	NATO	NORTH ATLANTIC COUNCIL
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30 September 2022

DOCUMENT
PO(2022)0392-AS1 (INV)

**INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN) SPECIAL AUDIT
REPORT ON THE NATO COMMUNICATIONS AND INFORMATION AGENCY (NCIA)
SERVICE RATES**

ACTION SHEET

On 29 September 2022, under the silence procedure, the Council noted the RPPB report at annex to PO(2022)0392 (INV), approved its conclusions and recommendations, noted the IBAN Special Audit Report at enclosure to PO(2022)0392 (INV) and approved the public disclosure of this report and the IBAN Special Audit Report.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2022)0392 (INV).

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22 September 2022

DOCUMENT
PO(2022)0392 (INV)
Silence Procedure ends:
29 Sep 2022 - 17:30

To: Permanent Representatives (Council)

From: Secretary General

**INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN) SPECIAL AUDIT
REPORT ON THE NATO COMMUNICATIONS AND INFORMATION AGENCY (NCIA)
SERVICE RATES**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Special Audit Report on the NATO Communications and Information Agency (NCIA) Service Rates.
2. The IBAN Special Audit Report has been reviewed by the RPPB (see Annex 1).
3. I do not believe this issue requires further discussion in the Council. Therefore, **unless I hear to the contrary by 17:30 hours on Thursday, 29 September 2022**, I shall assume the Council noted the RPPB report, approved its conclusions and recommendations, noted the IBAN Special Audit Report and approved the public disclosure of this report and the IBAN Special Audit Report.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

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**INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN) SPECIAL AUDIT
REPORT ON THE NATO COMMUNICATIONS AND INFORMATION AGENCY (NCIA)
SERVICE RATES**

Report by the Resource Policy and Planning Board

References:

A. C-M (2020)0058	2021 Civil Budget Recommendations report
B. IBA-AR(2021)0085	IBAN Special Audit Report on the NATO Communications and Information Agency (NCIA)

INTRODUCTION

1. Based upon a recommendation from the Nations (Reference A) in 2021 the IBAN audited the NATO Communications and Information Agency (NCIA) Service Rates. Because of the short timeframe, limited staffing resources and the narrow scope of the audit subject, instead of a full performance audit the IBAN produced a special report to assess the processes and mechanisms NCIA put in place to determine the level of efforts¹ (or labour costs) in the establishment of its Service Rates. The scope of the audit also included the information NCIA provided to the Nations in support of their level of effort estimate as part of its annual Service Rates proposal. Due to timing constraints and the complexity of the subject, the IBAN excluded from the audit scope an independent verification and validation of the Service Rates.

AIM AND SCOPE

2. This report highlights the key issues in the IBAN Special Audit Report on the NCIA Service Rates (Reference B) to enable the Board to reflect on strategic challenges emanating from the audit and to recommend courses of action to Council as applicable, which have the potential to improve transparency, accountability and consistency.

OBSERVATIONS

3. During the course of audit, the IBAN raised two findings and recommendations related to the NCIA's level of effort estimation process documentation and external assessment. Specifically, the IBAN found that NCIA's level of effort estimation process is not standardised and formally documented or elaborated in the NCIA's documentation. As a result, the lack of formal assumptions did not allow IBAN to verify yearly comparisons of

¹ Workforce needed to deliver a service or project

estimates. Also, the IBAN found that the NCIA service cost calculation methodology does not incorporate criteria for estimating and adjusting service delivery costs.

4. The IBAN also noted that the NCIA had performed limited internal benchmarking and no external benchmarking to determine if its approach in estimating level of effort reflected the true cost of services and aligned with good practices.

5. In addition, the IBAN found that the information provided in support of the NCIA's level of effort estimate, such as the Communication and Information Systems Budget Guidance, did not include key performance information and did not allow for a complete validation of proposed rates.

DISCUSSION

6. The Board welcomes the IBAN audit and appreciates the NCIA's commitment to document the process for the calculation of its Service Rates and NCIO Agency Supervisory Board (ASB)'s continuous monitoring of how the NCIA implement IBAN's recommendations. The Board agrees that the absence of formally documented mechanisms limits transparency of the process used by NCIA in the establishment of its Service Rates and impacts stakeholders' confidence in the NCIA services.

6.1. The Board held a dedicated meeting on 14 February 2022 in the presence of the NATO Communications and Information Organisation (NCIO) Agency Supervisory Board (ASB) Chair and the NATO Communications and Information Agency (NCIA) Chief Operating Officer (COO) to receive assurance on which actions have been taken to address the concerns from NCIA's core customers and Nations.

6.2. The ASB Chair specified a number of initiatives related to the NCIA workforce aimed at determining the right level of effort for the NCIA to efficiently and effectively perform its customer-funded work in support of its customers. The Chair specifically referred to the revised personnel establishment policy (to establish a ceiling to civilian workforce strength), holistic analysis of the NCIA workforce (to have an independent expert opinion on the NCIA staff increase, i.e. to detect the proper size of the NCIA taking into account its core business) and implementation of the overhead study related to the NCIA Customer Rates. The implementation of the latter will have an impact on the Service Rates as the Customer Rates are the major underpinning element of the workforce cost in Service Rates. Moreover, the ASB is analysing the action plan and recommendations from the 2021 NCIA Customer Funding Regulatory Framework (CFRF) review undertaken by the RPPB, as some of them relate to introducing a more robust costing capability.

