



## INTERNAL AUDIT DIVISION

# AUDIT REPORT

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Capital Master Plan project budgeting,  
financial reporting and payments

The General Assembly should be made aware that the Capital Master Plan is facing uncertainties that may cause actual costs to exceed the budget.

11 August 2011  
Assignment No. AC2010/514/04

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United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE  
INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Ms. Angela Kane, Under-Secretary-General for  
A: Management

DATE: 11 August 2011

IAD-11-00526

Mr. Michael Adlerstein, Assistant Secretary-General and  
Executive Director, Capital Master Plan

Mr. Jun Yamazaki, Assistant Secretary-General and  
Controller

REFERENCE: IAD: 11-

FROM: Fatoumata Ndiaye, Director  
OF: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AC2010/514/04 – Audit of CMP project budgeting, financial reporting and  
OBJET: payments**

**The General Assembly should be made aware that the Capital Master Plan is facing  
uncertainties that may cause actual costs to exceed the budget**

1. I am pleased to present the report on the above-mentioned audit.
2. In order for us to close the recommendations, we request that you provide us with the additional information as discussed in the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Mr. Rohan Wijeratne, Board of Auditors  
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit  
Mr. Zachary Ikiara, Chief, Oversight Support Unit, Department of Management  
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS  
Mr. Gurpur Kumar, Deputy Director, Internal Audit Division, OIOS  
Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS

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## INTERNAL AUDIT DIVISION

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### FUNCTION

*“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).*

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## EXECUTIVE SUMMARY

### Audit of CMP project budgeting, financial reporting and payments

The Office of Internal Oversight Services (OIOS) conducted an audit of capital master plan (CMP) project budgeting, financial reporting and payments. The overall objective of the audit was to assess whether the level of financial control applied by the Office of CMP has been adequate, and whether financial information has been properly reported. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Although the CMP is now well progressed, it still faces a number of uncertainties that could result in over-expenditure of the approved budget. Most significantly, if associated costs and the costs of the secondary data centre are added to the original scope of the CMP, the over-expenditure that is currently projected to be \$80.1 million rises to \$259.4 million. This report considers the presentation of CMP financial information and the possible impacts on the budget because of the following threats and uncertainties:

- a) Associated costs.
- b) Changes in scope or changes required because of unforeseen technical issues.
- c) Re-accommodating staff as the CMP winds down.
- d) The economic climate.

Recommendations are made with a view to fairly presenting the overall financial situation and possible effects of uncertainties on the CMP budget to the General Assembly.

Procedures and controls over payments made for costs related to the CMP have been effective.

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## I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of capital master plan (CMP) project budgeting, financial reporting and payments. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. The financial performance against budget is a key criterion by which the CMP will be judged. The CMP represents a major investment for the United Nations with a budget of \$1,876.7m approved by the General Assembly resolution 61/251 of 22 December 2006. It has received much attention from Members of the General Assembly and progress has been presented within annual reports from the Secretary-General. Hence this topic was selected as an assignment for inclusion in the internal audit workplan. The most recent report of the Secretary-General was the eighth annual progress report on the implementation of the CMP (A/65/511) and this was supplemented by an addendum report on proposals for financing the associated costs required for the year 2011 from within the approved budget for the CMP (A/65/511/Add.1).
3. This report considers the current financial position of the CMP and whether information presented in the Secretary-General's 'Eighth annual progress report on the implementation of the capital master plan' gives an accurate reflection of CMP finances. It also examines current threats and uncertainties that may adversely impact the financial performance against budget. This report also considers the controls over payments made by the Office of CMP. Payment trends have been examined and transactions checked to ensure that payments have been authorized, correct and timely.
4. Comments made by the Department of Management are shown in italics.

## II. AUDIT OBJECTIVES

5. The main objectives of the audit were to assess the adequacy of the presentation of CMP financial information, and the adequacy and effectiveness of key controls over payments.

## III. AUDIT SCOPE AND METHODOLOGY

6. OIOS reviewed and analysed relevant records and management information including:
    - General Assembly Reports and resolutions
    - Calculations and analyses prepared by the Office of CMP and the consultant programme managers
    - Information from the NOVA financial management system
    - Cash flow projections
    - Minutes of meetings
    - Contracts
    - Invoices and supporting documents
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7. OIOS interviewed personnel of the Office of CMP, consultant programme managers, Programme Planning and Budget Division, and the Facilities and Commercial Services Division.

8. Reports from the NOVA financial management system were used to calculate expenditure trends, and samples used to test payments were also selected from NOVA.

