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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

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

TO: Mr. Abdoulie Janneh, Executive Secretary
A: Economic Commission for Africa

DATE: 9 February 2012

REFERENCE: IAD: 12- 00154

Mr. Gregory Starr
Under-Secretary-General for Safety & Security

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



SUBJECT: **Assignment no. AC2011/710/01 – Audit of the construction of additional office facilities at the Economic Commission for Africa (ECA)**
OBJET: **Economic Commission for Africa (ECA)**

Overall results relating to the construction of additional office facilities at ECA were partially satisfactory; however, management has subsequently addressed the identified issues

1. Attached please find the final report on the above-mentioned audit.
2. Annex 1 shows the status of recommendations.
3. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly. OIOS will also report to the Secretary-General annually for important recommendations.

cc: Mr. Warren Sach, Assistant Secretary-General, Office of Central Support Services
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Mr. Bruno Henn, Director, Division of Administration, ECA
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INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of the construction of additional office facilities at the Economic Commission for Africa (ECA)

Overall results relating to the construction of additional office facilities at ECA were partially satisfactory; however, management has subsequently addressed the identified issues

9 February 2012
Assignment No. AC2011/710/01

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AUDIT REPORT

Audit of the construction of additional office facilities at the Economic Commission for Africa

BACKGROUND

1. In its resolution 63/263 the General Assembly requested the Secretary-General “to entrust the Office of Internal Oversight Services (OIOS) with ensuring continuing effective audit coverage as well as regular, thorough management reviews of the construction of additional office facilities at the Economic Commission for Africa (ECA) in Addis Ababa ... to be reported on in the annual report of OIOS to the General Assembly.” This audit was conducted in order to comply with this resolution and will also be summarized in the OIOS annual report.

2. A previous internal audit report “Audit of the planned construction of additional office facilities at the Economic Commission for Africa” (assignment number AC2009/514/01) was issued on 25 November 2009. That report concluded that inadequate coordination had led to lengthy delays in the procurement process and recommendations were made regarding project staffing, project management, and procurement. Subsequent to the completion of the first internal audit report, four companies submitted bids to undertake the construction by the closing date of 30 October 2009. Following value engineering, design amendments and negotiations, a construction contract in the amount of \$7.4 million was signed on 1 April 2010 with Rama Construction PLC, Addis Ababa, Ethiopia and construction commenced on 1 May 2010. An amendment to the contract for a sixth floor for an additional \$1 million was signed on 23 December 2010. At the time of the current audit (June 2011) construction was progressing and it was possible to observe activities at the construction site.

3. The baseline schedule was to finish construction by February 2012, but this has slipped by six months and the construction period has been extended to August 2012.

4. Comments provided by ECA are incorporated in italics.

OBJECTIVE AND SCOPE

5. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations, and rules.

6. The audit of the construction of additional office facilities at the Economic Commission for Africa was conducted to assess the adequacy and effectiveness of governance, risk management and control processes in providing reasonable assurance regarding the effective management and implementation of the construction project to build new office facilities.

7. The key control tested for the audit was **project management capacity**. For the purpose of this audit, OIOS defined this as those controls that provide reasonable assurance that there is sufficient project management capacity to achieve mandates. This includes:

- Sufficient financial resources
- Sufficient and competent human resources
- Appropriate project management tools, e.g., methodology and systems.

8. The key control was assessed for the control objectives shown in Table 1.

9. OIOS conducted this audit from 20 June 2011 to 15 September 2011. The audit covered the period from 1 January 2010 to 24 June 2011.

10. OIOS conducted an activity-level risk assessment to identify and evaluate specific risk exposures, and to confirm the relevance of the selected key control in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to assess their effectiveness.

AUDIT RESULTS

11. In OIOS opinion, governance, risk management and control processes examined at ECA were **partially satisfactory** in providing reasonable assurance regarding the effective management and implementation of the construction project to build new office facilities.

12. The overall rating is based on the assessment of key controls presented in Table 1 below. ECA had an adequate organizational structure for project management and consultants had prepared a bill of quantities to assist in the control of payments. A professional Project Manager reported to the Director of Administration, ECA. Close liaison was maintained with the Facilities and Commercial Services Division and Overseas Property Management Unit in New York, and personnel from those offices had offered advice and support. A proactive approach had been taken in mitigating the risk of delays by obtaining permits from the host country to import cement which had been unavailable locally. Relationships with the contractor had been good, and claims, disputes and excessive numbers of change orders had not been a characteristic of the project. A Compound Advisory Committee chaired by the Director of Administration had been formed and this Committee undertook stakeholder management. However, there were areas that needed improvement, as outlined below.

