Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/079

Audit of the management of the construction of the new office facilities at the Economic Commission for Africa

Overall results relating to the management of the construction of the new office facilities at the Economic Commission for Africa were initially assessed as unsatisfactory. Implementation of one critical recommendation remains in progress.

FINAL OVERALL RATING: UNSATISFACTORY

27 September 2013
Assignment No. AC2012/710/01

CONTENTS

AUDIT REPORT

Audit of the management of the construction of new office facilities at the Economic Commission for Africa

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the construction of the new office facilities (NOF) at the Economic Commission for Africa (ECA).

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. The new office facilities at ECA were under construction during the audit. OIOS previously audited the project in 2009 and 2011.

4. The construction contract was signed in April 2010 for $7.45 million. Since then, seven amendments have been made and the contract value stood at $9.12 million as at 28 February 2013. ECA also signed a $1.43 million contract in 2008 with a supervision consultant to support the construction, administration, supervision, testing and commissioning phases of the New Office Facilities (NOF) project. Five amendments have been made to the consultancy contract and the amended contract value was $2.62 million at the end of February 2013.

5. The original project completion date was February 2012. The contractor was given two time extensions, initially to August 2012 and subsequently to December 2012. The revised project completion date is December 2013.

6. As of February 2013, the percentage of work completed (in terms of percentage of money spent) was 54.36 per cent while 105.9 per cent of the project time had elapsed.

7. Comments provided by ECA and the Headquarters' Office of Central Support Services (OCSS) is incorporated in *italics*.

II. OBJECTIVE AND SCOPE

8. The audit was conducted to assess the adequacy and effectiveness of ECA's governance, risk management and control processes in providing reasonable assurance regarding the effective management of the construction of the new office facilities at ECA.

9. This audit was included in the 2012 OIOS risk-based work plan because of the high value of construction costs and the elevated risk of cost overruns and delays in the completion of the project.

10. The key control tested for the audit was project management. For the purpose of this audit, OIOS defined this key control as follows:

Project management - controls that provide reasonable assurance that there is sufficient project management capacity to achieve mandates, including sufficient financial resources, sufficient and competent human resources, and appropriate project management tools

11. The key control was assessed for the control objectives shown in Table 1. One control objective (shown in Table 1 as "Not assessed") was not relevant to the scope defined for this audit.

12. OIOS conducted the audit fieldwork at ECA from June to July 2012 and covered the period from November 2011 to June 2012. OIOS reviewed the project progress report in March 2013.

13. OIOS conducted an activity-level risk assessment to identify and assess 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.

III. AUDIT RESULTS

14. ECA's governance, risk management and control processes examined were assessed as **unsatisfactory** in providing reasonable assurance regarding **the effective management of the construction of the new office facilities at ECA**. OIOS made three recommendations to address issues identified in the audit. The construction of the new office facilities was considerably delayed and would result in additional costs for the UN. The delays were caused by the poor performance of the contractor. The monthly work plans that were developed, based on the master schedule, were not achieved and the coordination of the construction activities by the contractor continued to be unsatisfactory. ECA and OCSS took steps to mitigate the inefficiencies of the contractor such as entering into an arrangement whereby the United Nations (UN) advanced to the contractor 90 per cent of material costs upon receipt of original shipping documents, and confirming the quantities and specifications of materials being shipped. ECA and OCSS also increased their oversight of project controls to supplement the deficiencies of the consultant.

15. The initial overall rating was based on the assessment of the key control presented in Table 1 below. The final overall rating is **unsatisfactory** as implementation of one critical recommendation remains in progress.

Table 1: 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
Effective management of the construction of the new office facilities at ECA	Project management	Unsatisfactory	Not assessed	Unsatisfactory	Satisfactory
FINAL OVERALL RATING: UNSATISFACTORY					

A. Project management

Risk of further delay in completion of the project

16. The target completion date of December 2012 was established after a new NOF Project Manager joined the project team in February 2012 and the project schedule was re-assessed. The revised schedule was based on assumptions regarding the timely submittal of materials requirements and opening of Letters of Credit (LCs) by the contractor and subsequent material delivery. However, despite the constant monitoring of material submittals by both ECA and United Nations Headquarters (UNHQ), the contractor was not able to fulfill its commitments. The contractor lagged behind in achieving target dates. While all submittals should have been received by June 2012, only 24 per cent of submittals were approved by 23 July 2012 and 37 per cent were approved with comments as shown in Table 2 below.