## IV. AUDIT RESULTS

### A. The Capital Master Plan budget

9. The eighth annual progress report of the Secretary-General on the implementation of the CMP (A/65/511) dated 14 October 2010 presented the following projected costs (see Table 1). OIOS has determined the variances for the period from September 2009 to September 2010 in the right hand column.

**Table 1: Capital master plan projected costs as at September 2010 excluding associated costs and secondary data centre**

(Millions of United States dollars)

	<i>As at September 2008</i>	<i>As at September 2009</i>	<i>As at September 2010</i>	<i>Variance from Sept 2009 to Sept 2010</i>
	<i>(a)</i>	<i>(b)</i>	<i>(c)</i>	<i>(d) = (c)-(b)</i>
<b>Renovation</b>				
Construction	1,032.900	1,057.402	1,016.920	(40.482)
Professional fees, management costs	280.340	302.365	316.549	14.184
<b>Subtotal</b>	<b>1,313.240</b>	<b>1,359.767</b>	<b>1,333.469</b>	<b>(26.298)</b>
<b>Swing space estimate</b>				
Office swing space	273.441	273.622	267.924	(5.698)
Library swing space	2.714	2.714	2.714	-
Conference swing space	149.540	150.545	150.475	(0.070)
<b>Subtotal</b>	<b>425.695</b>	<b>426.881</b>	<b>421.113</b>	<b>(5.768)</b>
<b>Total cost for renovation and swing space</b>	<b>1,738.935</b>	<b>1,786.648</b>	<b>1,754.582</b>	<b>(32.066)</b>
<b>Contingency/escalation</b>	<b>235.236</b>	<b>181.423</b>	<b>202.209</b>	<b>20.786</b>
<b>Total project</b>	<b>1,974.171</b>	<b>1,968.071</b>	<b>1,956.791</b>	<b>(11.280)</b>
<b>Approved budget</b>	<b>1,876.700</b>	<b>1,876.700</b>	<b>1,876.700</b>	<b>-</b>
<b>Variance against approved budget</b>	<b>97.471</b>	<b>91.371</b>	<b>80.091</b>	<b>(11.280)</b>

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10. The overall projected cost overrun in Table 1 has reduced by \$11.280 million in the year since the previous Secretary-General's report (\$17.380 over the previous 2 years) and the Office of CMP has reported a continuing downward trend since the adoption of the accelerated strategy in December 2007. This net overall figure is made up of a number of positive and negative contributions. On the positive side, projected construction costs decreased by \$40.482 million in the year to September 2010. This is attributed to continuous value engineering, a favourable economic climate and intense price negotiations before guaranteed maximum price contracts are agreed. On the negative side, the projected expenditure on professional fees and management costs increased by \$14.184 million in the year to September 2010 because of strategic and programme changes. The level of contingency has been increased and the basis of its calculation is explained in the eighth annual CMP progress report. The contingency/escalation provision is two and a half times the projected cost overrun and it follows that any reduction in the use of the contingency/escalation provision would also result in a reduction in the projected cost overrun. At the current time though, it looks likely that the contingency/escalation funds will be fully utilised. Whilst the CMP project team does endeavour to control costs, it is difficult to predict the level of utilisation of the contingency/escalation funds which are by definition in place to mitigate against uncertain events.

#### B. Uncertainties and risks that may impact the CMP budget

11. The major threats to the budget of the CMP relate to the level of risks and uncertainties that are faced. At the time of planning this audit, December 2010 to January 2011, OIOS met with senior members of the project team and identified the following uncertainties with the potential to materially impact the CMP budget:

- a) Associated costs.
- b) Changes in scope or changes required because of unforeseen technical issues.
- c) Re-accommodating staff as the CMP winds down.
- d) The economic climate.

12. These are considered individually below:

##### Associated costs

13. Associated costs are (and will be) incurred for temporary increases in staffing and operational costs required in departments of the Secretariat in support of the CMP. Such costs have been identified with regard to the Department for General Assembly and Conference Management, the Department of Public Information, the Department of Management, the Office of Information and Communications Technology and the Department of Safety and Security.

14. Table 2 below shows the actual and projected requirements for associated costs until the end of 2013. This table uses figures that were included in the report of the Secretary-General to the General Assembly entitled

“Proposals for financing associated costs for 2011 from within the approved budget for the capital master plan” (A/65/511 Add. 1, 21 October 2010).

