes in 60 process areas, May 2015)



Source: IBAN analysis of NCI Agency data.

²³ The second enabler, IT Modernisation, is delayed 2 years. It is outside our audit scope.

3.5 Continued delays in implementing important technological enablers and business processes will threaten the achievement of improved performance and savings:

- The Agency currently plans to meet its 2015 Programme savings target by reducing its civilian staff by 34 of approximately 3,000 total posts. If this reduction and others, including over 700 planned post reductions through 2019, occur without the remaining personnel having the tools to work more efficiently, the Agency will face greater difficulty delivering services and projects to its customers.
- The same personnel responsible for daily business must also perform important Programme work such as business process design. Any premature cuts in personnel place successful completion of organisational change tasks at greater risk.
- Under pressure to achieve savings, the NCI Agency risks masking some business units' inability to meet their goals. For example, current reporting shows that the NCI Agency will miss its original 2015 internal targets by one-third (EUR 2.3 of 7.1 million). However, it may exceed its savings targets by moving relatively easy-to-meet future year targets to the current year (35% of forecasted savings). According to NCI Agency officials, meeting these savings targets first will make those that remain harder to achieve.
- The Agency is recruiting new personnel to support future business volume. Unless these personnel can work more efficiently they may be called to support current business volume, thus eroding savings.

4. Transition Programme lacks effective management

4.1 Appropriate project management principles were followed

4.1.1 The NCI Agency manages the Programme projects using the PRINCE2 methodology in the same way it manages projects on behalf of its customers. This is in line with the original plans presented to the nations.

4.1.2 In general, for the projects we reviewed the NCI Agency put in place the required project structures:

- Each has a director- or higher level project executive accountable for its successful implementation (the directors of Application Services, Demand Management, and Service Strategy and the NCI Agency Chief of Staff).
- In general, one project manager is responsible for the completion of each group of projects within authorised cost, scope and schedule. Individual projects also each have a lead officer. The projects we reviewed showed evidence of monitoring for adherence to cost scope and schedule parameters at the group level, in line with the approach agreed by NCI Agency senior management.

4.1.3 The NCI Agency conducted detailed planning at the project level. All projects included a project initiation document and/or a project management plan. These planning documents include descriptions of cost, scope, milestones and risks and benefits, among other things.

4.1.4 The NCI Agency plans included a system of reporting and control to show high-level project status and to escalate and manage project issues as they arise. In practice, we saw evidence of this process in action for the projects reviewed. For example, EBA, customer relationship management and project cost estimation project managers raised multiple difficulties for discussion and decision by higher management.

4.2 Programme implementation lacks a strategic approach

4.2.1 The projects we reviewed are closely dependent. For example, as discussed in more detail in Appendix 2, successfully implementing EBA depends on timely business process design and implementation. In addition, for the business intelligence work to be most effective, EBA requirements must be clear. For these reasons and others, managing cost, scope and schedule at the project level is not enough. This is why from the beginning of the Programme the NCI Agency recognised the need for a single management structure, reporting directly to senior management, to harmonise organisational design, business processes and change management across the agency.

4.2.2 The NCI Agency plans foresaw the creation of a Transition Programme Office to ensure a centrally governed and coherent programme run in accordance with a best practice-based methodology (Managing Successful Programmes). Internal NCI Agency reporting cites the formation of an appropriately resourced, empowered central change management/coherence team as “the only real chance to deliver overall programme management and realisation of the planned benefits and savings”²⁴. As such, critical success factors included a core military and civilian staff, assigned full or near full-time, with the skills, qualifications and experience needed to make the Programme succeed.

4.2.3 Important oversight and control activities the Agency planned to conduct at the Programme level include the following:

- risk scheduling and managing,
- benefits or value generation realisation planning,
- resource and investment management,
- maturity model²⁵ development and ownership,
- communications messaging and workforce contact,
- dependency management and
- metrics definition and objective and output measurement.

4.2.4 We found 4 main deficiencies in how the NCI Agency conducted these activities. First, the Programme does not include all the activities needed to ensure the Agency transforms into a service-based organisation able to realise the desired benefits, in accordance with established maturity models:

- As a whole, the Programme’s funded activities do not provide complete coverage of the NCI Agency’s processes. NCI Agency analysis shows that the projects funded by the Investment Committee, including those we reviewed, will improve fewer than half of the roughly 60 process areas identified by the NCI Agency. However, planning documentation does not justify the selective coverage or explain how the identified gaps will be addressed.
- Sections 2 and 3 discuss how the lack of benefits realisation planning and project scope insufficient to fully realise benefits poses risks to improving Agency performance. The related focus on savings over performance also illustrates a narrow approach to metrics definition and output measurement, which is an important Programme responsibility.

4.2.5 Second, the NCI Agency did not centrally manage Programme risk. The lack of central risk management prevented effective prioritisation of work. The Programme did not create a document to identify all project risks in one place, which would enable the

²⁴ AC/337(FC)N(2014)0018.

²⁵ The NCI Agency uses the Capability Maturity Model Integration framework. It is a collection of best practices that help organisations to improve their processes. An organisation can be appraised against these practices to identify strengths and weaknesses and determine its maturity level in specific, measurable areas.

NCI Agency to target its efforts to mitigate the most serious among them. For example, since 2013 internal Agency reporting repeatedly stressed the risk of limited progress in defining business processes and creating the prerequisite business units as described in Sections 2.2 and 3.2. However, the NCI Agency did not take advantage of delays in EBA to accelerate business process work, which could have mitigated EBA schedule risk.

4.2.6 Third, the NCI Agency did not centrally manage project dependencies. In this context, dependencies refer to project work that cannot be effectively performed without doing or completing work in other projects or areas. According to NCI Agency officials, project dependencies are extensive, yet managed ad-hoc at the working level. For example, the NCI Agency did not manage the pace and order of project completion to minimise the risk of re-work. Some projects, including Customer Relationship Management, business intelligence and programme, project and portfolio management, will finish relatively early. Because other projects (principally EBA) are especially delayed, more work will likely be needed to integrate the early projects' work into the projects that finish late.

4.2.7 Finally, we found weaknesses in how the NCI Agency reported and communicated Programme status and results to external stakeholders. Section 5.2 discusses these in more detail.

4.2.8 In June 2014 the NCI Agency Internal Audit office reported on significant gaps in Programme governance and implementation²⁶. Internal Audit presented its findings to the Financial Committee of the NCI Agency Supervisory Board in September 2014, making several recommendations to address the following areas:

- lack of Managing Successful Programme strategies and plans,
- unclear roles and responsibilities,
- limited organisational control of schedule, risks, issues, changes, dependencies and benefits management,
- unclear definition of milestones, scope and priorities,
- insufficient management of project inter-relationships,
- absence of adequate risk management and
- inadequate communications messaging and workforce contact.

4.2.9 In many cases the deficiencies we found, such as those in Programme risk and benefits management, confirm that the Internal Audit findings have not yet been addressed. For example, the updated NCI Agency benefits realisation plan did not incorporate specific Internal Audit recommendations. In addition, efforts to improve Programme management originated at the working level but were not taken forward by the Agency. These included making the case for a strategic approach to change and introducing standard programme management processes such as quality management and governance.

²⁶ AC/337(FC)N(2014)0018.

4.3 Management support and staffing were insufficient

4.3.1 The NCI Agency management boards are responsible for taking action to solve the types of issues we and the NCI Agency Internal Audit office identified. The NCI Agency uses 3 senior management boards to make day-to-day decisions related to internal execution of activities, referred to as 'internal governance'. Appendix 3 provides more information on the roles and responsibilities of these boards.

4.3.2 The most senior management board, the Executive Management Board, is responsible for explicitly prioritising tasks such as slowing the tempo of the Programme if change management activities inhibit delivery of services and projects to the customer. Similarly, the first NCI Agency Strategic Plan stated that "change must be carefully managed, phased and held back, if necessary by the General Manager, [who chairs the Executive Management Board] when it begins to impact existing services"²⁷. The NCI Agency established these responsibilities to ensure it complied with nations' clear expectations to preserve capability and service delivery throughout the life of the Programme²⁸.

4.3.3 The NCI Agency management boards did not explicitly prioritise among competing demands as required despite being fully aware of significant difficulties. These boards received reporting as early as February 2013 clearly stating that the Agency could not complete Programme tasks while also conducting daily business. NCI Agency daily business includes the capability and service delivery work that the nations wished to preserve. For example, it includes important work to support high-priority initiatives like air command and control and ballistic missile defence and to provide CIS services to deployed operations, among many other things. Despite these competing priorities, NCI Agency management boards did not provide clear direction on which tasks were most important or set expectations accordingly. For example:

- In June 2013, internal Agency reporting stated that service line chiefs lacked clear, resourced tasks bound by only the most necessary constraints. However, management boards provided no additional guidance. As a result, according to NCI Agency officials, these personnel concentrated on daily business at the expense of Programme tasks.
- In May 2014, NCI Agency senior management held a special meeting during which they discussed serious gaps in Programme management and the way ahead. Risks included delays in getting to a service-based organisation and reduced value of Programme projects. Nevertheless, the recommended way ahead, which included prioritising business process design, was not implemented.

²⁷ See AC/337-D(2012)0002.

²⁸ PO(2010)0159.

4.3.4 Other important factors contributed to the limited response by the NCI Agency to known programme difficulties. First, a diminishing number of Programme staff responsible for an expanding range of activities hindered the ability of the NCI Agency to design, deliver and monitor the implementation of Programme activities:

- In 2012, the NCI Agency assigned 11 staff to conduct work typically associated with a Programme Office. This team ultimately shrunk to 4 part-time personnel and support from ad hoc members reduced.
- The remaining personnel, including the Director of Transition, assumed additional responsibilities. These responsibilities, including a demanding leadership role, reduced the time available for personnel to manage the Programme.
- The Director of Transition retired at the end of 2014. In accordance with the original approved Programme schedule, this post ceased to exist at that time. This left the Programme without dedicated leadership just when the pace of Programme activities increased.

