## Institutional Capacity Evaluation and Financial Analysis

## of

## Department of Information Technology

## Ministry of Finance

Prepared for the

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**Institutional Review**

The evaluation took place during the week of April 16th, 2018 using the Institutional Capacity Assessment System (ICAS), which is an evaluation tool developed by the Inter-American Development Bank (IDB) to evaluate the institutional capacity of the agency responsible for program execution, in this case The Department of Information Technology (DIT) at the Ministry of Finance (MoF).

## Planning & Programming Capacity

The main responsibility of DIT is to oversee IT related functions across The Government of The Bahamas (GoBH). The prospective loan operation “Digital Transformation of Government to Strengthen Competitiveness Program” would be the first IDB-financed loan operation in which DIT would be leading execution within MOF. It is important to note that planning and programming activity within DIT is not formalized for any project framework. In this area the current assessment indicates a very weak planning and programming capacity and the need for development of this capacity to administer a project operation. **It is recommended that a Monitoring an Evaluation Specialist is added to the planned Program Executing Unit.**

## Executing Capacity

DIT was upgraded from a unit to a department in 2012, and as part of the institutional structure of the MoF, has adopted the financial and administrative systems of GoBH. The Ministry of Finance also has experience in executing IDB-financed loan operations, such as the Public Financial Management and Performance Monitoring Program (BH-L1035). It is estimated that it will require at least six months after all the key personnel has been hired to initiate the implementation of the project’s components to become proficient in managing the project following IDB policies and procedures. The nature of the Program will in fact restructure the traditional functioning of DIT. The MoF will need IDB technical assistance to strengthen its project executing capabilities. **It is recommended that the Program Manager to be hired for the PEU has strong project planning and implementation skills. It is also recommended that close monitoring and supervision of execution be provided by the leadership team of the Ministry of Finance as DIT undergoes its institutional strengthening process. Also given the cross-cutting nature of the operation, as well as its targeting of areas related to improving the ease of doing business, the Delivery Unit within the Office of the Prime Minister may also provide additional supervision and guidance.**

## Fiduciary Capacity

In term of fiduciary risks, DIT has not yet experienced managing and administering an IDB-financed loan operation. The financial and procurement management platforms are underdeveloped and inadequate for the purposes of managing a loan operation. Presently, the DIT does not have the fiduciary capacity to mitigate the risk associated with the project components. **The PEU needs to be staffed with Procurement and Financial management specialists to deal with procurement and financial planning and execution.**

## Human Resources Capacity

The main challenge for DIT is that they are significantly understaffed and would need to recruit a mix of experienced and bright employees that are highly motivated to carry the mandate of the agency. The department requires significant and ongoing training to meet current and future demands of the public sector.

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**SECTION 1**

**Introduction**

* 1. This document presents the results of an institutional and financial evaluation of The Department of Information Technology (DIT) at The Ministry of Finance (MoF).
  2. The report is based on a series of standardized questionnaires that help to identify internal issues in the executing agency that could constitute a risk to the execution of the IDB-financed project. It identifies institutional deficiencies, opportunities for improvement, existing risks and presents recommendations to be addressed during project preparation and implementation.
  3. The evaluation was undertaken as part of the preparation activities of the “Digital Transformation of Government to Strengthen Competitiveness Program” (the Program). The executing agency of the Program will be Ministry of Finance through the DIT. The objectives of the Program are to: (i) simplify and digitize government processes; (ii) strengthen the institutional capacity of the Department of Information Technology for a digital government; (iii) enhance transparency and integrity in government.
  4. The evaluation took place during the week of April 16th, 2018.
  5. The questionnaires were completed during interviews with key authorities of the Department of Information Technology, Ministry of Finance, and the Department of Internal Audit. Also, a review of organization charts, manuals and reports was conducted during the preparation of the report.
  6. The next section of this report presents an executive summary of the results. The detailed results of the analysis are found in the annexes to this report. Annex 1 presents the responses to the questionnaires while Annex 2 presents the risk matrices and recommended actions corresponding to each module.

