



INTERNAL AUDIT DIVISION

REPORT 2014/096

Audit of associated costs and secondary data centre expenditures financed from the budget of the capital master plan

Overall results relating to the accuracy and validity of associated costs and secondary data centre expenditures financed from the budget of the capital master plan were initially assessed satisfactory

FINAL OVERALL RATING: SATISFACTORY

29 September 2014

Assignment No. AC2013/514/02

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AUDIT REPORT

Audit of associated costs and secondary data centre expenditures financed from the budget of the capital master plan

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of associated costs and secondary data centre expenditures financed from the budget of the capital master plan.
2. 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.
3. Temporary increases in staffing and operational costs were required to support the construction activities of the capital master plan (CMP). Such costs were identified with regard to the Department for General Assembly and Conference Management (DGACM), the Department of Public Information (DPI), Office of Information and Communications Technology (OICT), Office of Central Support Services (OCSS), the Department of Safety and Security (DSS) and the Office of CMP. According to the Office of Programme Planning, Budget and Accounts, associated costs corresponded to the acquisition of goods or services, which were made necessary by the work of CMP, but were not directly attributable to Headquarters refurbishment operations.
4. The General Assembly, in its resolution 63/270, decided that the resources approved for associated costs would be financed from within the approved budget of CMP unless otherwise specified, and requested the Secretary-General to make every effort to absorb the associated costs. The update of the eleventh annual progress report on the implementation of CMP (A/68/352/Add.2) reported expenditure for associated costs at \$140.3 million and for the secondary data centre at \$15.0 million (net of the contribution from the support account of \$4.2 million), resulting in cumulative expenditure of \$155.3 million. Following the close-out of the financial accounting period ended 31 December 2013, the Secretariat cancelled some prior-period obligations for activities completed and contracts closed, bringing the associated costs and secondary data centre expenditures financed from the budget of CMP to \$154.8 million as shown in Table 1.

Table 1

Associated costs and secondary data centre expenditures from 2008 to 2013 financed from the budget of the capital master plan (in thousands of United States dollars)

Department/office	Amount
Associated costs	
DGACM	2,911.1
DPI	26,057.1
OCSS	28,225.4
Office of CMP	49,995.4
OICT	2,666.9
Construction (OICT/DSS)	6,193.6
DSS	26,808.6
Total	142,858.1
Less prior period obligations released	(3,097.8)
Net associated costs	139,760.3
Secondary data centre (net of the contribution from the support account)	15,040.4
Total associated costs and secondary data centre expenditures financed from the budget of CMP	154,800.7

Source: Supplementary information, Addendum 1, Programme Budget for the biennium 2014-2015

II. OBJECTIVE AND SCOPE

5. The audit was conducted to assess the adequacy and effectiveness of the Office of CMP governance, risk management and control processes in providing reasonable assurance regarding the **accuracy and validity of associated costs and secondary data centre expenditures financed from the budget of CMP.**

6. The audit was included in the internal audit work plan for 2013 because of the risk that associated costs and secondary data centre expenditures may not be accurate or may be used for purposes not approved by the General Assembly.

7. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as controls that provide reasonable assurance that policies and procedures: (i) exist to guide the utilization and administration of CMP funding for associated costs and secondary data centre expenditures; (ii) are implemented consistently; and (iii) ensure reliability and integrity of financial and operational information.

8. The key control was assessed for the control objectives shown in Table 2.

9. OIOS conducted this audit between 28 October 2013 and 19 May 2014. The audit covered the period 2008 to 2013 and the expenditure lines shown in Table 2.

Table 2

Associated and secondary data centre costs selected by OIOS for detailed review (in thousands of United States dollars)

Expenditure items	Responsible Department/Office	Amount
Permanent Broadcast Facility and Media Asset Management System	DPI, OCSS, CMP	45,189.3
Acquisition of furniture	Office of CMP	39,042.0
Secondary data centre (net of the contribution from the support account)	OICT	15,040.4
General temporary assistance, supplies and materials, contractual services and general operating expenses	DSS	26,808.6
Total		126,080.3

10. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls 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 determine their effectiveness.