4.3.5 Second, a successful Programme depends on effective engagement by Agency staff because of their critical role in performing change activities such as designing business processes. However, at the military and civilian staff level the Agency faces an acute capacity problem. The following shortfalls hinder the ability of the NCI Agency to manage its many priorities well:

- The Agency faces a serious shortfall in military personnel needed to support its NATO Command Structure customers. The nations currently fill 55% of the posts to which they committed for the existing organisational structure²⁹. The fill rate is higher when measured against the Agency's new structure. However, in this new structure the nations failed to validate nearly 200 military posts. In addition, they face difficulty sending suitably qualified and experienced military personnel to fill the validated posts.
- The NCI Agency has an insufficient number of civilian full time equivalents to meet estimates of demand. The exact scope of this shortfall is unknown. Other than signed and contracted work, estimates of demand for Agency services and capability production differ.

4.3.6 Third, the Programme lacks a dedicated internal governing body. Early Programme plans stated that governance oversight and resource prioritisation would be addressed through a Transition Coordination Group chaired by NCI Agency Chief of Staff. This group would prioritise Programme and core business activity to minimise risk. The Agency formed this group, but it ceased to meet after 3 meetings and transferred

²⁹ Very little progress has been made in this area since we last reported on the impact of shortfalls in NCI Agency military manning.

its functions to another management board with broader responsibilities. This hindered the ability of the NCI Agency to sufficiently support Programme staff.

4.3.7 Fourth, the NCI Agency operates in an uncertain and complex environment. The following factors add to a complex environment characteristic of a major transformation and make conducting Programme work more difficult:

- evolving communications and information governance within NATO³⁰,
- transition to full customer funding³¹,
- transformation from an asset into a service-based organisation,
- implementation of end-to-end life cycle management,
- modernisation of information technology infrastructure and
- planning for a major facility move.

4.3.8 In the absence of effective management resources and support, difficulties exercising effective Programme management persist. This contributes to slow progress in implementing the Programme and improving Agency performance, as shown in Section 3.

4.3.9 Nevertheless, in May 2015, the Agency recognised the urgent need to create conditions for effective management and control of all business change activities. Senior management agreed to hire an external consultant to conduct 2 studies. One will benchmark the performance and workforce requirements for the NCI Agency from 2015 through 2019. The other will assess the status of transformation and define the conditions necessary for future success. In addition, recruitment is underway for an additional full-time staff member to support Programme management. It is too early to assess the outcome of this work.

³⁰ AC/281-WP(2015)0003-REV2.

³¹ AC/335-N(2015)0013-REV6.

5. Transition Programme lacks effective oversight and governance

5.1 Most reporting to governing bodies occurred during Programme authorisation

5.1.1 The NCI Agency Supervisory Board is the Agency's external governing body. As such, it is responsible for providing organisational governance. The NCI Organisation Charter defines this term as follows:

“organisational governance is the mechanism by which NATO directs, administers and controls the NCI Agency and enables it to accomplish its mission, functions and tasks. It is a set of rules and best practices that . . . [ensures] efficiency, effectiveness, accountability and transparency of the NCI Agency”³².

The Agency Supervisory Board's responsibilities included determining feasibility and reasonableness of the Programme and its costs. They also include ensuring that the necessary checks and controls are in place during the Programme's implementation. Overall, the NCI Agency is accountable to its Supervisory Board to deliver Programme results.

5.1.2 The NATO resource committees also provide the NCI Agency external governance. For the Transition Programme, the Resource Policy and Planning Board determined eligibility for NATO common funding. The Resource Policy and Planning Board's decision made the Investment Committee responsible for authorising the Transition Programme as a NATO Security Investment Programme. As such, NATO Security Investment Programme procedures require the Investment Committee to authorise project funding and to monitor, evaluate and control project implementation³³.

5.1.3 According to international standards on governance of enterprise information technology, good external governance requires 'governed' entities to provide accurate and timely information to their governing bodies. The information provided must be sufficient for these governing bodies to fulfil their responsibilities. These include evaluation of stakeholder needs, conditions and options to determine balance and agree objectives. They also include setting direction through prioritisation and decision making and monitoring performance and compliance against agreed-on direction and objectives³⁴.

5.1.4 In line with these principles, the NCI Agency is responsible for providing information to the Agency Supervisory Board and the NATO resource committees to

³² C-M(2012)0049.

³³ C-M(2007)0010. Monitoring is defined as warning, checking, controlling and keeping continuous record of projects' milestones (schedule) and expenditure (cost). See AC/4(PP)N(2013)0056-REV2.

³⁴ COBIT5.

support programmatic and funding decisions by the Nations. The Agency's justification for funding requests allows its governing bodies to make informed decisions during the authorisation process. After authorising projects, the nations also expect the Agency to accurately report the status of the funded activities. This allows governing bodies to make decisions on the direction and guidance needed, if any, to correct deficiencies that hinder the Agency's compliance with agreed objectives.

5.1.5 The NCI Agency provided most information to its governing bodies to support decision-making during the Programme authorisation process. The NCI Agency reported extensively to its Supervisory Board, the Resource Policy and Planning Board and the Investment Committee. In particular, between November 2012 and December 2013 the NCI Agency briefed the Agency Supervisory Board on Programme planning and financing at least 12 times. During these meetings, the NCI Agency presented its rationale for funding Programme projects, including those we reviewed. For example, a roadmap produced in March 2013 emphasised the need for increasing effectiveness through better processes to achieve savings.

5.1.6 Throughout mid-2013 the Agency provided to its Supervisory Board and the NATO resource committees several versions of its Programme resource requirements. These documents included forecasted costs and descriptions of project scope. They evolved based on significant inputs from the nations that reflected the desire to reduce Programme costs. In the version of its resource requirements presented first to the Agency Supervisory Board in February 2013, the Agency included milestones for individual project completion. The version of the document ultimately presented to the Investment Committee in late 2013 included updated milestones for the EBA project. Together, information on project cost, scope and schedule information facilitated screening by the NATO Office of Resources and the Programme's authorisation in December 2013.

5.1.7 Over time, the NCI Agency and its Supervisory Board agreed several elements of a plan to oversee Programme implementation:

- In 2013, the Agency proposed to its Supervisory Board a governance and reporting structure. This included quarterly reporting by the Agency on the status of Programme project work and use of the Operating Fund.
- When the Resource Policy and Planning Board approved the Benefits and Savings Plan in late 2013, the Agency Supervisory Board agreed to use this plan as the overarching framework to monitor Programme progress against targets. As part of the reporting mechanisms, the Agency Supervisory Board's finance committee agreed to receive regular updates from the Agency to monitor the Programme and address potential issues.
- In June 2014, the Agency promised to deliver monitoring tools such as dashboards to assist the Agency Supervisory Board in its oversight role. It did not provide a date by when it planned to deliver these tools.

5.1.8 After Programme authorisation, the frequency of NCI Agency reporting to its governing bodies decreased. The Agency provided information on Programme status to the Agency Supervisory Board 5 times between January 2014 and June 2015. This information included reporting on Programme project implementation and expenditure status, consolidated by groups of projects. The reporting also included progress against savings targets. In its most significant Programme update, the NCI Agency told the Agency Supervisory Board in March 2015 that benefits achievement was “on track” for all initiatives not related to EBA or IT Modernisation³⁵. In that same month, the Agency informed the nations that it was implementing the June 2014 internal audit recommendations.

5.1.9 NCI Agency reporting on the financial status of the Programme changed over time. In 2012 and 2013, the NCI Agency reported individual Programme project costs to the Agency Supervisory Board. In these years, the NCI Agency recorded a total of EUR 12.6 million expended (not including loss of job indemnity). In 2014, the NCI Agency consolidated project reporting by group. As a result, individual project cost reporting ceased. Reporting by project group, the NCI Agency recorded EUR 1.7 million in Programme costs in its 2014 financial statements.

5.2 Reporting was insufficient for decision-making

5.2.1 The information the NCI Agency provided its governing bodies was incomplete in at least 4 main areas. First, the NCI Agency did not consistently follow its plan to provide information on Programme status to the Agency Supervisory Board. For example, it did not provide Programme updates in its 6 quarterly reports presented to the Agency Supervisory Board after Programme authorisation in December 2013. In addition, the NCI Agency did not deliver the monitoring tools promised to the Agency Supervisory Board. For example, in June 2014 the Agency told its Supervisory Board that a specific dashboard was complete and ready for use. However, as of June 2015 this tool had not yet been implemented.

5.2.2 Second, the NCI Agency did not report a complete assessment of the challenges it faces in implementing the Programme. For example, for the non-EBA projects we reviewed completion dates are delayed by an average of about one year compared with the original project baselines approved by the Resource Policy and Planning Board. Appendix 2 provides further details. Critical elements such as process design lag even further behind. As shown in Section 3, these delays pose a major risk to timely improvements in Agency performance. The evidence we reviewed shows that the NCI Agency has also been unable to implement the Internal Audit recommendations made in 2014, as we discuss further in Section 4. According to NCI Agency officials, some activities have been executed.