**SECTION 2**

**Summary of Findings**

1. **The ICAS Scoring Methodology**
   1. The Institutional Capacity Assessment System (ICAS) comprises seven modules corresponding to the following systems that are required to achieve institutional efficiency and effectiveness:

* Strategic and operational planning system;
* Organizational management system;
* Goods and services management system;
* Personnel administration system;
* Financial management system;
* Internal control system; and
* External control system.
  1. The seven ICAS modules are grouped into three categories:
* Planning & Organizational Capacity (comprising Planning and Organizational Management);
* Execution Capacity (including Financial Administration, Personnel Management, and Goods & Services Management);
* Control Capacity (covering Internal and External controls)
  1. Each ICAS module comprises a set of questions addressing different aspects of the corresponding system. The possible answers for each question are Yes, No or Not Applicable. Each question within a module is assumed to have equal weight; thus, in the case of a module comprising 20 questions, each question has a weight of one twentieth. The score for each module is obtained by summing the questions for which the answer was Yes[[1]](#footnote-1).
  2. Each module is assigned a relative weight within its category, and the result is calculated as the score multiplied by the relative weight (Table 2.1).

**Table 2.1: Weighting Scheme by Module**

|  |  |  |
| --- | --- | --- |
| **Category** | **Module** | **Weight** |
| **Planning and Organizational Capacity** | Planning | 50% |
| Organizational Management | 50% |
| **TOTAL 100%** | |
| **Execution Capacity** | Goods & Services Management | 30% |
| Personnel Management | 30% |
| Financial Administration | 40% |
| **TOTAL 100%** | |
| **Control Capacity** | Internal Control | 80% |
| External Control | 20% |
| **TOTAL 100%** | |

* 1. Each category is then assigned a relative weight out of 100%, thus:

**Table 2.2: Weighting Scheme by Category**

|  |  |
| --- | --- |
| **Category** | **Relative Weight** |
| **Planning & Organizational Capacity** | 25% |
| **Execution Capacity (EC)** | 45% |
| **Control Capacity (CC)** | 30% |
| **TOTAL** | 100% |

The weighted score for each category is obtained by multiplying the score for that category by its relative weight.

* 1. The Total Score for the institution is the sum of the weighted scores for each category. ICAS classifies the development level and the risk level of the institution according to the following scheme:

**Table 2.3: ICAS Classification Scheme**

|  |  |  |
| --- | --- | --- |
| **Total Score** | **Development Level** | **Risk Level** |
| **81-100** | Satisfactory | Low |
| **61-80** | Medium | Medium |
| **41-60** | Weak | Substantial |
| **0-40** | Very Weak | High |

1. **Scoring Results for DIT**
   1. The numeric results of the institutional capacity evaluation of DIT are presented in Table 2.4. Figure 2.1 presents a graphic summary of the results by category while Figure 2.2 presents a more detailed breakdown, showing the results for each of the ICAS modules.
   2. Overall, the institutional capacity level for DIT is 46.75%, indicating an incipient institutional development. Noticeable challenging is the fact that the DIT has very low planning capacity by IDB standards. In terms of execution capacity, the development level is incipient, indicating a substantial risk for the Program’s execution. It is important to mention, however, that implementation capacity in the context of this evaluation refers not only to the capacity to manage the program, but also to lead the implementation of a strategic plan for the strengthening of the department as the IT lead for the public sector. To do this successfully, DIT will certainly need stronger planning and organizational capacity as well as a stronger contracting and administration capacity for managing the different modalities that a program of this nature is expected to perform.
   3. The score achieved by DIT is in very large part a reflection of the lack of previous experience working with the Inter-American Development Bank and other donor agencies. ICAS includes many questions related to the existence of organizational and process manuals and their use in the Internal Control of the institution. These are necessary steps to guarantee a successful absorption of resources under the Program. However, developing DIT as an executing agency and implementing a new operational program will demand the creation of an operational manual and its continuous adjustment, as well as formalized processes and procedures.
   4. In carrying out the ICAS for DIT, it is worth highlighting that one general impression through the interviews with executives of DIT and MoF is that standardization of systems and processes are severely lacking and essential.