Table 2: Status of material submittals as at 23 July 2012

Status	Number of submittals	Percentage
Under Review	2	1
Approved	59	24
Approved with comments	89	37
Disapproved	62	26
Total submitted	212	88
Not submitted	28	12
Total submittals required	240	100

17. ECA maintained a risk register, which was included in the monthly project progress report. Risks of project delays were identified by various causes, specifically (a) late shipment; (b) late delivery of finishing material; (c) erroneous specifications; and (d) untimely delivery of utility supplies. Specific mitigating strategies were identified for each risk. For example, the mitigating strategy for delays related to wrong specifications was a requirement for the supervision consultant to review LC documents and confirm that all quantities ordered matched the signed tripartite bills of quantities or the latest change orders.

18. Although the construction project was based on a lump-sum contract, delay in its completion had cost implications for the UN including project management expenditures as well as rentals paid by the agencies for the premises that they occupied during the extended period of construction. According to an internal assessment by ECA, the estimated monthly cost of the delay of the project was approximately $171,482.

19. Considering that the project was not completed by December 2012, ECA had the option of either granting a further time extension or imposing the liquidated damages clause of the contract.

(1) ECA should evaluate the poor performance of the contractor and take action, including imposing the liquidated damages contract clause, if appropriate.

ECA accepted recommendation 1 and stated that ECA, in consultation with OLA is looking at various options that can be used to recover costs related to the project delay. Recommendation 1 remains open pending receipt of evidence of implementation of advice from OLA.

The Economic Commission for Africa entered into an arrangement with a commercial bank to facilitate the payment process for the importation of materials

20. During a visit of the Assistant Secretary-General, Office of Central Support Services (ASG OCSS) to ECA, several options for mitigating the risk of further slippage in the completion date of the project were discussed. Upon the request of the contractor to simplify transaction and payments procedures for the importation of construction material, it was decided to explore the possibility of the contractor invoicing the UN upon receipt of shipping documents rather than upon the final receipt of goods.

21. In April 2012, the ECA facilitated the acquisition of foreign currency and the opening of letters of credit (LCs) at concessional terms with a commercial bank to simplify transaction procedures of the contractor. The contractor was required to open LCs with the bank by making a 10 per cent down payment to open LCs and acquire the required foreign currency to settle suppliers' invoices; the remaining 90 per cent was settled by the ECA with the bank after ECA verified the shipping documents that were submitted by the contractor. ECA then deducted from its construction stage payments the amounts owed by the contractor. In order to mitigate ECA's exposure to financial risk in the event of inaccurate quantities or delivery of poor quality materials, an amendment to the modality of payments was introduced in the contractor's contract.

22. The NOF Project Manager visited supplier premises to ensure that the suppliers had quality assurance imbedded in their manufacturing and testing processes to ascertain that the UN would receive products that matched the project requirements. This was intended to mitigate the risk of further delay in the receipt of materials and, correspondingly, the completion of the project. Similar inspections needed to be undertaken for other critical path items. As management had already initiated appropriate action, OIOS did not make a recommendation.

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Non-inclusion of the new office facility in Premises Access Control II

23. The access controls to the new office facilities were not funded by the Premises Access Control II (PACT II) security programme, which sought to achieve compliance with access control requirements through protection beyond the perimeter layer. While the rest of the buildings in the ECA compound were covered by PACT II, the new facility was not planned to be PACT II compliant. OIOS raised this issue with the Department of Safety and Security (DSS), which indicated that it did not have funds available to assist with PACT II implementation in the new office facilities. Nevertheless, the NOF project team and Information Technology Services Section incorporated in the design of the new facilities the infrastructure needed to make the building "PACT II ready". OIOS concluded, at the time of audit, that there would be disruption and additional costs to retro-fit the completed facilities with the full scope of PACT II.