5.2.3 Third, NCI Agency reporting does not clearly show the total amount of spending on Programme activities. To mitigate further Programme delays during the lengthy

³⁵ AC/337-D(2015)0003.

authorisation process, the NCI Agency conducted Programme project activities prior to authorisation by the Investment Committee in December 2013. These included activities within the scope of 5 of the 6 projects we reviewed. Costs related mostly to labour by NCI Agency personnel. Programme-wide, nearly half the funding for these activities (EUR 3.7 million) came from amounts originally budgeted for Air Command and Control and Service Delivery. Internal funding comprised the remaining amount. For these early costs, the Agency did not:

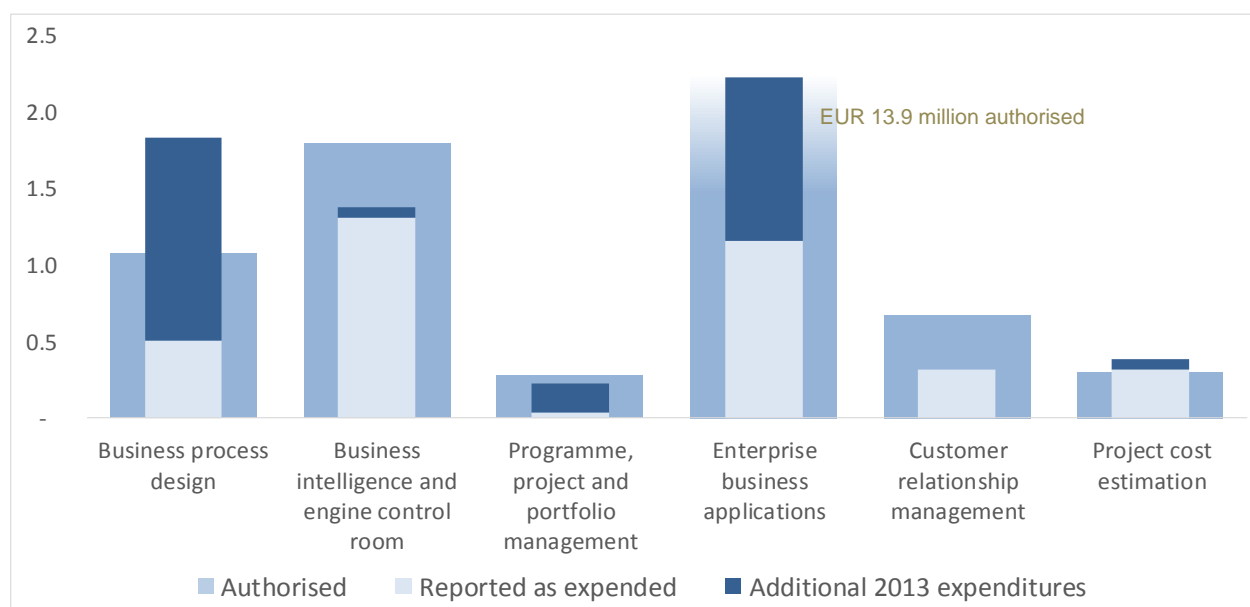
- obtain clear authorisation to use the budgeted funds³⁶,
- include them among the total project expenditure reported by project managers to NCI Agency management, or
- report them to the Agency Supervisory Board or the Investment Committee as part of Programme status update.

5.2.4 In an assessment of time accounting data, the NCI Agency concluded that conducting Programme activities prior to funding them did not add cost to the Programme or negatively affect daily business. Specifically, NCI Agency officials found that productive staff time for the 79 personnel supporting the Programme was greater than the statistical average of productive time per person Agency-wide. The amount of extra time exceeded the number of hours charged to Programme activities. Therefore, the NCI Agency concluded that the Programme activity did not hinder the Agency's normal activities. In addition, because the staff were already on the Agency's payroll, their efforts did not add additional costs. Assessing these data and analysing them in further detail to determine their reliability was outside the scope of our review.

5.2.5 The NCI Agency recognises the costs associated with these benefits, but did not transparently report them. For example, NCI Agency officials acknowledge that conducting early Programme activities on top of existing tasks resulted in unquantifiable human and opportunity costs. In addition, as shown in Figure 3, the sum of 2013 costs directly attributable to project work and reported costs exceeds the authorised amounts for at least 2 projects we reviewed. However, the NCI Agency did not count the early costs against project fund authorisations by the Investment Committee. Systematic project expenditure reporting began after the Investment Committee approved the work. We cannot make definitive conclusions in this area for all sample projects because the NCI Agency no longer reports all costs by individual project.

³⁶ As found during our audit of the 2013 NCI Agency Financial Statements. See IBA-A(2014)215 and IBA-AR(2014)22.

Figure 3: Sample project authorisations and expenditures (in EUR million, as of June 2015)



1. "Authorised": Funds authorised by the Investment Committee in December 2013.
2. "Reported as expended": Reported by NCI Agency project managers as costs incurred since project authorisation.
3. "Additional 2013 expenditures": Includes expenditures recorded by NCI Agency for project-related activities prior to authorisation by the Investment Committee. These expenditures include billable and non-billable staff as well as overhead.
4. Reported project expenditures for business process design, business intelligence and engine control room and programme, project and portfolio management projects does not include project service costs expended, amounting to EUR 438,395 for these projects and 7 others. The Agency does not report project service costs by individual project in this category.

Source: IBAN analysis of NCI Agency data.

5.2.6 The NCI Agency differentiates between the project activities conducted before and after Programme authorisation. According to the Agency, the activities that incurred costs in 2013 were related to the consolidation and rationalisation phases of the agency reform process and constituted a set of pre-transition activities geared to (1) prepare the non-customer funded elements of the agency for the implementation of customer funding and thus (2) ensure the business continuity and the ability of these same elements to deliver within the context of a larger integrated Agency. The Agency further states that the transition programme as approved by nations in December 2013 did not conflict with these activities but rather complemented them by focusing on the next phase of agency reform.

5.2.7 The lack of fully transparent financial reporting extends to the Programme as a whole. Based on an assessment of costs reported for our sample projects, we believe that the NCI Agency under-reported total Programme costs in 2014. In work done to support our 2014 financial statement audit, we found that the NCI Agency excluded

costs charged to overhead from its reported Programme expenditures³⁷. The Programme costs included in the 2014 financial statements (EUR 1.7 million) amounted to only around 20% of 2013 spending (EUR 8.2 million), despite evidence of increased, rather than decreased, activity³⁸. Overall, in 2012 and 2013, the NCI Agency reported spending a total of EUR 12.6 million. This represents 74% of the authorised Programme (17.0 million) yet the Agency did not count this amount against the total authorisation. Detailed work in this area was beyond the scope of our audit.

5.2.8 Fourth, the NCI Agency did not provide sufficient information to the Investment Committee in line with its responsibilities as a NATO Security Investment Programme Host Nation. For example, the single set of milestones provided by the NCI Agency did not reflect the diversity among the wide range of funded activities and projects. In addition, during project implementation the NCI Agency did not populate the common funded resource information system with any forecasted milestones as required. The NCI Agency has a plan to enter information into this system, but has not allocated the resources to do so³⁹. Further, as of July 2015, the one update it provided to the Investment Committee in December 2014 provided information at only a very high level. Finally, reporting to the Investment Committee on the NCI Agency's '6 NATO Security Investment Programme priorities'⁴⁰ inaccurately stated the status of initiatives such as the project cost estimation project we reviewed.

5.2.9 The lack of accurate reporting by the Agency left the Agency Supervisory Board and Investment Committee with insufficient information to make decisions and assess progress. In particular:

- As the primary committee responsible for governing the NCI Agency, the Agency Supervisory Board ought to provide direction and guidance on balancing strategic priorities, such as change activities versus daily business. Without information from the Agency on the full extent of the known difficulties implementing key elements of the Programme, the Agency Supervisory Board was unable to provide the kind of guidance its charter envisions. In particular, our assessment of the Agency Supervisory Board did not show any input on corrective actions needed despite the significant management difficulties the NCI Agency experienced in implementing the Programme (see Section 4).
- Lacking full cost reporting and clearly differentiated, realistic milestones for Programme projects, the Investment Committee was less able to exercise its responsibilities during the approval and implementation phases. Specifically, despite not having a clear commitment by the NCI Agency to complete the funded projects according to clear schedules, the Investment Committee

³⁷ IBA-AR(2015)20.

³⁸ AC/337(FC)D(2015)0001.

³⁹ Estimated at 1-2 person-years.

⁴⁰ These 6 priorities are: (1) on-time capability delivery, (2) accurate and consistent expenditure forecasting, (3) reasonable project service costs, (4) competition-focused acquisition, (5) contractor accountability, and (6) expediting future authorisations.

approved the Programme. As a result, the Agency and the nations lack a clear authorised baseline against which to measure Programme performance. In addition, the lack of full project cost reporting by the Agency to the Investment Committee prevented discussions that would better clarify the full scope and funds needed for the Programme's authorised NATO Security Investment Programme project activity.

- The limited scope of reporting to governing bodies hindered these bodies' ability to assess Agency performance against its strategic objectives. Having accurate cost and performance information is particularly important because the Agency is trying to improve its performance yet has diminishing resources available to do so.

5.3 Governing bodies did not sufficiently oversee Programme implementation

5.3.1 The NCI Organisation charter language and best practices to which the NCI Agency strives to adhere make clear that it is not enough for the governed to provide useful information to its governing bodies. These bodies must also take action when necessary, such as to facilitate correction of deficiencies. We evaluated the actions taken by the relevant governing bodies to oversee the Programme after authorisation.

5.3.2 In 2013, when dealing with NCI Agency transition the Agency Supervisory Board prioritised notation of Programme resource requirements, which it subsequently forwarded to the Resource Policy and Planning Board. It also oversaw development of the new organisational structure and management team and implementation of time accounting across the Agency. In addition, the Board provided input to the Initial State Personnel Establishment (authorised personnel ceilings) and engaged in a long dialogue with the NCI Agency to develop governance and performance metrics.