III. AUDIT RESULTS

11. The Office of CMP governance, risk management and control processes examined were **satisfactory**¹ in providing reasonable assurance regarding the **accuracy and validity of associated costs and secondary data centre expenditures financed from the budget of CMP.**

12. The Steering Committee established to coordinate associated costs across departments ensured adequate governance. The Office of CMP established additional controls to manage resources, since the associated costs were administered by various departments, but financed from the approved budget of CMP. All expenditures reviewed by OIOS were supported by invoices, and reviewed and approved by appropriate officials.

13. The initial overall rating was based on the assessment of the key control presented in Table 3 below. The final overall rating is **satisfactory.**

¹ A rating of “**satisfactory**” means that governance, risk management, and control processes are adequately designed and operating effectively to provide reasonable assurance regarding the achievement of control and/or business objectives under review.

Table 3:
Assessment of key control

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Accuracy and validity of associated costs and secondary data centre expenditures financed from the budget of CMP	Regulatory framework	Satisfactory	Satisfactory	Satisfactory	Satisfactory
FINAL OVERALL RATING: SATISFACTORY					

Regulatory framework

Coordination mechanism for associated costs was effective

14. Pursuant to General Assembly resolution 64/228, the Under-Secretary-General for Management established the Steering Committee on Associated Costs in January 2010 to formalize the coordination of associated costs activities across departments involved with the CMP project. The Committee was chaired by the Under-Secretary-General for Management, with members composed of senior representatives of DGACM, DPI, OCSS, OICT and DSS. Representatives from the Office of CMP and the Office of Programme Planning, Budget and Accounts also took part in the Steering Committee on an ex-officio basis to provide assistance. The terms of reference of the Committee outlined the functions and working procedures and methods of the Committee.

15. OIOS reviewed the minutes of Steering Committee meetings, agendas and presentations and concluded that the Steering Committee activities were in accordance with the terms of reference.

The Office of the Capital Master Plan established additional controls to ensure effective management of project resources

16. The Finance and Administration Manual required regular monitoring of expenditures to allow for effective management of resources.

17. The Office of CMP faced uncertainties over financing of associated costs that were not within the direct responsibility of CMP and were not included in the original budget approved by the General Assembly. The eleventh annual progress report on the implementation of CMP stated that “a decision on the financing of cumulative associated costs and the cost of the secondary data centre was required at the first resumed session of the General Assembly in 2014; otherwise the project would not be able to proceed to completion in 2014.” The General Assembly, in its resolution 68/247B authorized the Secretary-General, on an exceptional basis, to make use of the Working Capital Fund and the Special Account, as a bridging mechanism to address possible cash flow challenges of the project until its completion. The Office of CMP established additional controls by consolidating departmental expenditures for associated costs on a weekly basis to monitor its cash flow. Some of the associated costs that were initially managed by departments, such as those relating to the Permanent Broadcast Facility, Media Asset Management System and furniture were brought under CMP management to ensure better integration with other subprojects. OIOS concluded that management of project resources was adequate.

Costs on the Permanent Broadcast Facility and Media Asset Management System were well controlled

18. The project manual of the Office of CMP outlined the procedures for processing invoices and managing change orders.

19. At the time of the audit, there were \$42.3 million in expenditures and prior period obligations totaling \$2.9 million related to the Permanent Broadcast Facility and Media Asset Management System. The audit reviewed invoices valued at \$22.7 million or 53 per cent of the expenditures. The audit concluded that the reviewed invoices were correct, subjected to detailed review before payment, and approved by the authorized officials.

20. At the time of audit, 33 cumulative change orders with a net value of \$4,473,781 were issued by the construction manager for the Media Asset Management System and the Permanent Broadcast Facility. OIOS reviewed a sample of these change orders with a net value of \$2,334,256 to verify proper review and approval by the Office of CMP. OIOS concluded that the change orders were properly processed, subjected to detailed review and approved by the authorized officials as required by the guidelines.

Control and coordination of acquisition of furniture was adequate

21. The Procurement Manual required contracts to be managed effectively to ensure best value for money was achieved through the acquisition process.

22. The United Nations signed a furniture contract for the supply and installation of systems furniture and files on 5 December 2011. The original value of the contract was not to exceed \$15,358,470. Prices of goods were as set in the furniture provider's financial proposal dated 14 March 2011 adjusted for a revised discount of up to 74 per cent off the catalogue list prices. Subsequently, eight amendments were issued under the delegation of procurement authority to the Director of Procurement Division to cater for unforeseen field conditions, training and changes necessitated by super storm Sandy, which resulted in a revised contract sum not to exceed \$20,178,794. In addition, there were four other furniture supplier sub-contractors, who supplied loose furniture (including stand-alone tables, desks and conference furniture) that was funded from associated costs resulting in total expenditure of \$39 million.