6.3. To address IBAN's recommendations, the NCIA COO highlighted NCIA's planned engagement in 2022 with an industry partner to conduct benchmarking for selected catalogue services (e.g. Mobile devices or VTC Support) that can be compared with peer and commercial organizations. In addition, Service Rates for 2023 will be frozen at the approved 2022 level with the intent to strengthen efficiencies. Furthermore, the NCIA will direct the expert resources on updating the costing methodology throughout 2022 and 2023. By the end of 2022, the NCIA plans to start harmonization and documentation process of

the effort assessment and validation (activity based) and to initiate zero-based budgeting for selected services in the catalogue for 2024 Service Rates development. Also, the NCIA will support the decisions to reinforce costing capabilities within the NCIA.

6.4. The Board welcomed the ongoing activities and urged the NCIA to focus on improvement of its procedures and the communication with Nations to help them better understand NCIA's services and costs. In that sense, the Board upholds the IBAN recommendation that processes and mechanisms NCIA uses to estimate the level of effort should be adequately documented, standardised and formally approved. The Board also support the IBAN recommendation that the information provided in support of the NCIA's annual proposed Service Rates includes key performance information.

6.5. The Board also pointed out the necessity of Time Accounting System accuracy as it presents the main source of actual effort collection. The Board supports the IBAN recommendation on assessing NCIA performance against peer organisations and appreciates the NCIA planned engagement to perform an internal and external benchmarking of its service delivery costs of selected services by selecting comparable organisation with similar processes.

6.6. In addition, the Board further proposes that the IBAN perform the comprehensive external validation of Service Rates with the assistance of external expertise as necessary. The Board considers the IBAN Special Audit Report as a good first step to bring more clarity on the NCIA Service Rates. However, the Board considers that only a comprehensive validation of the Service Rates will bring the full transparency that NCIA customers and Nations seek. Accordingly, the Board recommends that the IBAN consider conducting a full performance audit with the assistance of external expertise as necessary.

CONCLUSIONS

7. The Board welcomes the IBAN audit and supports its recommendation that the NCIA formally document its process for estimating and validating the level of effort used in the establishment of its annual proposed Service Rates (including key performance information), undertakes internal and external benchmarking and receives by IBAN an external validation of the Service Rates. Additionally, the Board recommends the NCIA focus on the results with clear timelines for implementation of each of its improvement activities.

RECOMMENDATIONS

8. The Resource Policy and Planning Board invites the Council to:
 - 8.1. note this report and its conclusions and the IBAN Special Audit Report at Reference B and;
 - 8.2. approve the conclusions outlined in paragraph 7;
 - 8.3. invite the International Board of Auditors for NATO to consider conducting a full performance audit on the NCIA Service Rates that includes external validation; and,
 - 8.4. approve to the public disclosure of this report and the IBAN Special Audit Report in line with PO(2015)0052.



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

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IBA-A(2021)0085
14 July 2021

To: Secretary General
Attn: Director of the Private Office

Cc: NATO Permanent Representatives
General Manager, NATO Communications and Information Agency
Financial Controller, NATO Communications and Information Agency
Head of Internal Audit, NATO Communications and Information Agency
Chair, Resource Policy and Planning Board
Resource Policy and Planning Board representatives, NATO delegations
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Special Audit Report on the NATO Communications and Information Agency Service Rates – IBA-AR(2021)0018***

IBAN submits herewith its approved Special Audit Report with a Summary Note for distribution to the Council.

Yours sincerely,

Daniela Morgante
Chair

Attachment: As stated above.

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IBA-AR(2021)0018

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the Special Audit on NATO Communications and Information
Agency Service Rates**

Background

The NATO Communications and Information Agency (NCIA) was established on 1 July 2012 as a result of the merger of three NATO agencies. The mission of the agency is to deliver communications and information systems (CIS) to other NATO bodies. It is a customer funded organisation and delivers services to all NATO bodies, with its main customers being the Allied Command Operations (ACO), Allied Command Transformation (ACT) and NATO Headquarters (HQ). In 2015, the North Atlantic Council (Council) approved the NCIA Customer Funding Regulatory Framework (CFRF). The Regulatory Framework is a fundamental part of the governance of the NCIA and requires NCIA to recover from customers the direct and indirect cost of services provided, based on mutually agreed scope, timeline, and price. The overall intent of customer funding is to best allocate resources made available by Nations by fostering effective and efficient service provision by the customer-funded service provider to its entitled customers. Because NCIA has no core budgetary funding, the rates charged to customers are based on NCIA's total cost of services and requires the establishment of annual Service Rates.

In 2018, NCIA developed the new Service Cost Calculation Methodology, which is used for the calculation of the annual Service Rates of the Costed Customer Service Catalogue. The purpose of the Costed Customer Service Catalogue is to standardise the Service Rate for the development of the Service Level Agreement (SLA) which describes agreed upon services NCIA will provide to the customer. The SLAs detail the required service quantities per service and the corresponding total cost for each service, which is calculated based on the applicable Service Rate. The Service Rate is, in essence, the price of service delivered by the NCIA. It equates to the average (break-even) cost per unit for a specific service. As such, a Service Rate constitutes the in-service-support cost per unit, incurred by the NCIA to deliver a service to its customers at the agreed performance level.