**Table 2: Capital master plan actual and projected associated costs**

**Source of information:** Report of the Secretary-General. Proposals for financing associated costs for 2011 from within the approved budget for the capital master plan. (A65/511/Add.1, 21 October 2010)

(Thousands of United States Dollars)

	<i>Expenditure as at 31 December 2009</i>	<i>Projected requirements for 2010</i>	<i>Projected requirements for 2011</i>	<i>Projected requirements for 2012</i>	<i>Projected requirements for 2013</i>	<i>Projected requirements 2009 to 2013 (f)=(a+b+c+d+e)</i>
	(a)	(b)	(c)	(d)	(e)	
Department for General Assembly and Conference Management	980.9	654.2	634.4	634.4		2,903.9
Department of Public Information	527.7	35.7	30,482.0			31,045.4
Office of Central Support Services	5182.80	5,203.9	70,075.7	5,544.3	750.0	86,756.7
Construction, alteration, improvement and major maintenance	3,725.0	1,931.1	1,840.7	493.0		7,989.8
Department of Safety and Security	7,332.5	5,720.1	7,439.5	7,379.5	2,860.0	30,731.6
Office of Information and Communications Technology	624.3	1,317.3	505.6	610.8		3,058.0
<b>Total</b>	<b>18,373.2</b>	<b>14,862.3</b>	<b>110,977.9</b>	<b>14,662.0</b>	<b>3,610.0</b>	<b>162,485.4</b>

**Note to Table 2:** If the reoccupation of the Secretariat Building is subject to delay and extends into 2013, then it is estimated that expenditure on associated costs would continue to be incurred at around \$494,000 per month.

15. By its resolution 63/270 (7 May 2009), the General Assembly decided that the resources approved for associated costs for the CMP would be financed from within the approved budget of the CMP unless otherwise specified by the General Assembly. This decision was reiterated as a part of resolution 65/269. Two reports of the Secretary-General have outlined the nature of the associated costs and their magnitude, but have not appraised whether it is feasible that they can be absorbed by the CMP budget, or what the consequences would be for the scope of the CMP if this was attempted. However, they both concluded with a recommendation that the General Assembly “approve the continued funding of the associated costs from within the approved budget of the CMP.” However, paragraph 96 of the Secretary-General’s eighth annual progress report on the implementation of the capital master plan states: “...the Office of the CMP does not consider it possible for the CMP project to absorb the associated costs or the costs of the secondary data centre.” OIOS considers that the two statements in the reports to be confusing and they could be viewed as contradictory. This was

discussed with members of the Office of the Capital Master Plan and the Programme Planning & Budget Division who held the opinion that the representatives of Member States at the Fifth Committee fully understood the financial position with regard to the CMP and associated costs. It was stated that a further report would be submitted in September 2011.

16. OIOS has maintained a continuing audit presence with the Office of the CMP and has interviewed all the major members of the project team, including the ASG Executive Director, and personnel of the consultant programme managers and construction manager. On this basis, OIOS considers it highly unlikely that the CMP budget will be able to absorb the whole of the \$179.285 million that is projected as being the amount required for associated costs and the secondary data centre, if the current scope of the CMP is to be retained.

17. The table showing projected costs of the CMP included in the Secretary-General's eighth annual progress report on the implementation of the CMP (similar to Table 1 in this report) did not include associated costs, but instead showed the variance against the approved budget as \$80.091 million dollars. In view of the aforementioned GA resolution 65/269, it would be a more accurate presentation of the overall current financial position and approvals to include associated costs of \$162.485 million and secondary data centre as \$16.800 million and this would increase the variance against the approved budget to \$259.376 million. Thus OIOS considers that by adding the bottom two rows of Table 3 (below) to Table 1, it would make the scale of the financial implications of attempting to absorb these costs within the CMP budget clearer.

**Table 3: Capital master plan projected costs as at September 2010 including associated costs and secondary data centre**

(Millions of United States dollars)

	<i>As at September 2008</i>	<i>As at September 2009</i>	<i>As at September 2010</i>	<i>Variance from Sept 2009 to Sept 2010</i>
	<i>(a)</i>	<i>(b)</i>	<i>(c)</i>	<i>(d) = (c)-(b)</i>
<b>Variance against approved budget (excl. assoc costs &amp; secondary data centre)</b>	97.471	91.371	80.091	(11.280)
<b>Projected associated costs</b>			162.485	
<b>Secondary data centre*</b>			16.800	
<b>Projected cost overrun (including associated costs &amp; secondary data centre)</b>			<b>259.376</b>	

\* The secondary data centre is required to fulfil the requirement to mitigate potential risks under the CMP transition related to information and communications technology security, disaster recovery and business continuity for the United Nations.

18. The present source of funding for associated costs has been from the CMP budget and this is in line with the General Assembly's resolutions. Steps have been taken, including the establishment of a Steering Committee on

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Associated Costs, to ensure close coordination of activities across departments involved in the CMP. This is important because associated costs form part of the CMP budget, but are not controlled by the Office of CMP.