5.3.3 After the Investment Committee authorised the Programme in December 2013, the Agency Supervisory Board did not take sufficient action to hold the Agency accountable when the Agency faced difficulties delivering on its promises during Programme implementation:

- The Agency Supervisory Board did not press the Agency to meet its commitment to provide Programme status updates in its quarterly reporting and the monitoring tools discussed in paragraph 5.2.1. According to a senior official on the Agency Supervisor Board, after Programme authorisation in December 2013, the Board viewed specific oversight of Programme project cost, scope and schedule to be an Investment Committee responsibility. This created an oversight gap because, as discussed in paragraph 5.3.4, the Investment Committee did not fully exercise its responsibilities in this area.
- The Agency Supervisory Board Finance Committee is responsible for assessing internal audit results and the adequacy of actions taken. However, over one

year after NCI Agency Internal Audit reported its findings and recommendations on the Programme as discussed in paragraphs 4.2.8 and 4.2.9, the Agency Supervisory Board had not yet followed up on the extent to which NCI Agency management took steps to address them.

5.3.4 Because the Nations funded the projects we reviewed with NATO Security Investment Programme funding, the Investment Committee is required to oversee their implementation. We previously reviewed the Investment Committee's performance in overseeing project authorisation and implementation, among other things⁴¹. Our prior work found that the authorisation process gives poor assurance and weak timeline control and that the Investment Committee does not effectively monitor, evaluate and control project implementation.

5.3.5 The Investment Committee's oversight of the Transition Programme reveals similar problems we previously reported on for the NATO Security Investment Programme as a whole. For example, at authorisation, the Investment Committee requested regular updates on Programme status. Since December 2013, the NCI Agency provided one update as discussed in paragraph 5.2.6. Despite the limited information given, the Investment Committee did not enforce the NCI Agency's responsibility to provide the information needed to monitor project progress against authorised cost, scope and schedule. The nations also did not question the Agency in more depth to ascertain the actual status of the Programme projects.

5.3.6 Limited oversight by NCI Agency governing bodies contributed to a missed opportunity for the nations to hold the Agency accountable to deliver against its promises by prompting corrective action when it was needed. This then left the Agency less able to take the steps necessary to ensure Programme projects, like those reviewed and associated activities proceed at the best possible speed.

⁴¹ C-M(2015)043 and IBA-AR(2014)35.

6. Conclusions and recommendations

6.1 The NCI Agency did not adequately plan to achieve the benefits promised by the projects we reviewed. Although the Agency planned project products, some of which are already complete, it lacks comprehensive planning to fully realise project benefits. Such planning is necessary to translate project products to tangible, positive changes in performance. This planning would include defining and tracking specific targets and milestones, particularly related to improving performance, and identifying resources needed to implement project products. In addition, all of the projects we reviewed have insufficient scope to fully realise desired improvements in Agency performance.

6.2 Project delays pose serious risks to delivering expected benefits to performance within currently planned time frames. The projects we reviewed are delayed by an average of 17 months. One of the most important technology projects, Enterprise Business Applications, is delayed several years compared to the baseline schedule. Business process implementation is particularly incomplete; the Agency has not yet begun the majority of work needed. These projects include the most important elements needed to increase efficiency and allow the NCI Agency to reduce staffing levels and achieve savings. Under pressure to make these savings, the Agency will face great difficulty improving its performance without the perquisite efficiencies in place.

6.3 NCI Agency management did not effectively direct and oversee Programme implementation. In particular, the Agency did not conduct centralised, strategic-level Programme management in important areas such as risk and dependency management. NCI Agency management did not adequately prioritise among many competing demands, including delivering critical services and capabilities to its customers. As a result, it over-committed its resources. Important change activities and implementation of corrective action also suffered from the lack of sufficient experienced personnel available to manage and support Programme activities.

6.4 Following Programme authorisation, the NCI Agency offered incomplete information to its governing bodies. Reporting on known challenges experienced during implementation and the full extent of project costs were particularly not transparent. The NCI Agency also did not deliver the monitoring tools when promised, which would have allowed for better transparency. The Agency Supervisory Board and Investment Committee then did not hold the NCI Agency accountable to deliver on its commitments. The gap in oversight left by weak monitoring and control limited the provision of direction and guidance to the Agency that would have hastened timely corrective actions to the Programme.

Summary of recommendations

Recommendation 1

6.5 To make meaningful improvements in organisational performance, the NCI Agency should reassess current Programme planning. In this planning the specific steps, additional scope and realistic time frames (to include milestones and targets) for achieving the full benefits of all Programme projects should be stressed.

Recommendation 2

6.6 To better implement the Programme in accordance with best practices in change management, we recommend the NCI Agency take a more strategic and holistic approach to managing risk, dependencies, resources and benefits achievement. Steps to ensure critical business process and technology enabler work progresses at the best possible speed should be prioritised.

Recommendation 3

6.7 To improve decision-making and accountability, we recommend that the NCI Agency make its Programme reporting more complete, balanced and transparent. We further recommend that the Agency governing bodies take a more active oversight role by agreeing clear roles and responsibilities, enforcing regular, consistent reporting requirements and providing direction and guidance when needed.

7. NCI Agency General Manager's formal comments and the IBAN's position

7.1 We requested formal and factual comments from the NCI Agency General Manager. We reproduce the full text of the comments received in Appendix 4.

7.2 In its factual comment, the Agency refers to figure 3 in our report, stating that authorized funds and reported as expended does not include non-billable staff not backfilled or overheads. According to the NCI Agency, this is in line with committees' decisions when authorizing the Transition Programme in late 2013, to avoid non billable staff to be counted twice. The NCI Agency states that the basis for 2013 pre-transition expenditures pre-date nations' decisions for the Transition Programme and thus reflect a different basis (i.e: non-billable and overhead included).

7.3 We concur with these facts and we made some editorial changes to section 5 as a result. However, we continue to believe that limiting Programme project financial reporting to costs incurred for these projects after authorisation provides insufficient transparency because the activities conducted and charged to Programme projects did not fundamentally change between 2013 and 2014. In addition, 2013 Programme costs included not just non-billable and overhead costs, but also billable labour, non-billable labour, contractor labour, consultancy and travel costs.

7.4 The NCI Agency General Manager wrote in his comments that the Agency recognises our findings, conclusions and recommendations and is already taking corrective actions to address critical improvements in the management and synchronisation of its transformation programme. He further wrote that the underlying root causes are the higher priority placed on operations, compounded by a shortfall of military manpower, which took management focus away from the management of change. The General Manager also acknowledged that the NCI Agency reduced centralised control of the Programme too early. The Agency intends to address these shortfalls with the following actions:

- reviewing and strengthening Transition Programme governance,
- assigning the Director of Service Strategy the second role of directing Organisational Change Management,
- forming a dedicated Organisational Change Management team,
- establishing a director-level Change Portfolio Board with overall responsibility to oversee all activities in the coming years that require organisational change, and
- providing more complete reporting to the Agency Supervisory Board and other stakeholders regarding Transition Programme status.

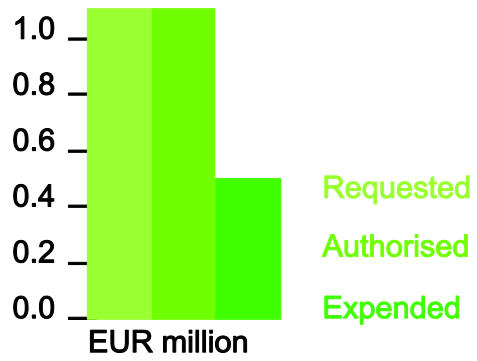
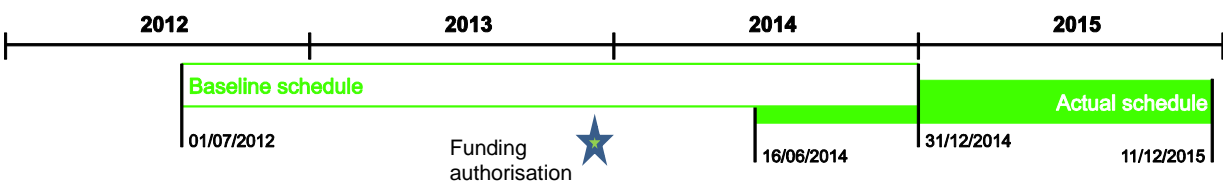
7.5 We note the actions to which the NCI Agency General Manager has committed. We believe they are responsive to our recommendations, if accompanied with targets and milestones. We encourage Council to direct the NCI Agency's governing bodies to fulfil their oversight roles by closely monitoring the results of these actions.

Abbreviations

CIS	Communications and information systems
EBA	Enterprise business applications project
IBAN	International Board of Auditors for NATO
KPI	Key performance indicator
NCI Agency	NATO Communications and Information Agency
Programme	NCI Agency Transition Programme
P3	Programme, project and portfolio

Sample projects reviewed

NCI Agency business process design (project 13)