Audit objectives

This audit was initiated based upon a recommendation from the Nations in the 2021 Civil Budget Recommendations report (C-M(2020)0058), 16 December 2020). We conducted the audit in accordance with Article 14 of our charter. Our specific objectives are as follows:

1. What mechanisms does NCIA have in place to ensure that its level of effort (or labour costs) estimate used in the establishment of its Service Rates is (a) complete and accurate and (b) provides confidence to stakeholders that services are delivered in the most economical manner?

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2. What is the sufficiency and appropriateness of key performance information NCIA provided to the Nations related to the level of effort (or labour costs) estimate as part of its Service Rate budget submission?

Audit findings

We found that NCIA's level of effort estimation process is not standardised and formally documented across the Agency. While NCIA officials told us that they have developed a process for evaluating the level of resources required to provide its services, including the level of effort (or labour cost) estimate, this process is not formally documented or elaborated in NCIA's documentation included as part of its annual Service Rate proposal. The absence of a formally documented process does not easily allow for year-on-year comparisons of estimates or assessments related to the efficiency and economy of services delivered, as required per the CIS Budget Guidance. While NCIA also developed the service cost calculation methodology to support the implementation of the Customer Costed Service Catalogue, this methodology does not incorporate criteria for estimating and adjusting service delivery costs based on good practices, risk planning, or uncertainty.

In addition, we found that NCIA has conducted limited internal benchmarking exercises and no external benchmarking to determine whether its approach in estimating the level of effort (or labour costs) reflects the true cost of services and aligns with good practices (including value for money) utilised by industry, other international organisations with a security and or military component, or national military organisations. NCIA has no plans of conducting comprehensive external benchmarking of its Service Rates according to NCIA officials.

Finally, IBAN found that while NCIA provides much of the required information from the CIS Budget Guidance to the BC in support of its annual proposed Service Rates, the information provided in support of NCIA's level of effort estimate does not include key performance information and does not allow for a complete validation of the proposed rates.

Recommendations

To address the findings concerning the NCIA Service Rates level of effort estimation, we recommend that Council task the NCIO to:

- 1) Formally document its process for estimating and validating the level of effort used in the establishment of its Service Rates (including benchmarking information) and provide such documentation to the Senior Resource Committees, including the Budget Committee.
- 2) Get an external validation of the process to ensure it is accurate and complete.

All tasking decisions by Council should clearly identify those responsible to take action and set deadlines for the delivery of the expected outcomes.

In their formal comments, NCIA agreed with the majority of the findings, conclusions, and recommendations in our report and noted that NCIA has already taken actions to document the process for the calculation of its service rates. IBAN's response to these comments appear in paragraph five of the report. IBAN recognises these efforts and maintains the position that our recommendations will help improve the accuracy, completeness, and transparency of the process used by NCIA in the establishment of its level of effort estimates used in its service rates calculation.

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14 July 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**SPECIAL AUDIT REPORT TO COUNCIL ON NATO COMMUNICATIONS
AND INFORMATION AGENCY SERVICE RATES**

PUBLICLY DISCLOSED - PDN(2022)0025 - MIS EN LECTURE PUBLIQUE

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1. BACKGROUND

1.1 Overview

1.1.1 The NATO Communications and Information Agency (NCIA) was established on 1 July 2012 as a result of the merger of three NATO agencies. The mission of the agency is to deliver communications and information systems (CIS) to other NATO bodies. It is a customer funded organisation and delivers services to all NATO bodies, with its main customers being the Allied Command Operations (ACO), Allied Command Transformation (ACT) and NATO Headquarters (HQ). In 2015, the North Atlantic Council (Council) approved the NCIA Customer Funding Regulatory Framework (CFRF). The Regulatory Framework is a fundamental part of the governance of the NCIA and requires NCIA to recover from customers the direct and indirect cost of services provided, based on mutually agreed scope, timeline, and price. The overall intent of customer funding is to best allocate resources made available by Nations by fostering effective and efficient service provision by the customer-funded service provider to its entitled customers. Because NCIA has no core budgetary funding, the rates charged to customers are based on NCIA's total cost of services and requires the establishment of annual Service Rates.

1.1.2 In-line with the 2014 NCIA Service Grouping & Service Cost model, the NCIA is capturing and recording, since 2017, the actual costs they incur to be able to allocate them to individual services. This allowed the NCIA to develop in 2018 the new Service Cost Calculation Methodology, which is used for the calculation of the annual Service Rates of the Costed Customer Service Catalogue. This methodology differs from the previous one used in the calculation of the 2016 and 2017 Service Rates for the Pilot and New NATO Headquarters Information, Communication, and Technology Services.

1.1.3 The purpose of the Costed Customer Service Catalogue is to standardise the Service Rate for the development of the Service Level Agreement (SLA) which describes agreed upon services NCIA will provide to the customer. The SLAs detail the required service quantities per service and the corresponding total cost for each service, which is calculated based on the applicable Service Rate. NCIA's customers, predominantly ACO and ACT, are actively involved in the development of the Service Rates according to NCIA. They provide annual change requirements for the catalogue services, which are considered during the Service Rate calculation and Costed Customer Service Catalogue development. The Service Rate is, in essence, the price of service delivered by the NCIA. It equates to the average (break-even) cost per unit for a specific service. As such, a Service Rate constitutes the in-service-support cost per unit, incurred by the NCIA to deliver a service to its customers at the agreed performance level. We discuss this methodology further in Appendix 1. For the purpose of this special report, the level of effort or labour cost estimate is defined as the effort required to deliver the service expressed as full-time equivalents (FTEs).