Table 1: Assessment of key control

	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management and implementation of the construction project	Project Management capacity	Partially satisfactory	Partially satisfactory	Partially satisfactory	Satisfactory

Project management capacity

Vacancies in the project team presented a risk to effective project control

13. At the time of the audit fieldwork, the project team was understaffed with two of the six posts vacant since construction commenced in May 2010. Attempts to recruit a technical supervisor had been unsuccessful and a clerk of works post was also vacant. Vacancies in the project team contributed to an excessive workload for the Project Manager and so presented a risk to effective project management and control.

(1) The ECA Project Manager should examine options with the Chief, Human Resources Services Section and seek early appointment of staff to the vacancies in the project team.

ECA accepted recommendation 1 and stated that the two posts that were vacant at the time of the audit have been filled. Based on the action taken by ECA, recommendation 1 has been closed.

Need to closely monitor construction schedule and progress

14. The construction completion schedule had slipped by six months due mainly to non-availability of locally produced cement, which was outside the control of ECA. There was a risk that the project could be further delayed if the contractor performs below expectations, or if the critical path is impacted by procurement or implementation of inter-dependent sub-projects. The main control for monitoring project progress was the master implementation schedule which was initially prepared by the Project Manager at the end of June 2011, while audit fieldwork was being undertaken. This incorporated the key dates for the sub-projects.

(2) The ECA Project Manager should closely monitor progress against the construction schedule with the consultant and contractor. Potential delays should be taken up immediately with the contractor and brought to the attention of the Director of Administration and the Overseas Property Management Unit.

ECA accepted recommendation 2 and stated that this recommendation is partially accepted in that it is agreed that close monitoring is required. However, progress is already closely monitored in a number of ways. Based on the ECA response, recommendation 2 has been closed.

Inaccuracies in the bill of quantities could impact the budget

15. The contractor submitted applications for payment based on its calculations of work executed, without notifying the consultant or the Project Manager that some of the works materially exceeded the amounts in the bill of quantities. This is important because the bill of quantities is a key control document to ensure that applications for payment are reasonable and within the predetermined estimate.

(3) The ECA Project Manager should instruct the contractor to bring discrepancies in the bill of quantities to his immediate attention so that prompt checks can be made by the Project Manager and consultant on behalf of ECA.

ECA accepted recommendation 3 and stated that instruction was given to the contractor to inform the UN of any discrepancies noticed in the bill of quantities prior to execution and get the written approval of the United Nations prior to executing any additional works (including quantities which exceed the contract). Based on the action taken by ECA, recommendation 3 has been closed.

16. The consultants have not performed as well as expected. There are inaccuracies in the bill of quantities and as a result payment certificate 3, dated 5 January 2011, showed a deduction of \$263,395.08 from the payment, pending resolution of issues related to the bill of quantities. While the contractor had agreed that the issues should be resolved within a month, and the contract requires payments to be made within 30 days, the payment had not been resolved by the end of June 2011. Disagreements between the contractor and consultants regarding how the bill of quantities should be revised have taken too long to resolve. Relationships with the contractor reportedly have been good, but this could be jeopardized because of the long time taken by the consultants to finalize the payment and bill of quantities issues.

Also, there is a risk that the resolution of inaccuracies in the bill of quantities could lead to a projected over-expenditure of the construction budget.

(4) The ECA Project Manager should, following consultations with the Office of Legal Affairs and the Office of Central Support Services, seek a resolution of disagreements between the consultants and contractors regarding the bill of quantities, and decide upon the entitlement, if any, of the contractor with regard to monies payable in respect of payment certificate 3.

ECA accepted recommendation 4 and stated that the contractor's payment certificate 3 was fully settled on 22 September 2011 in consultation with the Office of Legal Affairs and the Office of Central Support Services, Overseas Property Management Unit. ECA provided OIOS with a copy of the settlement notification. Based on the action taken by ECA, recommendation 4 has been closed.

(5) The ECA Project Manager and Budget Officer should keep the projected performance against budget under close review. Any likely over-expenditure should be brought to the attention of the Director of Administration and Overseas Property Management Unit for consultation with the Office of the Controller, and a decision as to the best course of action.

ECA accepted recommendation 5 and stated that project performance against budget is reviewed monthly. The additional quantities and new items of work shown on the design and not indicated in the initial bill of quantities have been incorporated in Amendment 3. This was brought to the attention of the Director of Administration and Overseas Property Management Unit in the weekly meetings noting that the additional amount is within the contingency allowance and thus will not result in an over expenditure. Based on the action taken by ECA, recommendation 5 has been closed.

Applications for payment have not been timely

17. The contract required that the contractor submits applications for payment at monthly periods and this is in line with normal industry practice. However, the intervals between applications for payments had been much longer. OIOS considers it important to submit monthly applications so that payments are kept up to date and the risk of inaccuracies and disputes is reduced.