(2) ECA should ensure that an acceptable and economical PACT II specification is agreed with DSS, and that PACT II requirements are incorporated in the new office facilities' master schedule.

ECA accepted recommendation 2 and stated that ECA has funded the implementation through internal savings and avoided retro-fitting and post-implementation disruptions by taking timely action. It was confirmed by the Overseas Property Management Unit of UNHQ that ECA has undertaken value engineering exercise to make the specifications more economic. Recommendation 2 is closed based on the action taken by ECA.

Estimated cost of ancillary projects exceeded funding

24. When the new office facilities construction project was approved, the General Assembly (GA) also approved implementation of ancillary projects such as site works, internal access road, generator house and parking and landscaping at a global cost of $2.3 million. However, the projected costs of the individual components of the ancillary projects were not specified by ECA at the time of its request for funding. For instance, the GA approved $1.15 million for site works, but the subsequent ECA estimate for site works amounted to $2.4 million. The total estimate to implement the ancillary projects was $3.3 million at the time of the audit, with ECA facing an overall resource gap of $1.0 million. Table 3 shows that the approved funding was less than the requirements for the ancillary projects.

Table 3: Ancillary projects – projected cost of ECA requirements and availability of GA approved funds as of June 2012

(In $)

Serial No.	Project	Stated requirement	GA approved amount	Shortfall
1.	Site works including pump house, transformer room, electrical and sanitary installation, car ramp, fire escape, etc	2,408,643	1,153,300	1,255,343
2.	Internal access road	233,742	130,000	103,742
3.	Parking and landscaping	193,657	660,000	(466,343)
4.	Generator and generator house	436,614	300,000	136,614
Total		**3,272,656**	**2,243,300**	**1,029,356**

25. OIOS was advised by the ASG OCSS that the General Assembly would not be requested to make more funds available for the ancillary projects.

(3) ECA should re-examine the scope of the ancillary projects and consider areas where economies can be made to match the available resources.

ECA accepted recommendation 3 and stated ECA has carried out value engineering exercise and revised related contracts accordingly. Recommendation 3 is closed based on the action taken by ECA.

The final stacking plan generally complied with United Nations space standards guidelines

26. The stacking plan had earmarked space allocations for World Health Organization (WHO), United Nations Children's Fund (UNICEF), United Nations High Commissioner for Refugees (UNHCR), United Nations Office for Project Services (UNOPS), and the United Nations Office to the African Union (UNOAU). UNICEF was expected to occupy approximately 40 percent of the space and UNOAU and WHO were expected to each occupy 25 percent. UNOPS and UNHCR were expected to each occupy five percent of the space.

27. The UN space standard guidelines were approved by the Secretary-General in 2004 and elaborated further in the office space planning guidelines prepared by the Capital Master Plan in 2008.

According to the guidelines, only USGs, ASGs and Directors were entitled to closed office spaces with other professional and general services staff occupying open spaces, with enhanced areas for collaborative work and meetings. The new guidelines supported enhanced use of daylight and more efficient use of energy and space.

28. ECA complied with the UN space standard guidelines in completing the stacking plan except for the provision of additional shared space (such as small and medium meeting rooms, focus booths, etc) since the building was designed in 2000 prior to the approval of the standard guidelines.

IV. ACKNOWLEDGEMENT

29. 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.

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

ANNEX I

STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of the construction of new office facilities at the Economic Commission for Africa

Recom. no.	Recommendation	Critical[1]/ Important[2]	C/ O[3]	Actions needed to close recommendation	Implementation date[4]
1.	ECA should evaluate the poor performance of the contractor and take action, including imposing the liquidated damages contract clause, if appropriate.	Critical	O	Submission of evidence on implementation of advice from OLA.	31 December 2014
2.	ECA should ensure that an acceptable and economical PACT II specification is agreed with DSS, and that PACT II requirements are incorporated in the new office facilities' master schedule to address significant risks.	Important	C	Implemented.	
3.	ECA should re-examine the scope of the ancillary projects and consider areas where economies can be made to match the available resources.	Critical	C	Implemented.	