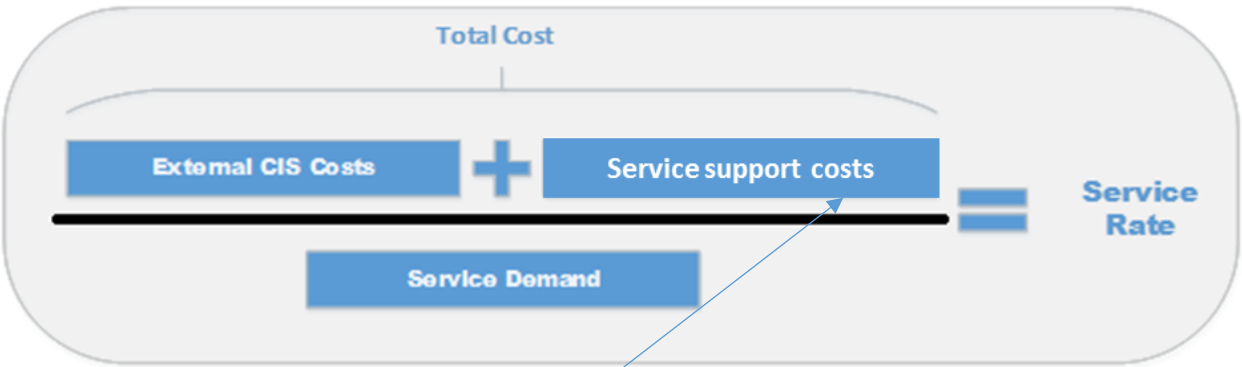
1.1.4 The Service Rates are calculated at the beginning of each year, based on the actuals of the previous year. This means that the Service Rate of any given year is only applicable to the SLA in the following year. Throughout the first quarter of each year, NCIA requests customers to provide updated requirements for the Costed Customer Service Catalogue. Internally to the Agency, service owners are also proposing changes to the

standardised services, which may be due to a number of factors, including changing customer requirements, technical or security requirements. According to NCIA, at this stage of their internal review, the Agency recalibrates its estimated levels of effort against historical effort (or time accounting data extracted from the Time Accounting System) incurred to deliver services. Once a service is identified in terms of its total service support cost, external (CIS) costs and “consumed” quantity, NCIA calculates the Service Rate.

1.1.5 After NCIA’s internal screening and scrutiny of the proposed rates by its Chief Operating Officer, the annual Service Rate proposal is provided to the Budget Committee (BC) at the end of the first quarter. In accordance with the CFRF, the proposed Service Rates require review and approval by the BC. The BC Service Rates are screened by the International Staff’s NATO Office of Resources (NOR) and the Working Group of National Technical Experts as required per the Budget Guidance – CIS Requirements agreed by the BC (BC-D(2021)0047-FINAL, 25 May 2021). The final report on the validation of the Service Rates is then presented to the BC with the expectation of final approval by the end of the second quarter.

1.1.6 The total cost consists of the External CIS costs (fixed costs related to the procurement of spare-parts, licenses, or third party or consultant support) plus the Service Support Costs (this is the customer rate multiplied by the level of effort or Full Time Equivalents (FTEs) required to provide a service), as shown in Figure 1 below. Once the total cost is calculated, it is divided by the service demand (or the total service quantity provided to the customer) to get the Service Rate.

Figure 1 - NCIA Service Rates calculation



Source: NCIA, 2018 Service Cost Calculation Methodology, NCIA_SSTRAT_NLO_2017_08604.

Service support costs consist of the customer rate multiplied by the level of effort.

Customer rate refers to the per-capita labour cost for all direct (billable) NCIA staff.

Level of effort refers to the manpower needed to deliver a service or project.

1.2 Audit objectives

1.2.1 In accordance with Articles 2 and 14 of the IBAN Charter, our special audit report assessed the process to determine the level of efforts in the establishment of the annual NATO Communications and Information Agency Service Rates. Our specific audit objectives were as follows:

1. What mechanisms does NCIA have in place to ensure that its level of effort (or labour costs) estimate used in the establishment of its Service Rates is (a) complete and accurate and (b) provides confidence to stakeholders that services are delivered in the most economical manner?
2. What is the sufficiency and appropriateness of key performance information NCIA provided to the Nations related to the level of effort (or labour costs) estimate as part of its Service Rate budget submission?

1.3 Audit scope and methodology

1.3.1 The special report's audit scope focused on issues related to NCIA's level of effort (or labour costs) estimate in support of its annual Service Rate proposal.

1.3.2 In the 2021 Civil Budget Recommendations report, dated 16 December 2020, the Budget Committee invited IBAN to undertake a performance audit of NCIA Service Rates by mid-year 2021. Because of the short timeframe, limited staffing resources, and the narrow scope of the audit subject, IBAN decided to produce a special report instead of proceeding with a full performance audit. Under a full performance audit, we would seek to address audit objectives that are more comprehensive in scope, using methods and evidentiary standards compliant with international auditing standards. This process normally takes between nine months or longer to complete depending on the complexity of the audit subject. Under a special report, we would abide by the same international auditing standards that we would follow for a full performance audit. However, our audit scope and special reporting objectives would be more narrow in scope depending on the operating constraints.