Shortfall the project intends to address <ul style="list-style-type: none"> The lack of documented or immature business processes in the newly consolidated NCI Agency. 											
Objectives <ul style="list-style-type: none"> Improve performance by aligning business processes with strategy and goals. Enable the centralisation of core functions from the former organisations into single business units operating a unified set of business processes. Assure that information technology applications, human competencies and organisational development support the Agency's process performance objectives. 											
Intended benefits <ul style="list-style-type: none"> Improve operational efficiency (do more with less). Achieve savings. Enable organisational cohesion and greater compliance with rules and regulations. 											
Cost <ul style="list-style-type: none"> The Investment Committee approved EUR 1,148,880 (mostly to fund internal activity), 3% less than requested. As of June 2015, EUR 506,140 in expenditures were recorded. EUR 1,328,906 in additional expenditures were reported in 2013, prior to project authorisation. 	 <table border="1"> <caption>Cost Data (EUR million)</caption> <thead> <tr> <th>Category</th> <th>Value (EUR million)</th> </tr> </thead> <tbody> <tr> <td>Requested</td> <td>1.0</td> </tr> <tr> <td>Authorised</td> <td>0.95</td> </tr> <tr> <td>Expended</td> <td>0.45</td> </tr> </tbody> </table>	Category	Value (EUR million)	Requested	1.0	Authorised	0.95	Expended	0.45		
Category	Value (EUR million)										
Requested	1.0										
Authorised	0.95										
Expended	0.45										
Schedule <ul style="list-style-type: none"> Project initiated in June 2014, approximately 18 months later than the baseline and 6 months after funding approved. Project completion scheduled for December 2015 (almost 12 month-delay). 											
 <table border="1"> <caption>Schedule Data</caption> <thead> <tr> <th>Event</th> <th>Date</th> </tr> </thead> <tbody> <tr> <td>Baseline schedule start</td> <td>01/07/2012</td> </tr> <tr> <td>Funding authorisation</td> <td>2013</td> </tr> <tr> <td>Actual schedule start</td> <td>16/06/2014</td> </tr> <tr> <td>Actual schedule end</td> <td>11/12/2015</td> </tr> </tbody> </table>		Event	Date	Baseline schedule start	01/07/2012	Funding authorisation	2013	Actual schedule start	16/06/2014	Actual schedule end	11/12/2015
Event	Date										
Baseline schedule start	01/07/2012										
Funding authorisation	2013										
Actual schedule start	16/06/2014										
Actual schedule end	11/12/2015										
Scope <ul style="list-style-type: none"> Establish overall business process architecture. Develop detailed design for future state processes. Implement business process enablers. Transition to and implement the new business processes. 	Deliverables <ul style="list-style-type: none"> Support NCI Agency business owners in designing and implementing their business process (in progress). Develop business process framework (May 2013). Create best practice-based process landscape and process map (in progress). Plan and run workshops (in progress). Define and establish the process of managing business processes (in progress). 										

Project background

Planning

Business process design began before the nations created the NCI Agency in 2012. By late 2012, while the organisational design was still undecided, the Agency approved high-level business processes. In April 2013, the initial project team drafted but did not obtain approval for a detailed project initiation document. The NCI Agency subsequently added some information from this document into an amalgamated 'Group C project initiation document', which the Director of Transition approved in June 2014. It included information on the objectives, scope, costs, and risks for all projects in this group. It named the Project Manager and available and required resources. The NCI Agency describes business process design as one of the major enablers for savings. The NCI Agency has a target to save EUR 11 million per year from improved processes.

Clarity and sufficiency of scope to achieve benefits

The project scope enables process design across the Agency. However, creation of specific business processes is the responsibility of business units. Therefore, other transition projects in functional areas such as finance include business process design within their scope. Accordingly, planning documents highlight this project's linkages to these other projects and to the success of the Transition Programme overall. Obtaining the benefits of new processes will require these processes to be fully implemented.

Assessment

Planning documents do not state how benefits from the business process design project will be realised. They lack measurable targets and milestones for improving performance and achieving savings.

Fully implementing specific business processes across the Agency is a complex and resource-intensive task, which is not included within the project scope. In addition, functioning business units are a prerequisite for successful process design. Knowing this, the project team designed a 22-step process for forming business units. This work was not included in the original project scope.

The NCI Agency initially identified as risks the lack of management commitment, unclear, unavailable or incapable process owners and failure to embed cultural change. These risks all materialised. As of May 2015, only 1 out of 12 service lines had begun the 22-step process to forming a business unit. Nearly half of NCI Agency business processes still lack a current state analysis. Over two thirds do not have a documented 'to-be' process in accordance with the agreed methodology. Explanations include insufficient priority and resources. Repeated reporting made senior management aware of these issues but action is not evident. Continued delays in establishing business units, defining their processes and implementing them will threaten Agency performance because staffing cuts will occur before the prerequisite efficiencies are in place. They also increase risk to the implementation of the enterprise business applications project, which depends on the timely identification of important processes. Overall, the delays pose a major risk to transforming the NCI Agency to a service-based organisation.

Engine control room and business intelligence (performance, measurement, analysis, reporting and benchmarking); (projects 35 and 39)

Shortfall the project intends to address <ul style="list-style-type: none"> The lack of coherent and comprehensive reporting and control hinders the NCI Agency's ability to effectively carry out its core business mandate, improve performance and achieve savings. 													
Objectives <ul style="list-style-type: none"> Define practices and procure a set of commercial tools to provide effective, actionable management information. Determine requirements and make recommendations for better continuous monitoring of demand against capacity. Identify services and processes to be measured; appropriate metrics, tools and techniques for data capture and reporting. 													
Intended benefits <ul style="list-style-type: none"> Improve situational awareness, insight/oversight, analysis, tracking and reporting to support transparent Agency business operations and evidence-based decision-making. Create a physical space where demand can be continually assessed against capacity and corrective action taken, to improve effectiveness and efficiency and create savings. 													
Cost <ul style="list-style-type: none"> The Investment Committee approved EUR 1,801,199 (mostly to fund external investments), 2% less than requested. As of June 2015, EUR 1,313,939 in expenditures were recorded. EUR 63,112 in additional expenditures were recorded in 2013, prior to authorisation. 	<table border="1"> <caption>Cost Data (EUR million)</caption> <thead> <tr> <th>Category</th> <th>Value (EUR million)</th> </tr> </thead> <tbody> <tr> <td>Requested</td> <td>1.8</td> </tr> <tr> <td>Authorised</td> <td>1.75</td> </tr> <tr> <td>Expended</td> <td>1.3</td> </tr> </tbody> </table>	Category	Value (EUR million)	Requested	1.8	Authorised	1.75	Expended	1.3				
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Scope <ul style="list-style-type: none"> Develop strategic key performance indicators (KPI) and executive dashboards. Implement initial capability technical solution for: <ul style="list-style-type: none"> multi-source financial, human resources, service performance and risk reporting; data quality audit, and cross-functional analytics, including predictive (forecasting) and visual capabilities. 	Deliverables (date delivered) <ul style="list-style-type: none"> Draft KPI and data management policies (completed). Source data warehouse using authoritative data (in progress). Ensure one location for dashboards and reports (in progress). Conduct process mapping (in progress). Develop fully costed full operational capability roadmap (in progress). 												

Project background

Planning

Early on, the NCI Agency combined two related projects to better coordinate the implementation of closely related reporting and control work. Agency staff drafted and approved in April 2013 the initial project initiation document. It describes how the projects will improve NCI Agency performance, including tangible successful customer outcomes. It lists the significant related projects, dependencies and project deliverables against a series of milestones. The NCI Agency planned a 3-stage design and implication process, beginning with 'quick win' KPI work and ending with an implemented roadmap toward full operational capability.

Clarity and sufficiency of scope to achieve benefits

This project has potential to improve NCI Agency performance by giving Agency management the tools needed to make better decisions and more effective prioritisation than currently possible. Planning documents foresaw this project as a demonstrator, with full benefits to be realised through follow-on work. Similarly, other benefits will be realised after the establishment of a physical space referred to as the 'engine control room.' In this space, cross-functional Agency staff will manage and take action based on the flow of critical information on Agency operations.

Risks and issues

The business intelligence project faces pressure to support EBA. The Investment Committee did not approve integration of business intelligence in EBA. Delays in EBA implementation intensified this pressure. However, the type of management information needed for strategic business decisions differs from the type of information needed by EBA users. Thus, combining these efforts introduces risk in both areas. The project also aims to bring together (warehouse) data from at least 18 sources in multiple corporate business networks. However, these data have not proven authoritative as first assumed, increasing the complexity of the task. In addition, a slow acquisition process (12 months instead of 2 as planned) prompted the General Manager to intervene to keep the project on track. Beyond these issues, risks include typical challenges in collecting and assessing management information. These include data access, quality and consolidation difficulties.

Assessment

Neither the roadmap to full operational capability nor others included benefits realisation planning, such as specific savings or performance targets and milestones to achieve them.

Since early 2013, NCI Agency management have been unable to finalise the details on how the engine control room space will function. Supporting processes and structures necessary to achieve the benefits cannot be put in place without proactive leadership in this area. Additional internal expenditures to collect and assess management information will be needed after the project concludes.

Programme, project and portfolio (P3) Management (project 38)

Shortfall the project intends to address

- Inconsistent programme, project and portfolio (P3) governance and management maturity and limited use of available tools limits effective project management such as milestone and cost tracking.

Objective

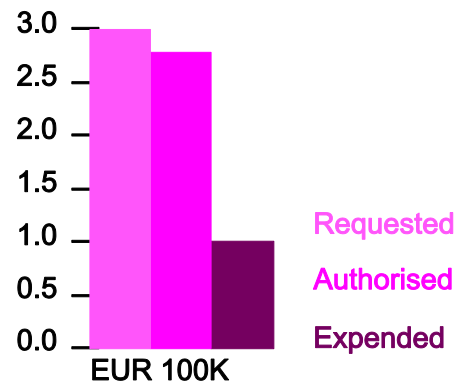
- Introduce consistent policies, procedures, and toolsets across the Agency to support P3 governance and execution.

Intended benefits

- More accurate estimates of cost, schedule and performance will improve planning.
- Better management awareness of project execution and progress will improve decision-making.
- Better planning and decision-making will enhance NCI Agency's ability to balance priorities with customers' portfolios.