23. A furniture management company was selected to coordinate scheduling and logistical matters between users, the Office of CMP, the construction manager and the consultant programme manager. It was also responsible for ensuring that furniture delivered was of the right type, quality and quantity.

24. OIOS reviewed four invoices amounting to \$10,753,703 or 54 per cent of total expenditures for furniture contract to ensure that the application for payment was based on agreed percentages of completion, was reviewed by authorized parties, and that prices agreed to what was quoted in the catalogue after discount. OIOS concluded that there were adequate controls over the acquisition of furniture.

Associated costs incurred by Department of Safety and Security were adequately supported and approved

25. In accordance with United Nations Financial Regulations, all payments were to be made on the basis of supporting vouchers and other documents, which would ensure that the services or goods had been received. The regulations also required payments to be made for the purpose for which appropriations had been voted.

26. DSS associated costs were as follows:

Table 4

Associated costs incurred by DSS for 2008-2013 (in thousands of United States dollars)

Expenditures	Amount
General Temporary Assistance	24,092.6
Contractual services	517.2
General operating expenses	590.8
Supplies and materials	1,608.0
Total	26,808.6

27. Increased staffing levels at DSS were financed from associated costs to provide safety and security around the United Nations complex during the construction and at additional swing spaces, and to screen contractors and deliveries. OIOS reviewed the additional staff costs and found them to be reasonable.

28. OIOS reviewed whether the training expenditures charged from associated costs were for staff whose posts were financed by associated costs and noted that 48 DSS staff members that were not part of the associated costs staffing table incurred travel and training expenditures in the amount of \$166,458. DSS explained that officers whose posts were financed by the regular budget also covered CMP related activities on rotation and were therefore entitled to undergo training. OIOS reviewed the supporting documentation and training brochures and concluded that the training was for CMP related activities.

29. The audit reviewed \$663,928 or 41 per cent of total supplies and materials purchased by DSS. OIOS concluded that the expenditure items were supported by proper documentation, were certified by authorized officials and the nature of expenditures was appropriate in the context of support for CMP.

Expenditures related to the secondary data centre were accurate and primarily spent for purposes approved by the General Assembly

30. The audit reviewed \$10 million or 67 per cent out of \$15 million of expenditures related to the secondary data centre and financed from the CMP budget. The audit concluded that reviewed expenditures were accurate and were spent for purposes approved by the General Assembly except for equipment worth \$182,944 that was delivered to United Nations Logistics Base Brindisi, Italy. OIOS concluded that the purchase of equipment for Brindisi was related to larger security, disaster recovery and business continuity efforts and therefore should not have been absorbed by the approved budget of CMP. However, the Department of Management explained that the purchase of equipment for Brindisi was a risk-mitigating decision taken by the senior executive level of OICT, at the time, to safeguard the continued operations of the secondary data centre. The Department also indicated that the transaction in the amount of \$182,944, in 2011, would be disclosed to the General Assembly in the addendum to the next progress report on Associated Costs and the Secondary Data Centre. In view of the explanation given, no recommendation was issued.

IV. ACKNOWLEDGEMENT

31. OIOS wishes to express its appreciation to the Management and staff of Office of CMP, OCSS, OICT and DSS, for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

APPENDIX I

Management Response



TO **Ms. Muriette Lawrence-Hume**
A: New York Audit Service, Internal Audit Division
Office of Internal Oversight Services

DATE: 16 September 2014

THROUGH: *Christian Saunders*, Director
S/C DE: *Christian Saunders*, Office of the Under-Secretary-General for Management

FROM: *Mario Baez*, Chief
DE: Policy and Oversight Coordination Service
Office of the Under-Secretary-General for Management

SUBJECT: **Draft report on an audit of associated costs and secondary data centre expenditures
financed from the budget of the capital master plan (Assignment No.
AC2013/514/02)**

1. The Department of Management (DM) is pleased to note that OIOS has taken into account all of its previous comments and that the draft report has an overall rating of satisfactory with no recommendations. DM has no further comments.
2. Thank you for giving us the opportunity to provide comments to the draft audit report.

14-02316
17 Sept 2014