1.3.3 The audit work for this special report was conducted from March to June 2021. To accommodate this short timeframe, and to address the BC's specific concerns, we limited the audit scope to the process and mechanisms NCIA put in place to estimate the level of efforts (or labour costs) in the establishment of its Service Rates. The scope also included the information NCIA provided to the Nations in support of their level of effort estimate as part of its annual Service Rates proposal as well as the information communicated with regards to the process used to come up with these rates. Because of our timing constraint and the complexity of the subject, we excluded from the scope of the special report an independent verification and validation of the Service Rates.

1.3.4 To collect evidence on the process used by NCIA to estimate its level of effort (or labour cost) in the establishment of its annual Service Rates, we conducted interviews with key NCIA personnel responsible for the development of the annual Service Rates, a number of staff in charge of NCIA service delivery from various locations, and senior NCIA officials.

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We also sent questionnaires to NCIA to obtain additional information and to validate our understanding. In addition, we reviewed documentation such as the NCIA Service Cost Calculation Methodology, the NCIA annual Service Rates, the NCIA Costed Customer Services Catalogue, reports issued by the BC, NOR, the Resource Policy and Planning Board (RPPB), the NCIA Agency Supervisory Board, as well as other external studies on NCIA services. We also reviewed externally contracted consultant reports related to NCIA's provision of IT services provided to NATO headquarters and the Agency's overhead costs for key overhead functions. Finally, to appreciate the issues that led the Nations to request the audit, we conducted interviews with representatives of the BC, the RPPB and with NOR's officers involved in the annual screening and validation of the NCIA Service Rates.

2. NCIA'S LEVEL OF EFFORT ESTIMATION PROCESS IS NOT STANDARDISED AND FORMALLY DOCUMENTED ACROSS THE AGENCY

2.1 The stated aim of the NCIA Customer Funding Regulatory Framework is the effective and efficient provision of information communication technology capabilities and services by the Agency to its customers following the objectives of focus, value for money, transparency and accountability. However, IBAN found the mechanisms that NCIA uses to estimate the level of effort (or labour costs) for its Service Rates are not standardised across the agency in a formal, well documented process, adversely affecting the Framework's stated objectives. In addition, the Agency has not conducted external benchmarking of its service delivery against external organisations. Benchmarking or external validation is a key tool for assessing performance and credibly reporting on an organisations' progress towards its stated goals related to accuracy, economy, and efficiency—while learning from peer organisations.

Level of effort estimate

2.2 The CIS Budget Guidance requires NCIA's internal agency accounting to be carried out so that the cost of each service provided by NCIA is known and is capable of being reported on a one account per customer when necessary. Additionally, the Guidance requires NCIA to stabilise its methodologies for establishing customer rates and for resource reporting that allows for year-on-year or annual comparisons and so that efficiencies and economies can be determined easily or in a straightforward manner. While NCIA officials told us that they have developed a process for evaluating the level of resources required to provide its services, including the level of effort (or labour cost) estimate, this process is not formally documented or elaborated in NCIA's documentation included as part of its annual Service Rate proposal. The absence of a formally documented process does not easily allow for year-on-year comparisons of estimates or assessments related to the efficiency and economy of services delivered, as required per the CIS Budget Guidance. While NCIA also developed the service cost calculation methodology to support the implementation of the Customer Costed Service Catalogue, this methodology does not incorporate criteria for estimating and adjusting service delivery costs based on good practices, risk planning, or uncertainty.

2.3 Additionally, IBAN met with the Agency staff providing the Local Area Network service to better understand the approach taken and inputs considered in the development

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of the level of effort estimate for a service that is commonly provided to NCIA customers. IBAN also requested documentation detailing the service delivery level of effort breakdown for several NCIA services including the Local Area Network Service, Land Command and Control Information Application Service, Federated Mission Network Subject Matter Expert Support Service, Logistics Functional Application Service, and the Intelligence Functional Services. In general, IBAN found that the level of effort estimation process varied as the level of details and templates used by the service owners to document their estimation process differed and were not comparable. These examples underscore the importance of Agency-wide standardisation in the development of the level of effort estimates, especially as we found such variance between only a few services. Moreover, NCIA officials agreed that their level of effort estimation mechanism is not standardised across the agency in a formal, documented process and instead was developed by individual service owners based on relevant criteria.

2.4 In addition, according to NCIA, the Chief Operating Officer monitors planned levels of effort against actual recorded effort in the Time Accounting System, but this is done on an ad hoc basis. NCIA told IBAN that it developed a dashboard to allow service owners and the Chief Operating Officer to conduct various levels of analysis on the service delivery, but the frequency and extent of this analysis is not formalised or documented. According to NCIA, estimates are retrospectively assessed for completeness and accuracy, with a key criterion being the difference between estimated and actual recorded levels of effort to support service delivery. NCIA did not provide IBAN with evidence or reports containing this analysis although we requested it during our audit.

2.5 IBAN found that NCIA relies on historical time accounting data extracted from the Time Accounting System (TAS) to identify the level of effort required for its services because this is the only data available to them for reviewing resource levels or time recorded to a project or service delivered. Though in 2019, we reported on past challenges with TAS related to strengthening internal controls, NCIA told IBAN that it has made progress in addressing these challenges. NCIA also relies on Microsoft Enterprise Project Management 2010 for broad based project planning and execution, but this tool does not support financial resource management which limits NCIA's ability to accurately record service costs. NCIA officials told IBAN that additional controls on cost will be implemented when its new project and service management tool is procured and implemented (i.e., Enterprise Business Applications Release 4). For now, NCIA developed an in-house planning allocation tool to overcome the data and technical limitations of the current TAS and Microsoft Enterprise Project Management systems until the new tool is implemented. Such a tool is important for enhancing the level of effort estimates for the Service Rates and in its absence, NCIA's ability to accurately record the costs of services is constrained. Due to limited scope and time constraints, we did not assess NCIA's progress related to TAS or its in-house planning allocation tool. However, the 2019 NCIO Financial Statements audit report acknowledged NCIA's progress in improving TAS data quality and closed its observation on TAS.