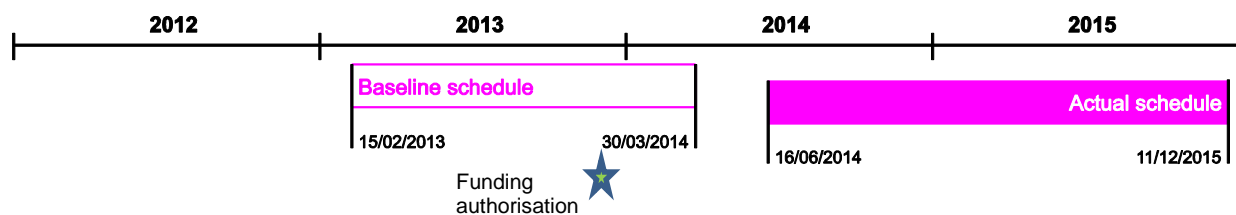
Cost

- The Investment Committee approved EUR 278,256 for this project (roughly equally split between internal activities and external investment), 7% less than requested.
- As of June 2015, EUR 103,964 in expenditures were recorded.
- EUR 188,258 in additional expenditures were recorded in 2013, prior to project authorisation.



Schedule

- Project initiated in June 2014, approximately 18 months later than the baseline and 6 months after funding approved.
- Project completion scheduled for December 2015 (almost 12 month delay).



Scope

- Produce detailed design for P3 management and implementation plan with timelines and resource implications.
- Configure existing P3 tools as interim solution.
- Develop and document P3 processes and policies.
- Develop organisation/cultural change plan.
- Implement an Agency-wide Management Support Office.

Deliverables

- Create implementation plan including a timeline and resources implications (not delivered).
- Document life cycle P3 processes; develop standard operating procedures and toolsets; eliminate redundancies (in progress).
- Implement time accounting across NCI Agency (completed).

Project background

Planning

As it did for all the IBAN sample projects, the NCI Agency approved a mandate for the P3 management project in January 2013 that broadly stated the project aim, scope, business requirements, benefits and costs. It also included a timeline with delivery needing to occur by August 2013 because of the importance of this project to the overall Transition Programme. The project team produced a project initiation document in April 2013 which contained the appropriate level of detail in important areas such as risk management. The overarching initiation document for projects implemented by NCI Agency Service Strategy directorate personnel also included this project.

Clarity and sufficiency of scope to achieve benefits

According to NCI Agency officials, work funded by this project will deliver processes, enablers and workforce education for P3 functions. This will be done by improving the NCI Agency's legacy project management systems and processes, particularly for milestone and funds tracking. The project funded the extension of time accounting throughout the Agency and development of standard operating procedures. These are critical enablers for effective P3 management.

Risks and issues

This project's greatest implementation difficulty has been obtaining subject matter experts with sufficient skills and expertise to do the work needed to improve NCI Agency milestone tracking. The NCI Agency's legacy project management system is highly customised and not easy to manipulate. The NCI Agency could not obtain staff able to work in this environment through the acquisition strategy approved by the Investment Committee. As a result, the NCI Agency approved the use of internal funding. With this funding (external to the sample project), NCI Agency will engage a different firm to make technical changes to the project management system, publish the P3 processes and do other related activities. The Agency plans to close the sample project with 86% of the authorised funding unspent.

Assessment

A linkage between project outputs and benefits and savings was not evident in the overarching initiation document. Official descriptions of scope are vague. Wording in the cost estimate approved by the Investment Committee does not make clear how the project intends to improve P3 practices at the NCI Agency. Over time more clarity in project scope emerged. Still, however, the funded efforts are insufficient on their own to achieve the full project benefits.

Like the business intelligence and customer relationship management projects (detailed elsewhere in Appendix 2), fully achieving desired benefits will require the integration of P3 functions into the enterprise business applications project currently underway.

Enterprise Business Applications (EBA) (project 40)

Shortfall the project intends to address

- Existing standalone financial, budgeting, procurement, payroll and human resource systems do not support full customer funding or the move from an asset-based to a service-based organisation.

Objectives

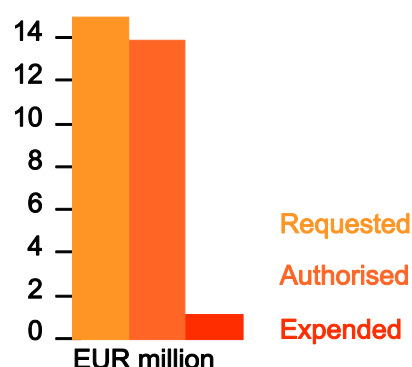
- Replace existing, obsolete and ad-hoc systems that support Agency business functions.
- Deliver an integrated suite of business applications based on modernised commercial-off-the-shelf systems.
- Improve accountability, transparency and achieve Agency objectives through the efficiency of business processes and the staff who execute them.

Intended benefits

- Increase transparency, internal control and compliance; achieve savings by reducing duplication and manual activities to align finance, procurement and human resource transactions processing with best practices; fulfil mandate to be a fully customer-funded, service-based organisation; provide critical information for decision-making.

Cost

- The Investment Committee approved EUR 13,971,774 for this project (mostly to fund external investments), 12% less than requested. This included a 30% reduction in project service costs.
- As of April 2015, NCI Agency had recorded EUR 1,159,884 in expenditures.
- EUR 1,074,258 in additional expenditure were reported in 2013, prior to project authorisation.



Schedule

- Project initiated in January 2015, approximately 2 years later than the baseline start date.
- Launch of initial functionality covering the most urgent shortfalls to occur in January 2017 and overall project completion in January 2018 (3 year delay from first baseline).



Scope

- Introduce integrated suite of applications to enable 38 important business functions in the finance, procurement, project and service resource management, communications and information systems asset management, human resources, master data and business process management areas.

Deliverables

- Defined for requirement-setting phase:
 - Develop project planning documentation and initial logs (delivered).
 - Develop implementation approach (delivered).
 - Write workshop descriptions (delivered).

Project background

Planning

Following an options analysis, the NCI Agency chose and the Investment Committee approved the use of the services of the winning bidder for the NATO command structure's new enterprise resource planning system⁴² as system integrator for its own Transition project. The NCI Agency's cost estimate approved by the Investment Committee described its implementation approach, elements of a business case and other important planning information such as high-level assumptions, constraints, timelines and required resources. The NCI Agency subsequently drafted a project initiation document that had further details including roles and responsibilities, tolerances, schedule and scope, among other things. The NCI Agency did not complete or approve this document because a bid protest significantly delayed contract award.

The delay in contract award prompted the NCI Agency to approve a mitigation plan in late 2014 for using internal resources to install initial functionality covering the most urgent shortfalls by January 2016. As part of this plan, the Agency completed a gap analysis and attempted to define its detailed requirements. However, this assessment and subsequent external validation demonstrated low readiness to implement the project within the desired time frame. NCI Agency management cancelled the mitigation plan and approved a one-year delay, to January 2017 and January 2018 for critical and less-critical functionality, respectively. After NATO announced the winning bidder for the NATO Command Structure's enterprise resource planning system in early 2015, the NCI Agency adjusted its approach so that the contractor would focus first on developing business prerequisites, requirements and the implementation plan for full EBA scope. The project management team predicts this effort will conclude in the fourth quarter of 2015.

Clarity and sufficiency of scope to achieve benefits

Although there have been difficulties defining specific requirements, the project scope includes elements that have the clear potential to improve NCI Agency effectiveness and efficiency. These include benefits emphasised by the NCI Agency as part of the General Manager's '6 NATO Security Investment Programme priorities,' designed to improve delivery of Investment Programme projects within cost, scope and schedule. For example, in November 2014 the NCI Agency reported to the Investment Committee that the EBA project will improve milestone tracking and expenditure forecasting – two key performance areas where the NCI Agency has consistently fallen short of nations' expectations. In addition, replacing Agency's legacy systems will positively address a repeated IBAN observation which has contributed to previous qualifications of the NCI Agency financial statements. However, because the project is still in the requirements definition phase it is not clear whether additional funds, scope or time will be necessary to achieve the desired benefits. The NCI Agency also forecasts EUR 5.4 million in annual savings to accrue through EBA.

⁴² Capability Package for Logistics Functional Services.

NCI Agency documentation raises concerns about the lack of EBA-specific capability for management information reporting and assessment, also referred to as business intelligence. The NATO Office of Resources did not recommend funding this activity as part of EBA because management information reporting and assessment was funded elsewhere (examined elsewhere in Appendix 2). However, EBA-specific and general management information differ, according to NCI Agency officials. The former is more 'operational' in nature while the latter focuses on the strategic level. NCI Agency personnel involved in both projects have held meetings to discuss this issue but the way ahead is not yet clear.

Risk and issue management

The project team manages an active risk log. It identifies 53 risks in 16 areas. 12 risks have been mitigated or closed. A further 12 risks with mitigation in progress include ongoing difficulties obtaining sufficient requirements from within the NCI Agency and unsatisfactory responses from the contractor, among others. These risks have already materialised. Other identified risks, including those with the greatest potential impact and likelihood, cover the lack of a change process within the NCI Agency, weak decision-making by management, and changing requirements and assumptions.

For example, in May 2014 the project management team raised two issues that, if unaddressed, would cause cost and schedule overruns. They related to the impact of funding cuts made during the approval phase and delays in business process design. According to project management staff most of the decisions on project funding were not carried out. Lack of clarity in financial status remains a project risk. To address project delays, management agreed a course of action but it did not have the intended result. Over one year later, process development remains incomplete and continues to hinder progress.

More recently, in response to the risks that materialised during the first phase of work the project team raised difficulties needing discussion and approval of a way forward by NCI Agency management boards. These boards took the necessary decisions and escalated them when appropriate. NCI Agency management decided to maintain the currently agreed schedule at higher risk and reassess the need to request further funds from the nations in the third quarter of 2015. They also decided to impose 'out-of-the-box' business processes on functions for which timely documentation of existing processes has been particularly difficult, including finance.

Assessment

The forecast annual savings to accrue through EBA are not explicitly linked to the project in a benefits realisation plan or supporting documentation.

We cannot determine the impact of delays on actual project costs because the NCI Agency lacks the tools to objectively assess how much of the project budget should have been spent, given the amount of work done so far. Because the project is still in the requirements-definition phase, it is uncertain what additional work, if any, will be needed.