### **Recommendation 1**

**(1) The Under-Secretary-General for Management should ensure that the General Assembly is apprised of:**

**(a) whether it will be possible (or desirable) to fully absorb associated costs within the CMP budget;**

**(b) alternative options of how to proceed, including any impacts on CMP scope, with the identification of a recommended option and how it may be financed.**

19. *The Under-Secretary-General for Management accepted recommendation 1 and stated that the CMP 9<sup>th</sup> annual progress report will include financing options for the associated costs.* Recommendation 1 remains open pending the inclusion of financing options for the associated costs within the CMP 9<sup>th</sup> annual progress report.

### **Recommendation 2**

**(2) The Executive Director of the CMP should ensure that the forthcoming Secretary-General's ninth annual progress report on the implementation of the CMP includes any costs that have been identified for absorption by the CMP budget within a format similar to Table 1 in this report. At the present time, the amounts related to associated costs and the secondary data centre should be included in line with the decision that continued funding for these costs should be absorbed by the approved budget of the CMP.**

20. *The Executive Director of the CMP accepted recommendation 2 and stated that the CMP 9<sup>th</sup> annual progress report will present the data in the recommended format.* Recommendation 2 remains open pending the inclusion of the data within the CMP 9<sup>th</sup> annual progress report.

### Changes in scope or changes required because of unforeseen technical issues.

21. Some decisions have not been made on major elements of the CMP. When these decisions are made they will inevitably impact the CMP budget. This category of uncertainty includes the following:

(a) The future of the Dag Hammarskjöld Library area is not certain. Its close proximity to the UN campus perimeter and the public highway present security issues and a decision is needed to determine the most

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suitable course of action. There are also implications for the adjacent cafeteria for similar reasons.

(b) The North Lawn Conference Building was designed and built as a temporary structure to be demolished after the completion of renovation work in the established Conference Building. The schedule of the Conference Building will be delayed and the North Lawn Conference Building may now be retained, at least until the completion of the established Conference Building. This will mean an extension of operational costs for the North Lawn Conference Building.

(c) The pre-existing Conference Building has been the subject of major uncertainty that has impacted both cost and schedule. Security considerations and consequential technical cooperation between the UN and New York City led to a decision to “flip” the orientation of the layout and strengthen the structure. The source of funding for this major design change was confirmed in writing in January 2011 when the US federal authorities authorized funding up to \$100 million. This funding will provide up to \$70 million for the Conference Building “flip” and up to \$30m for primarily security upgrades to the UN’s campus perimeter. OIOS was informed that the actual cost of works should be undertaken within the financial limits that have been set because cross-bracing to the structure will limit the uncertainties that would otherwise have been presented by the condition of subterranean structures. However, it is the nature of large projects that if more work than envisaged proves essential, then delays could occur and the budget could be impacted.

(d) Change orders may result in increases in cost and failure to meet the original budget. A previous OIOS internal audit report (AC2009/514/03 dated 8 April 2010 on CMP change orders and associated processes) emphasised the importance of well controlled change management and identified that the number of change orders was greater than expected for some guaranteed maximum price contracts. That report is currently being updated as a separate exercise but it is pertinent to note that one of the previous conclusions was that change orders have most commonly arisen because some designs were incomplete when bids were solicited for guaranteed maximum price contracts. The Executive Director of the CMP stated that this was primarily because of changes in user requirements on the part of staff being relocated to swing space. Project managers generally consider it best practice to seek to minimize the number of changes that a project is subjected to.

#### **Recommendations 3 and 4**

**(3) The Executive Director of the CMP should formulate proposals for favoured courses of action to be taken with regard to the Dag Hammarskjöld Library, the cafeteria and the North Lawn Conference Centre for presentation to the General Assembly.**

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**(4) The Executive Director of the CMP should identify major technical risks and uncertainties facing the capital master plan and present their likelihoods and possible cost implications to the attention of the General Assembly.**

22. *The Executive Director of the CMP accepted recommendation 3 and stated that proposals for courses of action to be taken with regard to the Dag Hammarskjold Library, the cafeteria and the North Lawn Conference Centre will be presented to the General Assembly in the CMP 9<sup>th</sup> annual progress report. Recommendation 3 remains open pending the inclusion of the proposed courses of action to be included within the CMP 9<sup>th</sup> annual progress report.*

23. *The Executive Director of the CMP accepted recommendation 4 and stated that major technical risks and uncertainties facing the CMP, their likelihoods and possible cost implications will be presented to the General Assembly in the CMP 9<sup>th</sup> progress report. Recommendation 4 remains open pending the inclusion of major technical risks and uncertainties within the CMP 9<sup>th</sup> annual progress report.*

Re-accommodating staff as the CMP winds down

24. Considerable efforts have been made by the Office of the CMP in preparing “restacking plans” which detail the current floor allocations within the Secretariat Building for different departments that will move back from swing space locations. OIOS has been informed that approvals to the restacking plans have been obtained from officials at the SG and USG levels. Departmental focal points have received presentations and have to sign off on plans. This appears an improvement on the transition out of the Secretariat, and OIOS plans to carry out an audit assignment on CMP Stakeholder Management as a part of the 2011 internal audit workplan.