2.6 Without standardised and formal agency-wide mechanisms to define and guide estimates on level of efforts, it becomes difficult for NCIA and the NATO Senior Resource Committees to uphold the NCIA Customer Framework's objectives of transparency, accountability and value for money. As a result, resources may be wasted on inefficient services, thus leaving fewer resources for other NATO priorities.

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Benchmarking

2.7 According to the Public Management Service of the Organisation for Economic Cooperation and Development, benchmarking is a critical instrument for improving the performance of the public sector and is one mechanism organisations can utilise to assess their performance against peer organisations and to provide a reliable basis for independent analysis and scrutiny of their operations. This is because benchmarking can help to facilitate and support strategic decision making and planning in the delivery of goods or services. NCIA, however, has conducted limited internal benchmarking exercises and no external benchmarking to determine whether its approach in estimating the level of effort (or labour costs) reflects the true cost of services and aligns with good practices (including value for money) utilised by industry, other international organisations with a security and or military component, or national military organisations.

2.8 At the time of our audit, NCIA had no existing plans of conducting comprehensive external benchmarking of its Service Rates according to NCIA officials. NCIA told IBAN that it has performed some internal benchmarking across the full breadth of its service portfolio. However, internal benchmarking was only performed across individual services and on an ad hoc basis. Throughout the audit, IBAN requested NCIA to provide documentary evidence to support its assertions or written responses. However, NCIA did not provide IBAN with documentation of its internal benchmarking efforts so we were unable to assess the scope or outcomes of NCIA's internal benchmarking effort. It should be noted that in June 2019 the International Staff commissioned an external benchmarking of NCIA services provided to NATO HQ. Without comprehensive external benchmarking, NCIA and the NATO resource committees will continue to lack information needed to verify and validate NCIA's Service Rates, making it difficult to improve NCIA's efficiency and to contain the growing CIS costs for NATO bodies, which could also crowd out other funding priorities.

3. INFORMATION PROVIDED BY NCIA ON ITS LEVEL OF EFFORT ESTIMATE COULD BE IMPROVED

3.1 IBAN found that NCIA provides much of the required information from the CIS Budget Guidance to the BC in support of its annual proposed Service Rates but the information provided in support of NCIA's level of effort estimate does not include key performance information and does not allow for a complete validation of the proposed rates.

3.2 NCIA submits the annual proposed Service Rates to the BC and more detailed information about the Service Rate calculation and justification is provided to the Working Group of National Technical Experts (WGNT). The WGNT, led by NOR, is responsible for screening and validating the rates and submitting a report to the BC as a result of this validation work. During the screening, the NOR led WGNT members have the opportunity to ask questions or additional information about the proposed Service Rates according to NCIA. The level of information provided to the WGNT could range from a written customer requirement to detailed additional information on a specific service. NCIA told IBAN that it has set up a collaborative portal to support this validation screening and to ensure that requested information is available for all stakeholders. The role of the BC at the end of this

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process is to “ascertain that the necessary validation has taken place as part of the budget screening process” as required by the CFRF.

3.3 The required information for the screening of the Service Rates is documented in the annual BC approved CIS guidance per the CFRF. The CFRF requires NCIA to report on activities and progress assessing the extent to which the cost and services provided to its stakeholders (or customers) are competitive and adhere to industry standards and performance metrics developed should be capable of showing progress over time in these areas. When IBAN asked NCIA to describe and list all data, analysis, and documentation provided to the BC in support of its 2020 and 2021 Service Rates proposal, NCIA officials told IBAN that its Service Rate proposal included the updated Service Catalogue, the proposed Service Rates, the Service Rate breakdown sheets for the new rates as well as the ones for the previous years, and the actual CIS service cost reports from the past years. While this information may prove useful, IBAN found that the BC does not receive information related to the analysis that supports NCIA’s annual Service Rate proposal including the level of effort estimate, nor does the BC receive any key performance information in relation to the services provided.

3.4 As indicated above, more detailed information about the Service Rate calculation (including the level of effort estimated) and justification is provided to the NOR and the principal customers (ACO, ACT, and NATO HQ). The NOR is then responsible for screening and validating the rates and to submit a report to the BC as a result of this validation work. Following the screening and validation process by the NOR for the 2021 Customer Services Catalogue, the NOR reported to the BC (BC-D(2020)0090-ADD1, 2 July 2020) that the information obtained from NCIA did not provide the required granularity to allow the validation in a meaningful way. This was regarding the Service Support Cost portion of the Service Rate which includes the level of effort. Finally, while the NCIA Chief Operating Officer scrutinizes and approves any proposed changes to the Service Rates; neither the BC or NOR receive any information related to how the level of effort estimates were internally scrutinized, substantiated, or refined. As noted throughout section two of this report, NCIA’s internal process of scrutinizing and approving the level of effort estimates is not formally documented. Therefore, it is not possible for the BC to receive this information that does not exist.