**Table 2.4: Summary of Institutional Capacity Evaluation of the Department of Information Technology at the Ministry of Finance**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Capacity** | **System** | **Score** | **Weight** | **Result** | **Development** | **Risk** |
| **Areas of Institutional Capacity** | |  |  |  |  |  |
| CPO | Planning | 0% | 50% | 0% | Very weak | High |
| Organizational Management | 66.67% | 50% | 33.33% | Medium | Medium |
| **TOTAL** | | | **33.33%** | **Very weak** | **High** |
| CE | Goods & Services Management | 33.33% | 30% | 10% | Very weak | High |
| Personnel Management | 88.24% | 30% | 26.47% | Satisfactory | Low |
| Financial Administration | 46.67% | 40% | 18.67% | Weak | Substantial |
| **TOTAL** | | | **55.14%** | **Weak** | **Substantial** |
| CC | Internal Control | 37.93% | 80% | 30.34% | Very Weak | High |
| External Control | 75% | 20% | 15% | Medium | Medium |
| **TOTAL** | | | **45.1%** | **Weak** | **Substantial** |
| **Institutional Capacity by Category** | |  |  |  |  |  |
| Planning & Organizational Capacity (CPO) | | 33.33% | 25% | 8.33% | Very weak | High |
| Execution Capacity (CE) | | 55.14% | 45% | 24.81% | Weak | Substantial |
| Control Capacity (CC) | | 45.34% | 30% | 13.60% | Weak | Substantial |
| **TOTAL** | | | | **46.75%** | **Weak** | **Substantial** |

**Figure 2.1: Summary of the Institutional Capacity of DIT and MoF**

The following sections present some of the principal areas of deficiencies and opportunities for improvement in each of the ICAS modules.