Customer relationship management (project 42)

Shortfall the project intends to address

- NCI Agency lacks a means to provide its customers a single point of entry into the Agency and effectively respond to their needs.

Objectives

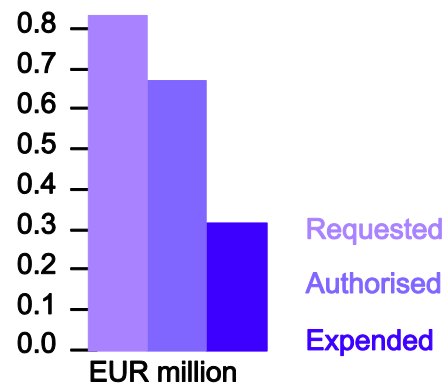
- Achieve better engagement to identify potential customers.
- Better understanding the emerging requirements of existing customers to inform the NCIA demand management and service strategies.

Intended benefits

- Improve physical and electronic interaction with customers.
- Improve account management.
- Enhance measurement and reporting of customer satisfaction.

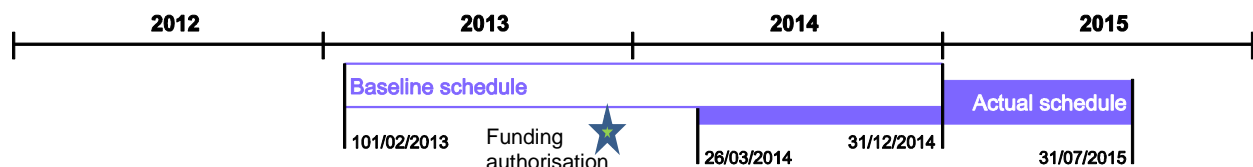
Cost

- The Investment Committee approved EUR 673,684 for this project (roughly equally split between internal efforts and external investment), 25% less than requested.
- As of March 2015, NCI Agency had recorded EUR 317,450 in expenditures.



Schedule

- Project initiated in March 2014, approximately 14 months later than the baseline start date and 3 months after funding approved.
- The NCI Agency approved the project management plan in October 2014.
- Project completion scheduled for July 2015 (7-month delay).



Scope

- Develop business process and procedures.
- Implement a web-based interim customer relationship management system.
- Roll out software to manage NCI Agency customer catalogue.
- Develop a requirements list for the future customer relationship management system.
- Implement an online customer catalogue.

Deliverables

- Create an interim customer relationship management toolset development plan (in progress).
- Create an interim customer services catalogue (delivered).
- Develop requirements for full customer relationship capability (in progress).
- Develop policies and procedures (in progress).

Project background

Planning

Project planning is well-documented. The project mandate was signed in January 2013. Project initiation documentation, signed in March 2014, included a business case which elaborates on goals and objectives to achieve benefits and savings while assessing risk in carrying out these goals. A separate project management plan contains the full details for all work packages, identifies risk, assesses their probability and impact and offers mitigation strategies. The Benefits and Savings Plan quantifies financial and other benefits to be gained from the Transition Programme.

Clarity and sufficiency of scope to achieve benefits

The customer relationship management toolset interim functionality will improve NCI Agency customer relationship management, if fully implemented. It is considered 'interim' because the full solution will need to be tied to the Enterprise Business Application project, which is just now beginning implementation. A full Customer Relationship Management toolset would provide a central focal point for common policies, processes and procedures within the Demand Management directorate and throughout NCI Agency. However, the agency did not include demand management functions, including customer relationship management, in its EBA project.

Risk and issue management

Risks were assessed and reported. Main risks included availability of required subject matter expertise, lack of required technology (dependency with the EBA project) and low quality of process documentation provided to external consultants. The project manager raised to senior management two issues related to delays in getting the right contractor personnel in place. The NCI Agency considered various options and approved a course of action at the appropriate levels. The project management team also developed lessons learned from its experience managing external consultants for this project

Assessment

Planning documents do not state how benefits for this project will be realised. They lack measurable targets and milestones for improving performance and achieving savings.

The full scope of customer relationship management – and full achievement of the desired benefits – will require additional investment. Unless separate internal or external funding is requested and approved, the full toolset will not be delivered. The NCI Agency does not currently have a plan for how to proceed in this area.

Project cost estimation (project 44)

Shortfall the project intends to address <ul style="list-style-type: none"> No central database of historical project costs to inform current and future estimates Inconsistent application of cost analysis across the Agency 											
Objective <ul style="list-style-type: none"> Better define project costs (Agency internal management costs, acquisition and life-cycle costs) Collect data on past project lifecycle costs Create an Agency-wide accurate and repeatable cost estimation process 											
Intended benefits <ul style="list-style-type: none"> Deliver project cost estimates that better reflect investment and operation and maintenance costs. Improve accuracy of Agency project service costs (for internal administration). Create business efficiencies through the use of common processes and data across the Agency. 											
Cost <ul style="list-style-type: none"> The Investment Committee approved EUR 298,367 for this project (nearly all for external investment), 4% less than requested. As of March 2015, EUR 317,650 in expenditures were recorded. EUR 68,839 in additional expenditures were reported in 2013, prior to project authorisation. 	<table border="1"> <caption>Cost Estimation Data (EUR 100K)</caption> <thead> <tr> <th>Category</th> <th>Value (EUR 100K)</th> </tr> </thead> <tbody> <tr> <td>Requested</td> <td>~3.09</td> </tr> <tr> <td>Authorised</td> <td>~2.98</td> </tr> <tr> <td>Expended</td> <td>~3.17</td> </tr> </tbody> </table>	Category	Value (EUR 100K)	Requested	~3.09	Authorised	~2.98	Expended	~3.17		
Category	Value (EUR 100K)										
Requested	~3.09										
Authorised	~2.98										
Expended	~3.17										
Schedule <ul style="list-style-type: none"> Project initiated in August 2014, approximately 12 months later than the baseline start date and 8 months after funding approved. Project completion scheduled for August 2015 (12 month delay). 											
<table border="1"> <caption>Schedule Timeline</caption> <thead> <tr> <th>Year</th> <th>Event / Date</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>15/02/2013: Funding authorisation</td> </tr> <tr> <td>2014</td> <td>30/06/2014: Baseline schedule end</td> </tr> <tr> <td>2014</td> <td>01/08/2014: Actual schedule start</td> </tr> <tr> <td>2015</td> <td>01/08/2015: Actual schedule end</td> </tr> </tbody> </table>		Year	Event / Date	2013	15/02/2013: Funding authorisation	2014	30/06/2014: Baseline schedule end	2014	01/08/2014: Actual schedule start	2015	01/08/2015: Actual schedule end
Year	Event / Date										
2013	15/02/2013: Funding authorisation										
2014	30/06/2014: Baseline schedule end										
2014	01/08/2014: Actual schedule start										
2015	01/08/2015: Actual schedule end										
Scope <ul style="list-style-type: none"> Harmonise cost-estimating policies and processes across NCI Agency from the former organisations of NATO Consultation, Command and Control Agency, NATO ACCS Management Agency and NATO CIS Services Agency. Develop life-cycle cost estimation tools and underlying data. 	Deliverables <ul style="list-style-type: none"> Create life-cycle capability assessment and roadmap (completed). Implement NCI Agency project service cost model framework and data collection (in progress). Conduct model integration (not started). 										

Project background

Planning

The consultancy firm with which the NCI Agency engaged for this effort produced project planning documentation. The consultants developed a project plan in June 2014. This plan included tasks, objectives, schedule and milestones, deliverables and risk. In December 2014, the consulting firm completed a life-cycle cost capability assessment. This document assessed the NCI Agency's life-cycle cost estimation maturity and provided a roadmap for improving this capability in line with Agency goals for 2015 and 2016.

Clarity and sufficiency of scope to achieve benefits

Project documentation clearly demonstrates the need for the NCI Agency to improve its full life-cycle costing capability. Although not clearly stated, it appears that the Investment Committee authorised funding for this project with the understanding that it would deliver such a capability. However, the current plan illustrates a diminished scope for the project as implemented compared with the plan. The main tool to be delivered under this project will be a project service cost estimating tool, with an underlying database of historical project cost information.

While an important first step, this tool represents but one element of a full life-cycle costing capability. Additional time and expenditure will be needed to implement other elements the roadmap identifies. For example, building a functional data library for life-cycle cost estimation will take several years. To initiate such work, in 2015 the project team submitted a request for internal funding of EUR 486,000. The NCI Agency Project and Internal Investment Board did not approve this request, instead advising the team to draft a request for the Investment Committee.

Risks and issues

The NCI Agency has already spent all external funding authorised for this project. However, initial operational capability of the project will not occur until December 2015. At this time, the pilot phase of a project service cost estimation model will begin. To help manage this issue, the NCI Agency is currently assessing alternative sources of funds to cover the pilot phase testing period and to achieve full operational capability afterwards. This funding would be in addition to that needed to implement more life-cycle costing capability.

Assessment

The NCI Agency Benefits and Savings Plan and supporting documentation do not link this project with any of the identified savings and other targets. More time and resources will be needed for the NCI Agency to implement a full life-cycle cost estimation capability.

The project team is conducting other related work not explicitly stated in the original project scope. This includes creating a better tool for defining and establishing standard project tasks.