4. CONCLUSION AND RECOMMENDATIONS

4.1 Conclusion

4.1.1 NCIA lacks comprehensive and formally documented mechanisms to ensure accuracy and completeness of its level of effort estimates. The absence of such formally documented mechanisms limits transparency of the process used by NCIA in the establishment of its Service Rates and impacts stakeholders’ confidence in the economic aspects of the services delivered by NCIA.

4.1.2 Additionally, the documentation in support of NCIA’s annual proposed Service Rates provided to the BC does not include key performance information. Moreover, the information

provided is not sufficient to meet the needs of the BC and NOR for their technical review and validation of the proposed rates.

4.1.3 Therefore, it is critical for NCIA to formally document its level of effort estimation approach and the supporting mechanisms to ensure the transparency of its process. This would allow key stakeholders (including the Senior Resource Committees, the NOR, and customers) to understand NCIA's estimation and validation approach, as well as, the underlying assumptions used in the development of its level of effort estimates.

4.2 Recommendations

4.2.1 To address the findings concerning the NCIA Service Rates level of effort estimation, we recommend that Council task the NCIO to:

- 1) Formally document its process for estimating and validating the level of effort used in the establishment of its Service Rates (including benchmarking information) and provide such documentation to the Senior Resource Committees, including the Budget Committee.
- 2) Get an external validation of the process to ensure it is accurate and complete.

4.2.2 All tasking decisions by Council should clearly identify those responsible to take action and set deadlines for the delivery of the expected outcomes.

5 COMMENTS RECEIVED AND THE IBAN'S POSITION

5.1 NCIA Comments

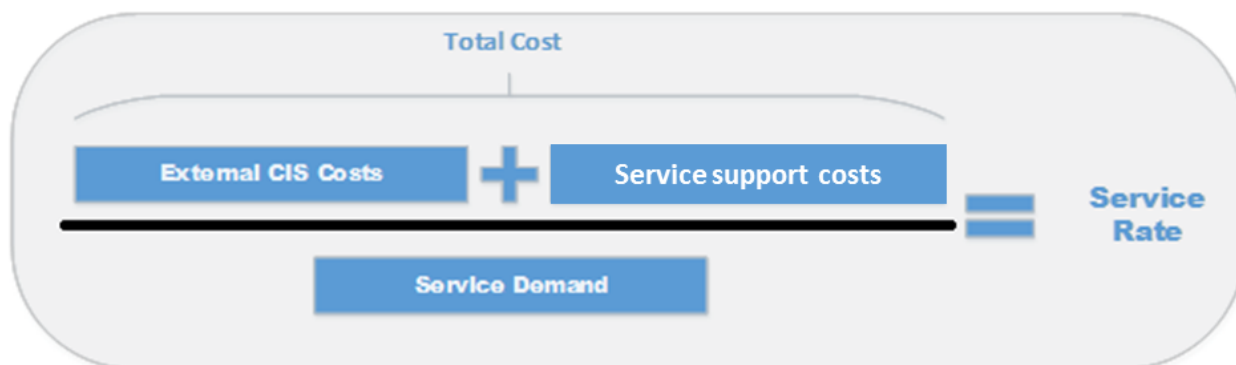
5.1.1 In their formal comments, NCIA agreed with the majority of the findings, conclusions, and recommendations in our report. They noted that NCIA has already taken actions to document the process for the calculation of its Service Rates.

5.2 IBAN's Position

5.1.2 IBAN recognises these efforts and maintains the position that our recommendations will help improve the accuracy, completeness, and transparency of the process used by NCIA in the establishment of its level of effort estimates used in its service rates calculation.

APPENDIX 1: Service Rate Calculation Methodology and Inputs

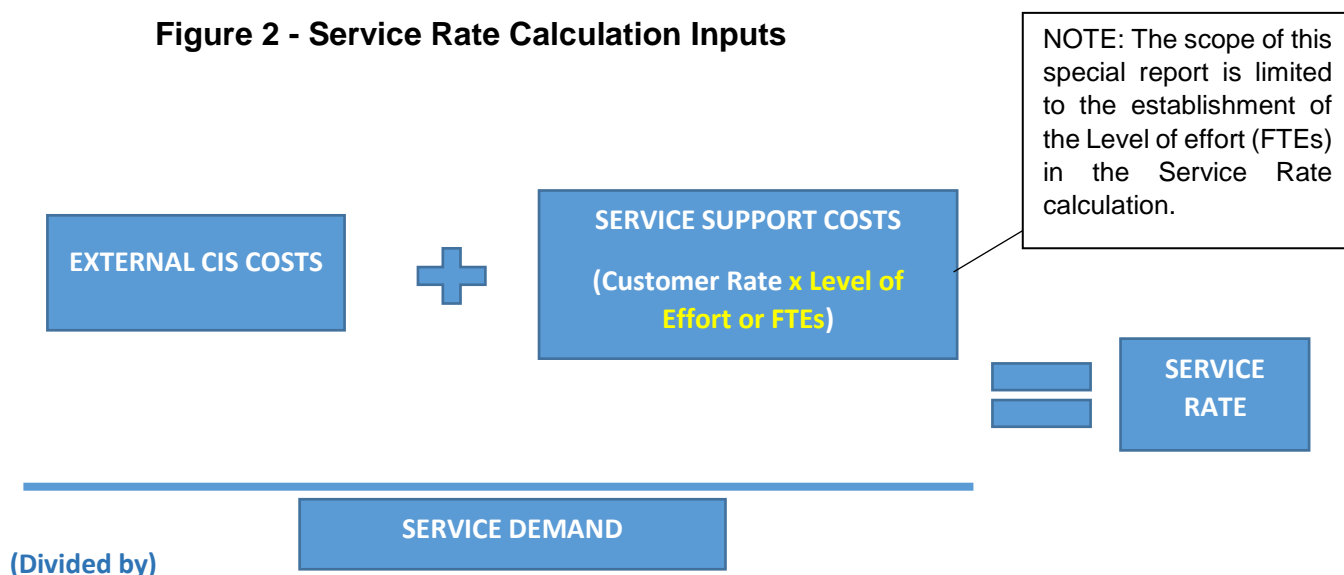
Once a service is identified in terms of its total service support cost, External CIS cost and “consumed” quantity, a Service Rate can be calculated. In accordance with the Service Cost Calculation Methodology a Service Rate for a specific service is calculated using the following formula:



Source: NCIA

The Service Rate equates to the average (break-even) cost per unit for a specific service. As such, a Service Rate constitutes the in-service-support cost per unit, incurred by the NCI Agency to deliver a service to its customers at the agreed performance level.

Figure 2 - Service Rate Calculation Inputs



Source: NCIA

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APPENDIX 2
IBA-AR(2021)0018**NATO Communications and Information Agency (NCIA) Formal Comments
on the Special Audit Report**

NCIA/IA/2021/08090

Enclosure A**Formal Comments of the NCI Agency**

The Agency welcomes the IBAN report on NCI Agency Service rates and considers it an important step in building further trust and transparency with its stakeholders. The NCI Agency takes note of the IBAN report and the stated findings. Although we concur with the majority of the stated facts and findings, the NCI Agency would like to provide the following management comments to the report.

NCIA's Level of Effort estimation process is not standardized and formally documented across the Agency*Paragraph 2.1 -*

As part of the transition to a service provider the NCI Agency has developed cost calculation methodology that was screened and approved by the governance bodies. Based on this methodology the Agency calculates and submits the annual service rates. A major component of the service rate is the NCI Agency workforce labour cost which is based on the level of effort required to deliver the services.

The process is well established and the principles and methodology are consistently applied across the organization. The Agency is in the process of documenting this process in support of the existing monitoring activities and in order to facilitate continuous improvement.

The Agency welcomes any external benchmarking as a way to drive continuous improvement of our processes. The NCI Agency Customer Funding Regulatory Framework Review (PO(2021)0141) states that "in 2016, the Budget Committee agreed on an assessment plan to periodically validate ICT service delivery parameters and costs, including cost audits, benchmarking and other tools to achieve this validation. The provisions of this assessment plan and a fully costed Customer Service Catalogue, which is the vehicle to validate the Agency cost and service provision, were intended to enable the customers to understand and have confidence in the prices the NCI Agency quotes and to make informed decisions on the required services."

Level of effort*Paragraph 2.2 -*

The report still refers to "project cost" and project management methodology. It should instead refer to service delivery to avoid confusion with the NCI Agency capability development and project implementation domain.

Paragraph 2.5 -

It is correct that the Agency's main source for collection actual effort is the Time Accounting System (TAS). These collected data is compared against the estimated levels of effort for the service delivery and support. It must however be noted that TAS actuals are impacted by real life events. For example, 2020/21 service delivery has been significantly impacted by the COVID-19 pandemic. This resulted in a significant difference between actuals and the estimated levels of effort, due to the fact that service support has been flexibly moved towards not only remote working but also the establishment of A and B teams to ensure business continuity of our customers.

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Enclosure A

It is also worth noting that the IBAN, with the audit report on the 2019 Financial Statements of NCI¹, closed its observation on TAS while recognizing improvements over data quality since the implementation of EBA.

Benchmarking*Paragraph 2.8-*

The NCI Agency supports and value benchmarking activities, as a way to continuously improve processes and performance of the organization.

As noted above in our comments to paragraph 2.1, the CFRF assigns benchmarking responsibilities to the BC. The NCI Agency will provide the required support to such efforts. Reference should be made to the recent external benchmarking undertaken by the International Staff on the NCI Agency support to NATO HQ. The outcome of this benchmarking in fact shows a clear understaffing of the NCI Agency with regard to the level of effort to be provided to NATO HQ in order to ensure the required service provisioning.

Information provided by NCIA on its level of effort estimate could be improved*Paragraph 3.1 -*

As part of the service rate validation and in line with the BC guidance, the NCI Agency provides all requested information to the appropriate stakeholders.

It must be noted that the current guidance issued by the BC does not refer to any KPIs.

Paragraph 3.3 -

As part of the service rates submission, the NCI Agency provides estimated level of support (in FTE) broken down by grade.

To ensure the transparency on service rates, NCI Agency would welcome further updated (budget) guidance from the BC on additional information to be provided, and which KPIs should be developed and monitored.

¹ IBA-A(2021)0009 dated 12 February 2021

Abbreviations

ACO	Allied Command Operations
ACT	Allied Command Transformation
ASB	Agency Supervisory Board
BC	Budget Committee
CFRF	Customer Funding Regulatory Framework
CIS	Communication and Information Systems
Council	North Atlantic Council
FTE	Full Time Equivalent
HQ	Headquarters
IBAN	International Board of Auditors for NATO
NCIA	NATO Communications and Information Agency
NOR	NATO Office of Resources
RPPB	Resource Policy and Planning Board
SLA	Service Level Agreement
TAS	Time Accounting System
WGNT	Working Group of National Technical Experts