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To: Members of the Executive Board

From: The Secretary

Subject: **General Services Review**

Attached for the information of Executive Directors is a paper on the general services review.

Mr. Brau (ext. 37854) or Mr. Coune (ext. 38237) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

General Services Review

Prepared by the Office of Internal Audit and Inspection

Approved by Eduard Brau

April 9, 1999

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I. CONDUCT OF REVIEW

1. This paper summarizes a two-year review of the effectiveness and efficiency of support services in the Fund that was concluded in early 1999 by the Office of Internal Audit and Inspection (OIA). The review was conducted in three consecutive phases covering: (i) Information Services, (ii) Facilities and Related Services and (iii) Financial Support and Control Services, **assessing thirteen distinct functional activities** as follows:

**Phase I:
Information Services**

- Technology Services
- Telecommunications Services
- Language Services
- Document Management Services
- Library Services

**Phase II:
Facilities and Related Services**

- Facilities Management
- Capital Projects
- Travel Management
- Procurement Services

**Phase III:
Financial Support and Control
Services**

- Accounting and Financial Reporting
- Administrative Expenditure and Control
- Budget and Expenditure Reporting
- Internal Audit

These services are delivered by over 900 personnel, including regular, contractual, and vendor staff at a service delivery cost of about \$90 million annually (compensation and costs directly associated with service delivery; excludes supplies, cost of capital projects, etc.).

2. **The objective** of the review was to provide Fund management and departments with an independent and comprehensive assessment of how effectively general services are provided. While annual budget-related reviews are routine, a process-focused evaluation of general services based on a consistent methodology had not previously been undertaken in the Fund. The assessment was undertaken against a background of rapid technological changes, budget consolidation, and the continuation of substantial workload pressures in the Fund:

3. **The review methodology**, validated by an independent consultant prior to implementation, provided a systematic basis for conducting the analyses and assessing Fund services. OIA staff conducted the review, assisted by outside consultants (Price Waterhouse) and experts. The review of internal audit services -OIA- was entirely conducted by an external assessor, the Institute of Internal Auditors.

The methodology involved assessments of Fund services in the areas of: Quality, Workload, Organization, Management, Resources (staffing), Activities, Processes, Costs, and Technology. Several levels of analysis included, among other steps:

- documenting a hierarchy of services and related activities involved in producing the service; determining how activities are tracked, monitored and measured;

- reviewing outputs/services produced, including workload indicators and trends in activity over time; preparing a labor profile and analyzing the amount and type of resources utilized to produce activities, including regular, contractual, and vendor staff;
- calculating the costs of activities and output units using a costing methodology applied consistently across service areas; preparing other quantitative analysis such as distribution of direct dollar expenditures, allocation of systems costs, etc.;
- assessing quality aspects of the service delivery and end products based on review of information available in the service area, results of previous surveys and independent surveys conducted by OIA.

Fund services were benchmarked against those provided by other organizations-- public, private and international--to determine how the Fund compares externally. In addition, best practice approaches of comparator organizations and industry trends were pointed out to departments. In a number of areas reviewed, experts independently assessed the service activities and reviewed the results of the analysis prepared by OIA.

In all aspects of the review, input and views of both providers and users of services were an integral component. OIA sought feedback from departments at every stage of the review and the largest possible staff involvement was actively encouraged.

4. The results of the review of each of the thirteen functional activities were reported to management and the relevant department heads. Departments had an opportunity to provide their views on OIA's assessment during a presentation near the conclusion of each review. Departments also provided views on at least one draft report and the final reports identify where services are found to be efficiently and effectively provided, as well as areas where improvements could be made. OIA had a similar opportunity to comment on the draft external review of its activities. Departments' views and comments on draft reports were duly reflected in the final report in cases where differing views remained.

II. ASSESSMENT

5. This assessment reflects the results of the individual reviews and the state of affairs of the units as they were reviewed over the past two years.