(6) The ECA Project Manager in collaboration with the Procurement Section should enforce the contractual obligation to submit monthly invoices for stage payments and follow up vigorously and timely.

ECA accepted recommendation 6 and stated that the contractor will be required to submit interim monthly invoices in accordance with the provisions of the contract starting November 2011. Based on the action taken by ECA, recommendation 6 has been closed.

Costs can be reduced if security features are incorporated during construction

18. According to the Project Manager, the Security and Safety Service (SSS) at ECA had not been proactive in participating in activities related to the construction. At the time of the audit, an IT consultant from the Office of Information and Communications Technology, Infrastructure Management Services, New York was at ECA to carry out an assignment relating to Premises Access Control Team, Phase 2 (PACT2). He observed that the new office facilities design did not incorporate cameras and other security features that should have been integral to the design. The retrofitting of these security features would result in additional costs if action was not taken to incorporate them during construction.

(7) The ECA Chief, Security and Safety Service should be kept informed of future construction projects and advised to ensure that integral security features are included in the projects during the design stage.

ECA accepted recommendation 7 and stated that security standards at the time of the design of the new office facilities were less stringent than at present. SSS is now fully involved in the design and execution of internal and external security features of the building. For future projects, the Chief, FMS will ensure that integral security features are included in project design. Based on the action taken by ECA, recommendation 7 has been closed.

(8) The ECA Chief, Security and Safety Service should liaise with the Project Manager and the Chief, Information Technology Services Section and advise HQ Facilities Management Service that the incorporation of the Information and Communications Technology infrastructure to support the Premises Access Control Team and an updated door schedule to include door wiring during manufacture could result in significant cost savings.

ECA accepted recommendation 8 and stated that meetings were held in July 2011 between SSS (including HQ design experts), ITSS and the Project Manager to coordinate the door wiring and other safety equipment. The scope of works and costing has been prepared by the HQ security expert. The door wiring and installation of security features shall be implemented as part of the PACT 2 project. HQ FMS has been fully briefed of the potential savings. Based on the action taken by ECA, recommendation 8 has been closed.

A draft stacking plan needs to be presented to stakeholders

19. A draft stacking plan had been produced by the Chief, Facilities Management Section (FMS) which showed proposed locations of staff from occupying agencies. At the time of the audit, this had not been finalized and agreed by stakeholders. Experience elsewhere shows that this can be a contentious and time-consuming process. There is a need to make continuing progress to avoid disrupting the critical path for occupancy of the new facility by consulting with prospective occupiers to finalize this plan.

(9) The ECA Chief, Facilities Management Section should finalize the stacking plan through the Chair to the Compound Advisory Committee to avoid disrupting the critical path for occupancy of the new facility.

ECA accepted recommendation 9 and stated that the stacking diagram has been finalized and shall be presented to the Compound Advisory Committee for approval in November 2011. Based on the ECA response, recommendation 9 has been closed.

Savings may be achieved by jointly procuring furniture with prospective occupants

20. The new office facilities will be mostly open plan with internal partitions. The system furniture had not been included in the construction contract because United Nations agencies will fund their own furniture. It may be possible to obtain economies of scale through joint furniture specification and procurement.

(10) The ECA Director of Administration in her role of Chairperson, Compound Advisory Committee should pursue joint procurement with prospective occupants to furnish the new facility.

ECA accepted recommendation 10 and stated that initial consultations have been carried out with agencies anticipated to occupy the building; identification of the type of furniture has been finalized by FMS. Joint procurement will be done through the Working Group on Common Procurement. The case has yet to be presented to the UN Operations Management Team (OMT). Based on the action taken by ECA, recommendation 10 has been closed.

The need for an ECA capital master plan

21. An opportunity for using the new construction for swing space during the renovation of the old administration building had been lost as budgetary approval for that work had not been granted. Also, there were inter-dependencies between the construction of the new office facilities and a number of sub-projects. OIOS considers that property management of a large estate such as ECA could achieve efficiencies and cost savings if it prepares a capital master plan to give a costed projection of works, their inter-dependencies and opportunities.

(11) The ECA Chief, Facilities Management Section should prepare and maintain a capital master plan for ECA to give a costed projection of works, their inter-dependencies and opportunities at least two biennia into the future. This should be reviewed by the Executive Secretary, Director of Administration and Budget Officer to ensure that applications to secure necessary funding are supported well in advance and consider the relative cost benefit of options under consideration.

ECA accepted recommendation 11 and stated that FMS has already assessed the short and long term maintenance, renovation and alterations requirements for its facility and prepared a 20 year capital master plan related to civil, architectural and electromechanical installations. This plan was submitted to Overseas Property Management Unit. Based on the action taken by ECA, recommendation 11 has been closed.