25. A decision to retain some of the leased swing space accommodation is now under active consideration, but the plan has not been finalised. The strategy is to plan on the basis of least cost, minimising the number of locations (which also reduces cost) and operational advantage. The current plan is for the termination of leased accommodation of 2,549 staff at 380 Madison Avenue, the Teachers’ Building and areas of the UNFCU building in Long Island City, but the probable retention of the Albano Building.

26. It is planned that all USGs and ASGs will return to the Secretariat Building. Attempts will be made to minimise the costs of refitting their vacated office spaces in retained leased accommodations by (for example) moving a number of lower graded staff into offices previously allocated to USGs or ASGs.

27. There is some uncertainty regarding the start date of reoccupation of the Secretariat Building and any delay would mean that the duration of leases may be longer than previously planned.

28. The costs related to re-accommodating staff include:

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- a) Continuation of leases for a longer than planned duration (in the case of a delay in reoccupying the Secretariat Building).
  - b) Termination of leases that would otherwise extend into the future after swing spaces have been vacated.
  - c) Refitting in some retained swing spaces.

29. The identification of the above costs is important because the CMP budget only provides for leases of swing space until the end of September 2012. Also, the CMP budget did not include for the early termination of leases and costs for this are anticipated as being in the tens of millions of dollars.

#### **Recommendation 5**

**(5) The Under-Secretary-General for Management in consultation with the Office of Legal Affairs, as appropriate, should finalise a costed strategy for the re-accommodation of staff in leased locations as the CMP winds down, and make recommendations regarding the funding of leases to the General Assembly.**

30. *The Under-Secretary-General for Management accepted recommendation 5 and stated that the Office of the USG in consultation with the Office of Legal Affairs will design a strategy for the re-accommodation of staff in leased locations, as relevant. Subject to the outcomes of the costing exercise, the re-accommodation strategy, if it involves further cost implications for the Organization, will be presented to the General Assembly.* Recommendation 5 remains open pending the preparation of the strategy and actions taken as a result of the outcome of the costing exercise.

#### The economic climate

31. The construction industry in New York has been impacted by the economic downturn. There were 296,300 construction employees in December 2010 compared with 363,200 in January 2008, a reduction of 18.4%. Over the same period the average hourly earnings of all construction employees has risen steadily by 7.7% from \$23.38 to \$25.33, even though the unemployment rate is higher than in other sectors. (The statistics included in this paragraph were extracted from the US Department of Labor, Bureau of Labor Statistics website).

32. According to the Office of CMP, consultant programme managers and construction manager, the CMP has benefited from the economic downturn by receiving competitive bids for construction work. Contractors have strived to retain their best employees and shed poor performers to implement better quality work for competitive bids. Much of the cost benefit to the CMP has been received by contractors' profit margins being trimmed rather than wage rates decreased or reductions in the cost of materials. Union rates have not proven flexible and this is reflected in the steady rise in employees' earnings (paragraph

31 above). Some materials such as steel and copper have been rising above the inflation rate. As there is a limit to how far a contractor can trim its profit margins and remain in business, it is unlikely that prices will reduce further. As the construction sector often lags behind the rest of the economy, it is likely that the UN will benefit from the economic downturn as bids for CMP works should be received before construction prices start to rise significantly. OIOS concludes that the Office of the CMP has adopted an organizational structure which incorporates a high degree of construction experience and knowledge of the current working conditions in New York construction industry. This has enabled it to secure benefits that are available because of the current economic climate. This conclusion is also supported by work undertaken for a concurrent audit on CMP procurement and contract management. (Assignment no. AC2011/514/01 – Audit of CMP procurement and contract management including change orders).

### C. Analytical review

33. Expenditure trends for the different types of vendors that have received payments for works or services related to the CMP using information from the NOVA system. NOVA includes information for monitoring the review and approval of invoices prior to payments being made.