1. **Strategic and Operational Planning**
   1. Currently there is no framework for strategic and operational planning for the DIT. This module of the ICAS was given the lowest scoring.
   2. As a major prerequisite to planning the Program, DIT would need formally defined planning and operating procedures such as: manuals, formats, models, and methodologies for the preparation of the operational plans and programs, as well as a procedure for their approval and modification. There exist templates for requirements gathering, plans for project management and change requests, but these templates have not been used in the context of an IDB-financed project operation. It would be helpful to the PEU to receive the templates and examples of typical IDB requested reports and documents. The DIT Director is aware of their operational limitations and acknowledges the technical support needed from the Bank for their readiness.
   3. As this is the first IDB-financed loan operation that DIT will be planning and executing, they have not utilized a formal tool such as an Annual Operating Plan (AOP) that incorporates program planning activities, nor any other form of planning and operational tool. As the loan operation is still in design phase, the responsible parties for coordinating the Program’s activities have not yet been identified. Further, there is no monitoring and evaluation mechanism at present to adequately measure the Program’s progress (in quarterly and annual process and performance indicators).
   4. In general, it is estimated that senior management and technical staff will be hampered in their ability to effectively implement plans because much of their time will be spent bridging the gap between building the institutional capacity of DIT and designing the implementation strategy for the Program. **An independent PEU will be required** to ensure that activities for the operation are not bottlenecked with day to day departmental activities of DIT.DIT has advised that they are re-structuring to re-align with their original mandate which is to oversee all IT and ICT related projects and tasks across the government.
   5. It is our impression that to support the success of the operation, new legislation for cybersecurity will have to be designed, alongside amendments to a few other legislations (Misuse of Computers, E-Commerce, Data Privacy).
   6. To effectively manage the Program, DIT would need to evolve into a technically strong agency, but its strategic and operational planning capacity is very limited due in large part to insufficient resources including staff and training. There is a Strategic & Planning Unit within DIT which is currently staffed with one person. The Unit was designed to oversee ICT strategy across government, however it is not functioning as designed, as currently the role is occupied with tracking the status of DIT related tasks and ministerial assigned projects. It would be beneficial for DIT to scale the training and operational resources of this Strategic & Planning Unit
   7. DIT has no existing monitoring and evaluation framework and currently lacks the capacity to assess the effectiveness and efficiency of new programs and projects. At present, for existing administrative and small scoped projects, they use status reports on the deliverables. Therefore, there would **need to be a (1) Planning, Monitoring and Evaluation specialist as part of the PEU** to assist, amongst others, to develop and maintain a planning framework consistent with the Annual Operating Plans, as well as monitoring and reporting consistent with the Project Management Report (PMR) requirements.
2. **Organizational Management**
   1. Regarding the organizational management system of DIT, the following issues were identified:
   2. The Program is still in design phase, and therefore DIT has not commenced the recruitment process of key personnel and those with adequate managerial experience to plan and implement the operation. DIT and MoF have not yet conceptualized how the executing agency would be structured which represents a challenge since management would need to scope the necessary organizational capacity that has to be built to administer the Program. It is recommended that the Bank assists the **DIT to draft an Operations Manual** to establish the different roles, responsibilities, and procedures for the implementation of the program. The Manual would define the level of coordination and communication with the different stakeholders to overcome organization management challenges.
   3. Ministry of Finance has advised that the Program would receive the necessary support for its implementation. DIT will need to foster a long-term view of its mission, design a mid-term strategy and then within the context of that strategy, undertake an organizational analysis to determine the adequacy of the existing organizational structure as well as the professional and technical expertise required to achieve the goals and objectives enunciated in those strategies.
   4. It was emphasized that DIT is significantly understaffed and not operating at full capacity. They currently have 68 staff members in their department, and for the department to operate optimally, the DIT Head is of the view that 90 staff members would be required.
   5. While DIT has an organizational manual illustrating the organizational structure and functions of each sub-division of the chart, DIT needs still to fully define the levels of authority and responsibility illustrating the reporting relationships and decision-making levels.
   6. The delegation of responsibility and decision-making should be reflected in a formal organizational manual that includes revised job descriptions with a results-oriented, performance-based focus.
3. **Goods and Services Management**
   1. There were major deficiencies detected with respect to government procurement policies. It was noted that the application of these procurement policies can vary between ministries and divisions. DIT by default would adhere to the procurement policies of the Ministry of Finance. There is a lack of formally defined processes and procedures for procurement and a centralized procurement unit.
   2. There would **need to be person(s) specialized in public procurement** housed in the Program’s executing agency. It is noted that the proposed Program will demand major procurement activities in the areas of IT, financial, procurement, and monitoring and evaluation. It is advised that the executing agency **recruit technical experts to prepare technical specifications and bidding documents**.
   3. At present there is no fixed assets register within GoBH, and therefore it is necessary for the executing agency to maintain proper records of all procured items and inventory.
   4. An e-procurement system of the Ministry of Finance is being developed, but at this time is not yet in operation. The operational date for this system is still underdetermined.
4. **Personnel Administration System**
   1. The Personnel Administration System (PAS) scored 88.24 points out of one hundred, reflecting the presence of basic elements of human resource management capability. The Personnel Administration System could be strengthened by improving the Personnel Performance Review process, through the incorporation of qualitative and efficiency indicators and benchmarks into personnel annual and quarterly work plans. These indicators and benchmarks and the quarterly and annual work plans should be tied to and consistent with the AOPs. It is important that performance reviews be undertaken on a consistent basis, during the year, not just at the end of the year. Job descriptions should be revised to reflect the technical and professional requirements of each post. **PEU staffing plans should have detailed terms of reference and requirements for each position.**
   2. There are currently limited programs for staff on an ongoing basis. MoF has recently concluded payroll training and is currently escalating training activities for the senior accounting officers. A training program geared towards the institution’s needs should be developed and implemented. Again, the E-government program to be adopted by DIT is a major challenge for the institution and will demand a new set of knowledge and skills. In addition, the executing agency will need training for the requirements gathering and conditions prior to first disbursement. Public awareness and education for the agencies will be a vital requirement.
   3. **There will be a dire need for change management for staff in the DIT department and in all divisions that will be connected to this Program**. DIT’s duties and responsibilities could be broadened to include playing an active role in fomenting a positive institutional climate and in succession planning.
5. **Financial Management System**
   1. DIT relies on the pubic financial management system at MoF level, which is in essence a cash management system. The system provides financial administration capacity by ensuring traceability of disbursements in relation to the approved budget. There are several financial management systems used by MoF and other ministries such as Infour and JDEdwards. There is an additional financial management system to track expenditure. The financial management system is governed by the Financial Management and Audit Act.
   2. Since 2012, DIT has not had a separate budget line, and has not had a designated financial officer. The MoF Accounts Department handle all financial obligations. The traditional practice of the Ministry of Finance for IDB-financed operations is to allocate funds in the annual budget, spend them upfront and then seek reimbursement at a later date.
   3. Considering that personnel in the Financial Administration section are not fully familiar with the Bank's procedures on the preparation of disbursement requests, it is deemed necessary that the **PEU hires a dedicated Financial Specialist**. This is also important as there is a need to supplement the cash system with an off-the-shelf accounting and financial software application, that allows the identification of the Program's transactions by source of funding and investment categories, in agreement with the Chart of Accounts approved by the Bank, and independent from the rest of DIT activities.
6. **Internal Control System**
   1. With respect to the Internal Controls module, the interviews presented evidence of ineffective internal controls at DIT.
   2. An internal audit was conducted for DIT last year indicating numerous deficiencies as it relates to internal controls. The Audit also provided a number of recommendations. DIT has acknowledged their awareness of these recommendations but is constrained by limited staff and capacity, as well as political will.
   3. Internal control capacity is low and is a persistent constraint in addressing governance issues. It is not clear what processes exist, and which need to be put in place.
   4. It was detected that there was no integration between systems, and DIT was not clear as to what IT related purchases were being made by other ministries or agencies.
7. **External Control System**