NCI Agency internal and external governance applicable to the Transition Programme

1. To manage and control its operations, including the Programme, the NCI Agency established a process for escalating issues needing decision. To this end, the NCI Agency has senior-level boards and means of reporting to them. Through these forums, Agency management and leadership can decide on pressing issues and prioritise work.
2. The **Service Lifecycle Management Board** exercises internal governance, defined as “day-to-day decisions related to internal execution of activities”⁴³. It meets weekly. The Monthly Operational Report is the primary tool used to inform Service Lifecycle Management Board decisions. The Monthly Operational Report also informs the Service Lifecycle Management Board and the General Manager of risks before they become issues. Unresolved issues are raised to the Prioritisation and Internal Investment Board (see paragraph 4).
3. Early Programme plans stated that governance oversight and resource prioritisation would be addressed through a **Transition Coordination Group** chaired by the NCI Agency Chief of Staff. It was to be the decision authority for prioritising the Transition and core business activity to minimise risks and meet the General Manager’s intent. Despite positive feedback on the usefulness of this forum, the group ceased to meet after 3 meetings and transferred its functions to the Prioritisation and Internal Investment Board.
4. The **Prioritisation and Internal Investment Board** is a monthly executive-level board chaired by Chief of Staff providing decisions on conflicting priorities, resource allocation and internal investment. Unresolved issues are raised to the Executive Management Board for decision. In 2013, the Prioritisation and Internal Investment Board assumed the Transition Coordination Group’s role in decision authority for prioritising transition work.
5. Unresolved resource or policy issues will be escalated to the monthly **Executive Management Board**, consisting of the NCI Agency’s directors, for decision making. This is the Agency’s senior decision-making board.
6. The NCI Agency is also subject to external governance by the nations. The following entities play a major role in governing the Programme:

⁴³ NCI Agency C3 Capability and CIS Service Delivery Strategy 2013-2017 (not approved).

7. The **Agency Supervisory Board**, which meets twice a year⁴⁴, is responsible for organisational governance of the NCI Agency. It provides strategic direction and guidance to the Agency and oversees its activities and performance. It is the sole entity reporting to Council regarding the Agency's effective and efficient operations.

8. The **Resource Policy and Planning Board**, which meets at least once a week, is the primary entity reporting to Council regarding the effective and efficient use of NATO Common Funds. The Resource Policy and Planning Board determine eligibility of specific Programme activities for common funding. It also shares responsibility with the Agency Supervisory Board and the Budget Committee for overseeing the Operating Fund.

9. Because the Transition Programme is primarily NATO Security Investment Programme-funded, the NCI Agency is responsible for reporting progress and any issues to the **Investment Committee**, which meets weekly.

⁴⁴ The Agency Supervisory Board's Finance Committee meets more regularly, on an ad-hoc and as-needed basis.

Formal comments received from the NCI Agency General Manager



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Office of the General Manager

Boulevard Léopold III
B-1110 Brussels, Belgium

Telephone:
Fax:

NCIA/IA/2015/03109
11 November 2015

To: IBAN
Attention: Mr Marius J. Winters

Subject: **Factual Clearance and formal Comments to the International Board of Auditors for NATO (Board) Draft Special Report to Council on improving NCI Agency performance through better planning, management and governance of the Transition Programme – IBA-AR(2015)**

Reference(s): IBA-A(2015)185 dated 30 October 2015

1. As requested, this letter provides the NATO Communications and Information Agency factual clearance and proposed formal comments to the IBAN draft audit report on the audit at Reference.
2. The Agency acknowledges the IBAN observations and it has undertaken major efforts to resolve this identified issues. Although the result of a number of contributing factors, at the most basic level the underlying root causes are the higher priority placed on operations, compounded by a shortfall of military manpower, which took management focus away from the management of change.
3. Factual and formal comments to offer to the report are provided under Annex A.

A handwritten signature in black ink, appearing to read 'Koen Gijssbers'.

Koen Gijssbers
General Manager



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ANNEX A to
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1. Factual Clearance - Draft Special Report to Council on improving NCI Agency performance through better planning, management and governance of the Transition Programme

Para 5.2 – Figure 3 – It is important to note that the basis for the Transition Programme authorized funds and reported as expended does not include non-billable staff not backfilled or overheads. This is in line with committees' decisions when authorizing the Transition Programme in late 2013, to avoid non billable staff to be counted twice. However, the basis for 2013 pre-transitions expenditures pre-date Nations' decisions for the Transition Programme and thus reflect a different basis (i.e: non-billable and overhead included).

2. Proposed formal comments on the draft Special Report to Council on improving NCI Agency performance through better planning, management and governance of the Transition Programme

Below specific comments are given to the individual recommendations made in the Draft Report:

IBAN Recommendation 1:

6.5 To make meaningful improvements in organisational performance, the NCI Agency should reassess current Programme planning. In this planning the specific steps, additional scope and realistic time frames (to include milestones and targets) for achieving the full benefits of all Programme projects should be stressed.

NCIA Comments:

The Agency agrees to the need to reassess current Programme planning, including milestones and targets, which will be performed as part of overall review and strengthening of the Transition Programme governance.

IBAN Recommendation 2:

6.6 To better implement the Programme in accordance with best practices in change management, we recommend the NCI Agency take a more strategic and holistic approach to managing risks, dependencies, resources and benefits achievement. Steps to ensure critical business process and technology enabler work progresses at the best possible speed should be prioritized.

NCIA Comments:

Although the result of a number of contributing factors, at the most basic level the underlying root causes is a continuous and significant increase of the high priorities set mainly in the operational area, compounded by a shortfall of military manpower, which limited management focus on the management of change. As an example, the Agency supported 50% more exercises, supports the implementation of the NATO Force Integration Units (NFIUs) as a result of the NATO Readiness Action Plan (RAP), while continuing to deliver capabilities and services.

The Agency recognises the findings, conclusions and recommendations of the IBAN report and is already taking corrective actions to address critical improvements in the management and synchronisation of our transformation programme. When the Director of Transition left

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ANNEX A to
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NCI Agency in late 2014, we decided, with the support of the ASB, to run the transformation in a more decentralised approach, with 4 smaller programmes under directors' lead. The programme had light oversight with a small organisational development office under the Chief of Staff.

An Internal Audit report commenced in February 2014 already highlighted some weaknesses related to the internal governance of the transition programme. Furthermore, the outcome of work commenced in November last year supported by a consulting firm confirms those observations and align well with the IBAN report on agency transformation. We are confident that the changes we intend to execute will bring agency transformation back on track.

We have worked with the consulting firm intensively in spring 2015 to evaluate the transformation programme. The conclusion was clear. In retrospect, we reduced centralised control of the programme too early. This decision resulted in a mix of projects that delivered their benefits and are on track and others that had issues. However, interdependencies were not well managed.

We are now analysing solutions. A study, which has had senior management's full involvement, confirmed five change management priorities for attention and implementation: 'Fixing the Fundamentals'; 'Making the Customer First'; 'Creating an Agile Organisation'; 'Fostering Enterprise Performance Management'; and, 'You Matter'. The plan is to deliver some crucial elements to the programme by the 1st quarter next year and drive the change hard to have significant change and benefits delivered by end 2017, with that getting back on track with our transition objectives.

To take these forward, we are taking the following corrective actions:

Action 1:

The Director Service Strategy (DSS) will be dual-hatted with a second role of directing Organisational Change Management (D-OCM), to ensure the alignment of all functions related to changing the business. This single A6 lead will be accountable for the overall management and synchronisation of our change management programme, including benefits and savings. DSS/D-OCM, will be based in Brussels and will be supported in this task by the current Organisational Development staff that will be strengthened to form a dedicated Organisational Change Management (OCM) team. Introducing this team will provide a means to recover the central oversight, standardise the effort and ensure the strategic alignment of the entire change portfolio of the Agency. It is also expected to drive value through: implementing a benefits-driven approach across the portfolio; ensuring consistent and accurate project and programme management with standardised tools and processes, providing clearly defined objectives, and using central controls to manage dependencies. The DSS will be accountable for his service strategy role to the Chief of Staff, but for the OCM role directly to the GM.

Action 2:

Internal Audit and Consultancy have re-confirmed that oversight of all change activities have to be driven centrally with more intensive focus from the top of the organisation. To that end, a newly installed director-level Change Portfolio Board (CPB) has been established. It will provide support to the activities of the D-OCM, who will take overall responsibility for the change management portfolio on a daily basis. We have widened the portfolio, to include all activities in the coming years that require organisational change. Besides the TIPs, it now includes organisational consequences of IT Modernisation and ANWI, the Headquarters Facilities Programmes and optimisation of our Personnel Strategy.

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Through the implementation of these changes, the Agency will be able to further:

- Develop consistent governance functions across the change portfolio which ensures all processes are adhered to and executed in a systematic manner by Programme/Project Managers.
- Clarify and understand dependencies across the change portfolio and their impact.
- Identify gaps in the change portfolio and scoping out new Strategic Priority Projects for the transformation effort.
- Increase accuracy of programme/project planning through periodic tracking, reporting and monitoring of milestones, risks and issues.
- Standardise roles and processes used by PMs, to increase awareness and alignment of change portfolio operations, milestones and objectives.
- Establish, contextualise and embed best practice methods at the Agency.
- Define objectives, policies, frameworks and processes to enable central control, governance and the efficient delivery of the change portfolio.
- Hold PMs to account for delivery of their change initiatives.
- Ensure clear financial accounting across change portfolio for all programmes/projects.
- Engage staff and directors through stakeholder-tailored communications between the portfolio, governance board and wider change community.
- Focus on continuous improvement culture, knowledge management and continuity across the change portfolio.

IBAN Recommendation 3:

6.7. To improve decision-making and accountability, we recommend that the NCI Agency make its Programme reporting more complete, balanced and transparent. We further recommend that the Agency governing bodies take a more active oversight role by agreeing clear roles and responsibilities, enforcing regular, consistent reporting requirements and providing direction and guidance when needed.

NCIA Comments:

The Agency is committed to improve on this and the IBAN recommendation will be implemented as part of the strengthening of the governance of the Transition Programme. The Agency will provide more complete reporting to the ASB and other stakeholders regarding Transition Programme status. A first product will be the update of the Benefits and Savings Plan in the first quarter 2016.

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