A. Overall Assessment

6. **The overall conclusion is that the Fund's internal service units provide quality support to the Fund's core activities. The quality of services has been maintained despite increases in workloads that far out-paced the minimal growth in budget**

resources for support services in recent years. The trade-off for this quality in services is costs, which were within comparators' norms in a number of areas, but higher in others. Improvements in processes and efficiency gains have already occurred in many cases; more will be needed to maintain the current workload or accommodate future increases. In some cases, further efficiency gains would be readily achieved if resources were made available for new IT systems. In others, a lack of strategic focus is a barrier to new initiatives and change. The review showed that opportunities for improvement exist at the institutional and departmental levels. They include promoting strategic direction-setting, realigning organizational responsibilities, flattening the organizational structures, streamlining processes, increasing efficiency through greater use of technology, and improving performance monitoring.

B. Quality of Services

7. Quality services are provided to meet high standards. Compared with other organizations, the Fund has set its service standards higher and provides more individual and customized service as was evident in at least seven of the thirteen activities reviewed. As perceived by service providers, Fund users require high service levels, as does the nature of the Fund's operations where zero tolerance for error is the modus operandi. In some cases, the perceptions are valid, in others, the potential for reduced service levels has never been tested. One enabling factor is that services are free goods for internal clients; the cost of services is not charged back to users. Also, although service provider budgets have been constrained in recent years, several providers of services have neither the tools nor the incentive to track or communicate detailed unit delivery and process costs. Other factors include lack of priority systems for providing services and lack of education of users as to lead time required and service-level alternatives. Without cost or other incentives for managers, even modest reductions in service levels can be difficult to introduce, especially where user resistance is anticipated.

8. Internal Fund clients are generally quite pleased with the quality of services they receive. In surveys conducted by OIA, Fund users rated support services on average 7.9 on a 10 point scale, with 10 being the best score.

9. Systematic processes of obtaining user feedback would be useful. While most service providers have a primary objective of serving customers well, they have no formal mechanisms in place to determine whether this objective is being achieved. With only a few exceptions, user views are not systematically obtained by support services. Routine polling of customers is a matter of course in other organizations, especially in the private sector, and could be more widely used in the Fund. Such instruments are particularly useful to assess the impact of changes in service.

C. Workload

10. **Workload increases have created a critical need for efficiency gains in support departments.** The growth in Fund-wide staffing since FY1991 has had a direct impact on the workload of support functions at the same time as budget consolidation efforts have been strictly applied to support functions. As a result, workload indicators grew at rates exceeding 40 or 50 per cent over a five year period, while staffing was constant or even decreasing. No pockets of idleness were observed. The workload required all units to resort to paid and unpaid overtime which averaged 6.3 percent for the period reviewed (with highs of 14.7 percent and lows of 3.4 percent).

D. Organization

11. **Dispersed functions across organizational boundaries impede strategic planning, accountability, and efficiency.** Examples of significant fragmentation of service delivery were evident in at least three of the thirteen areas reviewed where processes crossed multiple organizational boundaries and where coordination of responsibilities created inefficiencies. In other areas the absence of unified organizational approaches results in gaps and loss of synergy. This is not surprising since past changes to organizational structures have been to add layers and functions rather than to consolidate.

12. **Promotion policies linked to supervisory content create an incentive to expand the number of organizational units and supervisory layers.** In more than two thirds of the review areas, the number of sub-units has grown within offices, bureaus and divisions to provide layers of supervisory positions. These multiple layers inhibit decision-making, dilute accountability, increase staff frustration and delay action. The number of layers found in areas reviewed ranged from a flat structure in only two out of the thirteen areas to multiple layers in some others. At a time when other organizations are flattening their structures and implementing cross-functional team approaches, the Fund's promotion policies and its practice of deputies at most organizational levels warrant a second look.

E. Management of Services

13. **Strategic planning and improvement initiatives need to be encouraged and implemented as on-going activities in the Fund.** When this review was started, strategic planning was lacking except in three of the thirteen service areas. The beginnings of a continuous improvement approach were also noticeable in two of the areas and, while the review was being conducted, further planning efforts were being made in another two areas. Despite these efforts, there were several examples where support services could adopt more strategic approaches. Difficulties in coordinating strategies among departments, and the inclination of individual managers to focus on the heavy day-to-day workload are factors that impede strategic approaches. Management styles and tones directly impact the likelihood of staff proposing and implementing improvement initiatives. As a result, some services have evolved in a piece-meal fashion, and staff risk working in an insular mode without focusing

on the larger goals and objectives that can be achieved. One factor at the root of this issue is the "reverse" reward system for support services in the Fund. Rather than receiving resource benefits or commendation for positive results, managers achieving efficiency improvements may put the service area only at risk of losing budget resources.