The following observations were noted with respect to External Controls:

2.44 As established in the Constitution, The Auditor General has the authority to perform the external audit of al government entities, including the DIT. Although recommendations have been advised by the External Auditor, correction of the matters reported have not been effectively addressed as this is at the discretion of the Financial Secretary.

2.45 All IDB Loan operations have external audit requirements. To effectively manage IDB requirements, it is recommended that the **PEU hires an independent private audit firm** to conduct the annual external audits.

**SECTION 3**

**Recommendations**

* 1. Given the current institutional development levels of MoF, careful consideration should be given in the Program’s design to include institutional strengthening activities that will:

1. Ensure DIT’s capacity to successfully carry out its responsibilities as primary executing agency of the e-government operation; and
2. Strengthen the capacity of DIT to play the lead role in implementing a digital government agenda.
   1. As the DIT will act as the executing agency, it is recommended that a **strong PEU be established within the DIT** to ensure that activities of the operation are not bottlenecked with day to day activities of the DIT, and for the implementation of the following:
3. **Establishment of a Project Executing Team** with strong Project Management capability in planning, execution, including contract administration.
4. **An Operations Manual** is put in place to define the organization for execution of the program, establishing the different roles, responsibilities, procedures, levels of coordination and communication.
5. Establishment of Monitoring and Evaluation role as a basic functioning of the PEU. **The hiring of a planning, monitoring and Evaluation Specialist is highly recommended.**
6. Training the Project Executing Team in financial management of IDB projects and in IDB procurement policies and procedures (short lists, preparation of terms of reference, no-objections, evaluations). **The PEU needs to be staffed with Procurement and Financial Management Specialists**. These two positions will assist the PEU primarily with procurement planning and execution, and with the financial planning, monitoring and control of project activities. Both positions will closely work with the M&E Specialist to produce accurate overall planning and execution reporting.
7. If possible, **implementation of a Project Financial Management Module that is compatible with GOBH general financial management system and that permits financial administration of activities** by funding source.
   1. **Short term assistance in project management**. It is recommended that the IDB assists the DIT with a short-term expert in project management of IDB programs. This expert will assist the PEU on establishing the initial administration of the Program, particularly with respect to the drafting of the Operations Manual, the initial Annual Operation Plan, and specifications for the procurement plan and bidding documents.
   2. This approach will help to mitigate (i) the present risk associated with DIT weak institutional capacity on program administration, and (ii) the delay associated with learning curve to design and build the administrative infrastructure to administer the program. The expert will also provide an immediate exposure to best practices and IDB project management and administration. It would also be useful to the PEU to receive templates for IDB standard AOPs, bidding documents, and monitoring reports.
   3. It is recommended that **DIT has a separate budget line within the overall budget of the Ministry of Finance to allow the department greater flexibility and ease in overseeing its mandate.** Furthermore, **it is desirable that a financial officer is designated for the Department.**
   4. It is recommended that **financial and procurement processes and procedures of MoF / DIT be standardized and not open to inconsistent interpretations**. DIT needs support to develop procedural manualscovering every aspect of DIT’s administrative and operational activities, to provide a framework for guiding the way that DIT operates. These manuals should be mainstreamed through training of staff on standardized procedures.
   5. Other activities that should be carried out by DIT prior to Project start-up are:
   * **Establish a filing system for the documentation that supports the procurement of goods and consulting services**, which allows the direct indexing and identification of transactions that have been performed, and facilitates their audit as required by the Bank;
   * Incorporate into the new DIT Operations Manual a section to deal with capital investment inventories.

**Annexes:**

ICAS Questionnaires (Hyperlink).



1. In the event that some answers are “Not Applicable” the relative weight of each question is re-calculated based on the total number of questions that were answered Yes or No. For example, if three out of twenty questions were “Not Applicable”, then each of the remaining questions would be assigned a value of one seventeenth. [↑](#footnote-ref-1)