[1] Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.
[2] Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.
[3] C = closed, O = open
[4] Date provided by ECA in response to recommendations.

APPENDIX I

Management Response

ECONOMIC COMMISSION FOR AFRICA
COMMISSION ECONOMIQUE POUR L'AFRIQUE

INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

To: Ms. Carmen Vierula, Chief, New York Audit Service
A: Internal Audit Division, OIOS

Date: 29 May 2013

From: Hazel Scott, Director
De: Division of Administration

Ref.: DoA/13/05/0172

Subject: **Re: Report 2013/xxx on an audit of the management of the construction of the new office**
Objet: **facilities at the Economic Commission for Africa (Assignment No.AC2012/710/01)**

1. I refer to your Interoffice Memorandum (ref. IAD: 13-00298) of 14 May 2013 with subject "Report 2013/xxx on an audit of the management of the construction of the new office facilities at the Economic Commission for Africa (Assignment No. AC2012/710/01).

2. Following your request ECA has reviewed the draft report of the above mentioned audit. Our comments/progress updates on recommendations are indicated in the Annex I (enclosed). We have also indicated in a separate attachment (please refer to the Annex II enclosed), certain parts of the report that require correction.

3. We refer to paragraph 11 which states that the period covered by this audit is from November 2011 to June 2012. However we observe tht the comments reflected in the r eort covered action through to May 2013. In addition, the same sentence also indicates that audit was conducted in June-July 2012 and March 2013. I would like to clarify that ECA has shared construction progress report with auditor as requested by e-mail but auditor has not visited ECA premises where construction is taking place in March 2013.

4. Paragraph 13 states that "In OIOS' opinion, the ECA governance, risk management, and control processes examined were unsatisfactory in providing reasonable assurance regarding the effective management of the construction of the new office facilities at ECA".

5. While we agree that the previous NOF Project Manager (whose contract was terminated in February 2012) proved to be somewhat ineffective, the Division of Administration has been monitoring the process throughout the covered period (as recorded in the minutes of the weekly meeting followed by an actionable items matrix with involvement of the relevant sections and the independent technical advisor) and proposed a number of strategies which were subsequently implemented to mitigate risks and ensure progress.

6. Monthly meetings at the senior management level between ECA and contractor to address pressing or outstanding as well as future issues became initially bi-weekly and, later, weekly (as it stands today).

7. Circumstances, leading to contractor's shortfall during the audited period, were indicated in the SGs report to the 67th session of the General Assembly and resulted in greater interest and involvement in the project by the Host Government.

8. In view of the above, I would like ask you to reconsider Paragraph 13.

cc: Mr. Carlos Lopes, Executive Secretary, ECA
Mr. Jack Howard, Chief, Overseas Property Management Unit, UNHQ
Mr. Frank Malle, Project Manager, New Office Facilities, ECA
Ms. Anne Marie Pinou, Special Assistant to the USG for Safety and Security
Ms. Anna Halasan, Professional Practices Section, Internal Audit Division, OIOS

ANNEX I

MANAGEMENT RESPONSE

Audit of the management of the construction of the new office facilities at the Economic Commission for Africa

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1.	ECA should evaluate the poor performance of the contractor and take action, including imposing the liquidated damages contract clause, if appropriate.	Critical	Yes	Project Manager NOF	Estimated 31 December 2014	1.1 Having noticed persistent slippage from the contractor in achieving the project completion dates, ECA in close coordination with OCSS sought legal advice from OLA in applying available options that can be used to recover costs related to the project delays, including the liquidated damage (LD) clause. 1.2 OLA proposed four (4) options for consideration of which ECA considers two (2) as feasible. ECA continues communication with OLA to find the optimal solution for the organization. ECA will inform OIOS accordingly when the appropriate solution has been agreed.
2.	ECA should ensure that an acceptable and economical PACT II specification is agreed with DSS, and that PACT II requirements are incorporated in the new office facilities' master schedule to address significant risks.	Important	Yes	Deputy Chief SSS	Implemented	2.1 . On an exigency basis pending comprehensive discussions with DSS and given the timeline for the new office facility project, ECA proceeded to fund the implementation through internal savings. The driving force for the decision, in the absence of DSS funding, was the need to provide minimum security and safety for staff in a brand new building as well as to