14. Performance measurement systems relevant to support services are not well developed. Performance measurements are critical to monitor progress against objectives, develop alternative approaches, and assess results. Only a handful of services actively use meaningful measures of output and productivity as a major management tool or assess goals and objectives against measurable results. Few have measures of either outcomes or output - such as volume, productivity, response time, error frequencies, reworks, customer complaints, etc. - that they consider useful from a managerial perspective. Performance measures should link to organizational goals and objectives, yet the Fund's reporting continues to focus on less meaningful indicators of activity. Once again the incentive system, or lack thereof, is at the root of the issue.

F. Resources (Staffing)

15. The quality and professionalism of staff are high, but motivation of staff is at risk. When objective comparators were available, Fund staff almost always had higher academic or professional credentials than comparators. On the one hand, quality of staff correlates positively with quality of services. On the other, excessive tenure of staff within one narrow area, short job ladders and lack of mobility opportunities act as de-motivators. Supervisors are challenged to keep up motivation. Reliance on the institutional knowledge of staff may also explain, among other factors, why some service areas have not felt the need to maintain up-to-date documentation of processes and procedures, which was evident in at least three of the reviews. Cross-training, distribution of varied assignments, and consideration of fixed-term appointments, in line with the revised personnel strategy, represent a mix of solutions that some are applying.

16. Rationalization for the staffing of support services is required. The mix of staffing resources between regular staff, contractual staff, and vendors varies widely among the service areas and resulted more from ad-hoc budgetary considerations than a deliberate strategy. For example, the range of regular staff to total personnel resources in the thirteen service areas reviewed was from 25 percent to 96 percent. While non-regular staff resources can mean reduced costs and sometimes added flexibility, it also leads to inequities, raises morale issues and may not be in the best interest of the Fund or staff.

G. Activities, Processes and Costs

17. Support services generally pace themselves conservatively in adopting best practices approaches. There are examples of best practice approaches in most areas, but there is still opportunity to identify and implement others. Contrary to the trend in other organizations, the Fund has been slow to introduce "self-service" modes of operation although a number are now under development. The delays in adopting best practices tend to

be due either to insufficient technology investment or to inter-departmental differences that were not arbitrated at a higher level.

18. The Fund's costs of services are within comparators' norms in a number of areas and higher in others. Costs of providing services were found to be higher than comparators in seven out of thirteen service areas. There are differences in the extent to which departments focus on unit and process costs. Higher costs of services in the Fund are variously attributable to expected higher service levels, cumbersome delivery process, decisions by user departments (made in the absence of cost information), and higher staff costs. Contributing to lower costs in comparators are: a much more deliberate cost-containment policy on support services (which may or may not result in added costs for the core activities); lower service level standards; efficiency improvements made as part of a continuous improvement process.

H. Technology

19. Support services depend heavily on technology and will continue to do so to achieve future efficiencies. Fund support functions kept pace with increased workload over the past five years by relying increasingly on technology. On a per-staff basis, the Fund's technology spending is on par with other organizations. But more investments will be required to pursue the policy of substituting technology for labor in support functions and to improve information management. Cases where the Fund's technology lags comparators include systems that are more than twice the industry average age and lack integration with source data, and the predominance of hard-copy distribution of documents in the Fund as compared with imaging technologies at the World Bank and IDB, and electronic document libraries implemented by private sector organizations. The revised technology strategic plan is addressing the need for integrated technology solutions in these and other areas.

III. FOLLOW-UP

20. At the institutional level, OIA believes that the General Services Review has shown five matters needing attention:

- It is time to consider a realignment of responsibilities and organizational arrangements for support services. The review has shown that the present organizational structure has led to some fragmentation of responsibilities, unclear accountability, high cost of services in some areas, and a need for extensive and costly cross-organizational arbitration. These factors contributed to clear opportunities for service improvements not having been seized in the past.
- There is a need to remedy inconsistencies and inequities in the employment of regular staff, contractual employees, and vendor employees in the support services. Management and the Executive Board are well aware of this issue and work is in progress towards a resolution;