**Table 4. Disbursements paid for categories of expenditure**

	(\$ millions)								
	2003	2004	2005	2006	2007	2008	2009	2010	Totals
Construction and Constr'n Management					1.721	36.387	283.460	183.263	504.831
Arch & Eng Design	0.028	0.892	6.899	6.460	20.341	31.116	32.662	17.852	116.250
Programme Management		0.338	2.049	2.050	3.072	4.390	6.655	6.855	25.409
Removals						0.056	3.863	1.853	6.276
Other Vendors	0.715	0.647	0.733	0.896	1.555	4.601	9.915	14.803	33.865
Swing Space Leasing						15.639	37.344	39.287	92.270
<b>Annual Totals</b>	<b>0.743</b>	<b>1.877</b>	<b>9.681</b>	<b>9.406</b>	<b>26.689</b>	<b>92.693</b>	<b>373.899</b>	<b>263.913</b>	<b>778.901</b>

**Note to Table 4:** The Office of the CMP should always be used as the official source of information on the CMP. Totals in this table are not definitive as they include only OIOS calculations of payments through NOVA. Some payments were also made before 2003.

34. Observations and explanations for the above trends follow:

a) Up to the end of December 2010, disbursements to firms for architectural and engineering design appeared to exceed the 9.59% of construction costs that has been projected by the consultant programme managers. The variance can be explained because the construction costs will more than double by the time the CMP is completed and the designs are substantially paid for before the related construction commences. Also, the consultant programme manager's figures exclude amounts

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spent on CMP design that would not have been reasonably expected for other projects, for example, costs in re-designing because of revisions to security specifications. OIOS considers the monitoring and benchmarking of this sort of performance statistic by the consultant programme managers valuable in informing necessary management action if ratios increase above expectations.

b) The amount paid to the construction manager for the provision of construction works dropped from \$283,460,000 in 2009 to \$183,263,000 in 2010, a reduction of around 35%. The programme management costs remained around the same over the same period. This reflects the diverse nature of the consultant programme managers' duties and the continuing checks made on payments.

35. *The Office of CMP observed that the figures derived by OIOS from the NOVA system cannot be reconciled with the Integrated Management Information System (IMIS). This would be because NOVA shows disbursements in the actual year of disbursement, whereas IMIS shows them in the year that the expenditure is obligated.*

#### D. Payments

##### Timeliness of payments

36. Prior to final invoices being submitted from the construction manager and some design consultants, these vendors provide an initial submission requesting an amount to be paid. This initial submission is subject to detailed checks by the consultant programme managers to ensure that the work covered by the invoice is authorized and included in the scope. In the course of their checks, the consultant programme managers may request explanations from the vendor, who in turn may have to refer these to sub-consultants or trade contractors (in the case of the construction manager). The process of checking and obtaining explanations safeguards the United Nations from making inaccurate payments, but inevitably increases the time taken to make payment. Delays sometimes occur at this stage and may be because of either the length of time taken to make checks (on the part of the consultant programme managers) or the time taken to research and respond to the enquiry (on the part of the vendors). After the initial submission has been agreed or amended, the vendor submits a final invoice. This is then subjected to technical checks and is usually approved without delay.

37. OIOS selected a sample of 50 invoices submitted by the construction manager, the consultant programme managers and three architectural and engineering design companies. It was determined that 22 out of 50 invoices were paid later than the contractually allowed 30 days as follows:

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**Table 5. Payments made late**

<b>Vendor</b>	<b>No of Invoices in sample</b>	<b>Invoices paid late</b>	<b>Reason for Delay</b>
Programme Manager – Gardiner & Theobald	10	1	Short delay – not significant.
Construction Manager - Skanska	10	3	Delays were mainly because of the length of time taken for checks that are undertaken by the consultant programme managers and acceptable response by the vendor (and sub-consultants or trade contractors) to ensure accuracy of vendors invoices.
A & E Design Firm Syska	10	3	
A & E Design Firm EYP	10	6	
A & E Design Firm - HLW	10	9	
<b>Totals</b>	<b>50</b>	<b>22</b>	

38. Examination of the transactions showed that the periods of delay for the invoices were as follows:

Up to 20 days (in excess of the 30 days allowed):	10 invoices
21 – 50 days:	7 invoices
51 – 100 days	3 invoices
More than 100 days	2 invoices.

39. For the sample of 50 invoices, the delays in making payment ranged from 0 to 187 days with invoices being paid 17 days late on average. For the 22 invoices paid late, delays in making payment ranged from 4 days to 187 days with an average of 40 days. Midpoints were 20 days and 9 days for late payments and the total of invoices sampled respectively.