[1] Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.
[2] Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

MANAGEMENT RESPONSE

Audit of the management of the construction of the new office facilities at the Economic Commission for Africa

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						avoid the disruptions and additional costs to retro-fit the facilities once completed. 2.1 Pre-wiring works of the building to accommodate PACT II related installations are on-going. Access doors with the required magnetic lock mechanisms have been fabricated. Building will only require installation of cameras and access control mechanisms/readers to be fully PACT II compliant. This will be done with minor disruption at a later stage.
3.	ECA should re-examine the scope of the ancillary projects and consider areas where economies can be made to match the available resources.	Critical	Yes	Project Manager NOF	Implemented	3.1 ECA has critically reviewed all 15 components of the ancillary projects, deferred those components that are not critical to the functionality and move-in to NOF. ECA further carried out value engineering to the components planned for implementation, and managed to contain the project within budget. 3.2 The contract is now in the final stage (signing and eventual site hand over to the successful contractors).
4.	ECA should ensure that the stacking plan conforms to the UN space planning guidelines.	Important	No			4.1 ECA, in close coordination with OCSS, took all necessary efforts to ensure that NOF stacking plan follows UN space plan guide-lines 4.2 The comparison on the utilization of the NOF office space per floor provided in the report (

MANAGEMENT RESPONSE

Audit of the management of the construction of the new office facilities at the Economic Commission for Africa

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						items # 30-32) is inaccurate as it did not consider the fact that the gross floor area available on seven floors of NOF are not the same due to the building design. For instance, the comparison addressed in item # 32 did not take into account that 132 sq.mts of the terrace on the sixth floor, reduces the gross office space correspondingly. 4.3 Furthermore, the number of staff accommodated on each floor depends on the seniority. The comparisons made in item # 32 did not account for the fact that UNOAU requires office space for the USG and three directors, while WHO who are on the second (slightly bigger) floor requires only two offices for Directors. The requirements for the closed office space on NOF are specific for the functionality of the tenants envisaged to occupy NOF, particularly since most of them have field offices, and therefore require closed spaces for keeping their mobile equipment, to facilitate their radio communication, and meetings with their key partners. 4.4 It's worth noting that we were

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MANAGEMENT RESPONSE

Audit of the management of the construction of the new office facilities at the Economic Commission for Africa

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						unable to provide the additional shared space as required by the CMP in 2009, such as small and medium meeting rooms, touch downs, focus booths etc since the building was designed in 2000 and we were mandated by the General Assembly to accommodate 645 staff members.

Annex II

Table of issues for correction as per draft audit report

Location	Issue noted	Remark
Paragraph 4	Date indicated as "…27 May **2014**…"	Should be "…30 June **2013**…"
Paragraph 10	Sentence two states "**Three** control objectives (shown in Table 1 as "Not Assessed)…"	Table 1 contains four objectives of which **two** are shown as "Not Assessed"
Paragraph 11	States "OIOS conducted the audit…..and in March 2013…"	Auditor did not visit project or ECA premises in March 2013- it was restricted to a request for project progress report via e-mail
Paragraph 13	"…ECA's governance, risk management and control process examined were **unsatisfactory**…"	Revision needed (please refer to the memo and paragraphs 15, 18, 23, 24 of report)
Paragraph 14	Table 1 states "Safeguarding of assets-Unsatisfactory"	NOF construction site is protected by well built perimeter wall with most of the supplies, construction materials, equipment stored in the bonded warehouse. ECA inventory clerks participate in opening, closing, issuance, verification and counting processes. Security at the gate requires written and itemized ECA authorization for any item to leave the construction site.
Paragraph 17	Last sentence states "…only 25 per cent of submittals were approved…"	Actually, 53 per cent was approved via official letter from ECA. Some (28%) contained comments/proposals on better application (or similar) methods