- There is a need to foster and nurture medium-term *improvement* plans in the support services area. While there are some efforts at defining and targeting improvement objectives, this practice is not yet widespread, systematic, or couched in a medium-term framework (the main exception being the Information Technology Strategic Plan)
- Support service departments need to work out more meaningful measures of their performance (including through feedback instruments) in the delivery of their services; currently no robust performance measurement process exists that tracks relevant measures of results and links to departmental objectives. The current list of activity descriptions and multiple workload indicators forwarded by departments to Office of Budget and Planning is inadequate as a tool for assessing departmental performance and making budgetary decisions. Revised measures need to focus on a few critical result indicators for each service provider and, where possible, measure outcomes rather than output; this may be difficult but it is equally difficult to conceive how managers can manage and report to supervisors without measuring performance.
- An institutional process is needed to incorporate the performance and feedback measures suggested above into the assessments of the performance of managers of services. The current incentive systems in the Fund fail to adequately encourage staff and managers to propose and implement efficiency improvements or to be accountable for performance. Improvements made by support departments go seemingly unnoticed or have been "rewarded" by a reduction in staff resources. What results is a system of dis-incentives to innovative thinking and continuous improvement approaches. One key here is that *some* of the resource benefits of improvement initiatives taken by a support department must be retained by the department and successes must be widely communicated.

21. **Department follow-up has been ongoing.** At the end of each phase of the General Services Review, Fund management has called meetings with each department to obtain comments on the reports in their service areas and to initiate follow-up action plans. Following the initial meeting and action plans, department heads provide status reports at six-monthly intervals until departments have satisfied Fund management that all appropriate actions have been taken. As expected from any audit office, OIA's role is to review the status reports and provide Fund management with views on the adequacy of actions taken or proposed.

IV. INITIAL RESULTS

22. Some significant results have already been achieved from the reviews. Actions taken by Fund departments have in some cases resulted in concrete savings, others in added effectiveness, efficiency and reprioritization. Obviously, the results achieved so far are attributable to the departments that had the time to implement follow-up actions, i.e. those that were reviewed first (Phase I). Fund Management is pursuing these opportunities and is monitoring the action plans that departmental managers are putting into place. The following is a selective listing of steps taken and improvements made to date in each of the services reviewed in Phase I; further work is ongoing:

Technology Services:

- Adopted a specific project management methodology for major development projects and for providing assistance to user departments and the ITPC subcommittees.
- Developed an in-house training program on the project management methodology
- Reorganized divisions to improve functional knowledge and user coordination.
- Implemented an integrated application support work request, project management and time reporting tool.
- Established a front office unit focussing on strategic issues and user planning.

Telecommunications

- Improved overseas communications. Contract renegotiations saved over \$800,000.
- Began studies in a number of areas including payroll deductions for telephone usage.
- Achieved annual cost savings of between \$300,000 to \$360,000 by shifting nonsensitive telex messages to other modes of transmission
- Worked with central banks to explore a cost-effective switch for sensitive messages

Language Services

- Developed a system of projecting departmental demand (PDD) to monitor services and recognize demand issues before they arise.
- Reintegrated interpreters into the respective translation divisions/sections resulting in a more efficient use of interpreters time and a global production increase of 11 percent.
- Continued efforts to streamline translations

Document Management

- Developed an "outreach program" to provide consulting services to Fund departments;
- Re-organized and reallocated responsibilities among units for efficiency;
- Proposed increases in electronic distribution of documents such as GRAY statements;

- Streamlined departmental statistics in a database to track documents and board meetings;
- Developed a Graphics Section Reorganization Initiative to improve process, structure;
- Studies undertaken in a number of areas to improve efficiencies;
- Integrated the work of the Graphics units to optimize capabilities of systems.

Joint Library

- Implemented a new team-based structure resulting in fewer supervisory positions, more cross-functionality and flexibility and improved skills-matching.
- Continued streamlining operations including routing services, and expansion of electronic Tables of Contents to reduce the labor-intensive processing of periodicals.
- Implemented outsourcing pilots in the areas of cataloguing and serials check-in, with the outsourcing of cataloguing services allowing redeployment of one position to web services.
- Developed customer service initiatives including: marketing of EIU and other resource information systems, holding an open house for users to review available services, conducting an Information Resource Symposium, increasing Web direct accessibility to users.
- Developed improvements in cost monitoring and performance measurement systems in capturing and communicating workload statistics.