40. The two payments that took more than 100 days were made to the construction manager. In the case of the first payment, delays arose when enquiries made by the consultant programme managers had to be resolved. The construction manager in turn had to transmit enquiries to the trade contractors before they could be answered. According to the construction manager and consultant programme manager the processing of the payment coincided with a particularly busy period for urgent works. The trade contractor concerned was not actively pursuing his debt and it was not given the turnaround time that it warranted. NOVA did not give any explanation as to the reason for the delay. OIOS does not recommend that NOVA should be a vehicle for maintaining copious records which should be available elsewhere. It would, however, be useful for a few explanatory notes or an email attachment to be added when, for example, an exceptionally long delay occurs. The case of the second payment was similar to the first. In this case copies of emails attached to NOVA reflected that the construction manager was experiencing difficulty in obtaining supporting documentation. This brief explanation was enough to show why the delay arose.

41. Some of the less extreme delays reflected diligent checking necessary to further the interests of the United Nations. The construction manager's senior representative indicated that the contractual payment within 30 days was generally met for base contract work, but that sometimes payments for change orders were subject to delay if change orders were awaiting approval.

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42. Checks by the consultant programme managers provide sound control over the of payments made. However, some of the delays have been excessive. This issue is important because:

- a) It conflicts with the terms of contracts.
- b) As time passes the risk increases that inaccuracies in invoicing could be overlooked.
- c) Delays in paying can adversely impact vendors' cash-flows; and
- d) Delayed payments could be a factor for consideration in case of disputes or claims.

#### Late submission of invoices by vendors

43. A number of invoices have been submitted late by vendors. This is important because the extent of late submission could cause uncertainties for the members of the project team assigned to check the accuracy of payments.

44. The most notable example was Kroll security consultants who submitted invoices in 2010 up to 10 months after the periods the services were completed. An explanation was given that the vendor's Project Manager had played a dominant role, but then left the firm. The remaining staff had not treated invoicing as a priority and a backlog arose. The deliverables and accuracy of payments had been checked and recommended for payment by the consultant programme managers in the normal way.

45. Some invoices were also received late from other vendors. An invoice for \$286,447 from a firm of design consultants for Professional Services to Sept 30, 2009 was invoiced on 8 January 2010 (100 days later). Examination of other invoices from the same firm showed this level of delay to be exceptional, but the submission of some other invoices was late to a lesser degree.

46. No duplicate payments were detected.

#### Inaccurate invoices

47. Samples of invoices were examined for 5 design firms. Two firms submitted invoices that were accurate and so had not been subject to adjustments.

48. In the case of one firm (Syska), 124 invoices were examined. For 19 out of 124 invoices the amounts actually paid (in a range from \$6,000 to \$624,000.) were less than the amounts invoiced. The consultant programme managers had made deductions ranging from \$95 to \$138,000 to the amounts paid. This was mostly because deductions had been made as deliverables were incomplete, further checks were required or there were errors in invoicing.

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49. A design invoice from Einhorn, Yaffee, Prescott dated 8 January 2010 requested payment as follows:

Amendment 16 – Curtain wall connection	\$ 49,057.31
Amendment 23 – Blast reinforcement	\$147,732.75
Amendment 33 – Base Contract – Final CD submission	<u>\$305,120.25</u>
TOTAL	<u>\$501,910.31</u>

The amounts approved for payment after G&T's invoice review were:

Amendment 16 – Curtain wall connection	\$ 47,095.02
Amendment 23 – Blast reinforcement	\$141,823.44
Amendment 33 – Base Contract – Final CD submission	<u>\$ 97,529.20</u>
TOTAL	<u>\$286,447.66</u>

50. It was explained that the request for payment did not conform with an agreement regarding the basis on which payments should be made and the consultant programme managers had amended the amounts payable. A further 73 invoices from this firm indicated no major variances.

51. An invoice from HLW dated 14 May 2010 for \$101,913.30 was reduced to \$49,648.66 because checks by the consultant programme managers determined that deliverables had not been fully completed. A further 59 invoices from this firm indicated no other variances.

52. Consultant programme managers are responsible to make adjustments for inaccurate billing, providing reasonable assurance regarding the effectiveness of the checks made on invoices. **OIOS made the observation that there was an opportunity to increase efficiency and reduce the risk of disputes if the Office of CMP:**

a) **Ensures that payments are made in a timely manner, so long as this does not compromise the full extent of checks being made to ensure accuracy of invoices.**

b) **Instructs the consultant programme managers that in the event of significant delays in making payments a brief explanation should be entered in NOVA, or relevant emails should be attached.**

c) **Provide feedback to vendors who submit late or inaccurate invoices requesting that they improve the timeliness and accuracy of their submissions.**

53. *The Office of CMP stated that it communicates any inaccuracies identified during the processing of invoices to vendors and requires their feedback. It further stated that late submission of invoices will be addressed on a regular basis.*

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Invoices submitted by the consultant programme managers

54. The consultant programme managers submit monthly invoices which cover the charges for programme management services. These invoices are checked thoroughly by the financial assistant in the Office of CMP, evidenced by ticks on the invoices and supporting documents, but it is not clear who conducted the checks. **There is an opportunity for increasing accountability in case of queries in the future if the Office of CMP ensures that persons checking invoices and making annotations or ticks sign the first page of the invoice as “checked by...”** *The Office of CMP clarified that personnel involved in the review and approval process are reminded of this requirement.*

55. Three invoices that had been passed for payment were selected for detailed rechecking by OIOS. The invoices selected were for programme management services for the months of August 2010, October 2010 and January 2011, in the sums of \$630,426.92, \$597,552.14 and \$860,917.32 respectively. The invoices sampled were timely and accurate.