ACKNOWLEDGEMENT

22. OIOS wishes to express its appreciation to the Management and staff of ECA for the assistance and cooperation extended to the auditors during this assignment.



Ms. Fatoumata Ndiaye, Director
Internal Audit Division, OIOS

STATUS OF AUDIT RECOMMENDATIONS

Audit of the construction of additional office facilities at the Economic Commission for Africa

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1.	The ECA Project Manager should examine options with the Chief, Human Resources Services Section and seek early appointment of staff to the vacancies in the project team.	Human Resources	Important	C		Implemented
2.	The ECA Project Manager should closely monitor progress against the construction schedule with the consultant and contractor. Potential delays should be taken up immediately with the contractor and brought to the attention of the Director of Administration and the Overseas Property Management Unit.	Operational	Important	C		Implemented
3.	The ECA Project Manager should instruct the contractor to bring discrepancies in the bill of quantities to his immediate attention so that prompt checks can be made by the Project Manager and consultant on behalf of ECA.	Operational	Important	C		Implemented
4.	The ECA Project Manager should, following consultations with the Office of Legal Affairs and the Office of Central Support Services, seek a resolution of disagreements between the consultants and contractors regarding the bill of quantities, and decide upon the entitlement, if any, of the contractor with regard to monies	Financial	Important	C		Implemented

Recom. no.	Recommendation	Risk category	Risk rating	C/O¹	Actions needed to close recommendation	Implementation date²
	payable in respect of payment certificate 3.					
5.	The ECA Project Manager and Budget Officer should keep the projected performance against budget under close review. Any likely over-expenditure should be brought to the attention of the Director of Administration and Overseas Property Management Unit for consultation with the Office of the Controller, and a decision as to the best course of action.	Financial	Important	C		Implemented
6.	The ECA Project Manager in collaboration with the Procurement Section should enforce the contractual obligation to submit monthly invoices for stage payments and follow up vigorously and timely.	Financial	Important	C		Implemented
7.	The ECA Chief, Security and Safety Service should be kept informed of future construction projects and advised to ensure that integral security features are included in the projects during the design stage.	Operational	Important	C		Implemented
8.	The ECA Chief, Security and Safety Service should liaise with the Project Manager and the Chief, Information Technology Services Section and advise HQ Facilities Management Service that the incorporation of the Information and Communications Technology infrastructure to support the Premises Access Control Team and an updated door schedule to include door wiring during manufacture could result in significant cost savings.	Financial	Important	C		Implemented
9.	The ECA Chief, Facilities Management Section should finalize the stacking plan	Operational	Important	C		Implemented

Recom. no.	Recommendation	Risk category	Risk rating	C/O¹	Actions needed to close recommendation	Implementation date²
	through the Chair to the Compound Advisory Committee to avoid disrupting the critical path for occupancy of the new facility.					
10.	The ECA Director of Administration in her role of Chairperson, Compound Advisory Committee should pursue joint procurement with prospective occupants to furnish the new facility.	Operational	Important	C		Implemented
11.	The ECA Chief, Facilities Management Section should prepare and maintain a capital master plan for ECA to give a costed projection of works, their interdependencies and opportunities at least two biennia into the future. This should be reviewed by the Executive Secretary, Director of Administration and Budget Officer to ensure that applications to secure necessary funding are supported well in advance and consider the relative cost benefit of options under consideration.	Strategy	Important	C		Implemented

1. C = closed, O = open

2. Date provided by ECA in response to recommendations.

APPENDIX I

MANAGEMENT RESPONSE

----- Forwarded by Sabina Sabados/NY/UNO on 12/01/2012 09:07 AM -----

From: Saviour Kuzhinapurathu/ECA@ECA
To: Sabina Sabados/NY/UNO@UNHQ
Cc: Warren Sach/NY/UNO@UNHQ, Doreen Bongoy-Mawalla/ECA@ECA, Bruno Henn/NY/UNO@UNHQ, Ousseini Ouedraogo/ECA@ECA, Jay Pozenel/NY/UNO@UNHQ, Amy Wong/NY/UNO@UNHQ, Felista Ondari/ECA@ECA, Garedew Asfaw/ECA@ECA
Date: 12/01/2012 09:01 AM
Subject: Fw: 11-00690 Audit of construction of additional office facilities at the Economic Commission for Africa

Dear Sabina,

Reference is made to the attached OIOS letter dated 15 November 2011. Please note that ECA has not additional comments. Regarding recommendation number #4, please see attached the copy of the settlement notification. Please update your records accordingly. Thanks.



Settlement Notification.pdf