56. The consultant programme manager’s contract provides for hourly rates to be adjusted on an annual basis in line with the United States Government’s Bureau of Labour Statistics index. Individual members of staff may also be upgraded or downgraded subject to the approval of the Office of CMP, and their chargeable rates adjusted accordingly. Based on the index it would have been expected that the increase in the average hourly rate charged by the consultant programme managers would have been 4.2% between June 2008 and June 2010, rather than the actual increase of 7.6%. The higher than expected increase appears to have been because of staff promotions to a higher chargeable grade, or the employment of higher grade personnel for the CMP.

57. **OIOS considered that there was an opportunity for improving control if the Office of CMP monitors trends in the consultant programme manager’s average hourly rate and uses that indicator to ensure that staff turnover and regradings do not result in the deployment of a more expensive grade of staff than deemed optimal for the CMP.** *The Office of CMP clarified that staffing requirements, changes in staff configuration and earnings of staff employed by a programme management firm are reviewed and approved by the Office of CMP.*

## V. ACKNOWLEDGEMENT

58. We wish to express our appreciation to the Management and staff of the Department of Management and the Office of Capital Master Plan for the assistance and cooperation extended to the auditors during this assignment.

## STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O <sup>1</sup>	Actions needed to close recommendation	Implementation date <sup>2</sup>
1	<p>The Under-Secretary-General for Management should ensure that the General Assembly is apprised of:</p> <p>(a) whether it will be possible (or desirable) to fully absorb associated costs within the CMP budget;</p> <p>(b) alternative options of how to proceed, including any impacts on CMP scope, with the identification of a recommended option and how it may be financed.</p>	Financial	Important	O	Inclusion of financing options for associated costs within the ninth annual progress report on the implementation of the CMP	31/12/2011
2	<p>The Executive Director of the CMP should ensure that the forthcoming Secretary-General's ninth annual progress report on the implementation of the CMP includes any costs that have been identified for absorption by the CMP budget within a format similar to Table 1 in this report. At the present time, the amounts related to associated costs and the secondary data centre should be included in line with the decision that continued funding for these costs should be absorbed by the approved budget of the CMP.</p>	Financial	Important	O	Data presented in the recommended format within the ninth annual progress report on the implementation of the CMP	31/12/2011

<b>Recom. no.</b>	<b>Recommendation</b>	<b>Risk category</b>	<b>Risk rating</b>	<b>C/O<sup>1</sup></b>	<b>Actions needed to close recommendation</b>	<b>Implementation date<sup>2</sup></b>
3	The Executive Director of the CMP should formulate proposals for favoured courses of action to be taken with regard to the Dag Hammarskjold Library, the cafeteria and the North Lawn Conference Centre for presentation to the General Assembly.	Operational	Important	O	Proposals for courses of action to be taken with regard to the Dag Hammarskjold Library, the cafeteria and the North Lawn Conference Centre to be presented to the General Assembly in the ninth annual progress report on the implementation of the CMP	31/12/2011
4	The Executive Director of the CMP should identify major technical risks and uncertainties facing the capital master plan and present their likelihoods and possible cost implications to the attention of the General Assembly.	Financial	Important	O	Major technical risks and uncertainties , their likelihoods and possible cost implications to be presented to the General Assembly in the ninth annual progress report on the implementation of the CMP	
5	The Under-Secretary-General for Management in consultation with the Office of Legal Affairs, as appropriate, should finalise a costed strategy for the re-accommodation of staff in leased locations as the CMP winds down, and make recommendations regarding the funding of leases to the General Assembly.	Financial	Important	O	Preparation of the costed re-accommodation strategy, and if it involves further cost implications for the Organization, its presentation to the General Assembly.	

1. C = closed, O = open

2. Date provided by Office of CMP in response to recommendations.

## ANNEX 2

*Use this page if the orientation of Annex 2 is portrait. If the orientation is landscape, insert a section break at the end of Annex 1 and continue on the new page. (On the **Insert** menu, point to **Break**, select **Next page** under **Section break types**.) Leave the page blank if not required; do not delete it.*