

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/073

Audit of maintenance and building services provided by the Office of Central Support Services at Headquarters

Overall results relating to the Office of Central Support Services' governance, risk management and control processes in providing reasonable assurance regarding the efficient and effective management of the maintenance and building services were partially satisfactory. Implementation of seven important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

18 September 2013

Assignment No. AH2013/513/02

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AUDIT REPORT

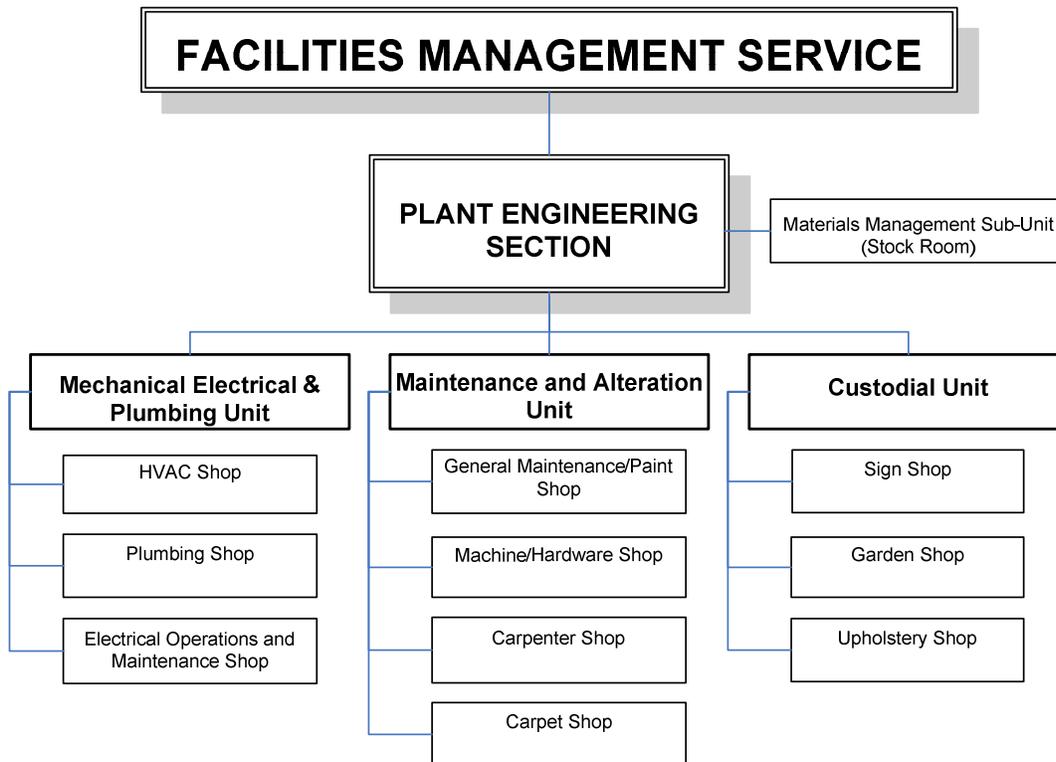
Audit of maintenance and building services provided by the Office of Central Support Services at Headquarters

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of maintenance and building services provided by the Office of Central Support Services (OCSS) at Headquarters.
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 Plant Engineering Section (PES) of the Facilities and Management Service (FMS) in OCSS is responsible for providing maintenance and building services for the Secretariat buildings and other United Nations leased buildings in New York. PES had a total of 83 posts; it was headed by a Section Chief supported by two Professional, five General Service and 75 Trades & Crafts staff members. PES had three units, 10 shops and one sub unit as shown below.

Chart 1

Organization structure of PES



Source: PES

4. PES used in-house staff as well as services from contractors to carry out its operations. As at 31 December 2012, there were 28 contracts with not-to-exceed (NTE) amounts totalling approximately \$100 million for the provision of various services. PES also used Blanket Purchase Orders (BPO) to procure small value items for maintenance on an as needed basis. Total expenditures incurred on contracts and BPOs during period 2010-2012 were as follows:

Table 1: Total expenditures on contracts and Blanket Purchase Orders during 2010-2012
(United States dollars)

	2010	2011	2012	Total
Contracts	14 310 112	13 932 261	14 338 152	42 580 525
Blanket Purchase Orders	295 221	446 994	466 135	1 208 350
Total	14 605 333	14 379 255	14 804 287	43 788 875

Source: PES

5. Comments provided by Department of Management (DM) are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of the OCSS governance, risk management and control processes in providing reasonable assurance regarding the **efficient and effective management of maintenance and building services provided at Headquarters**.

7. The audit was included in the 2013 OIOS risk-based work plan due to the risk that failure to adequately maintain United Nations' facilities may lead to an unproductive and unhealthy work environment for occupants.

8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as the one that provides reasonable assurance that policies and procedures: (i) exist to guide the management of maintenance and building services; (ii) are implemented consistently; and (iii) ensure financial and operational information is reliable and produced with integrity.

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

10. OIOS conducted the audit from February to May 2013. The audit covered the period from January 2010 to December 2012 and assessed the controls in place to plan and provide maintenance and building services including the management of contracts, work orders, BPOs and the stock room.

11. 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. The cleaning and electrical maintenance contracts, with NTE amounts of \$48 million and \$35 million respectively, were selected for detailed review. A sample of purchase orders raised against BPOs was examined from initiation to receipt and payment. The process of capturing data relating to work orders in the Customer Relationship Management application (called iNeed) and the periodical reports generated by FMS Help Desk were reviewed to assess the work order management process.

III. AUDIT RESULTS

12. OCSS governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding **efficient and effective management of maintenance and building services provided at Headquarters**. OIOS made seven recommendations in the report to address issues identified in the audit. Overall, controls were adequately designed and implemented to ensure effective monitoring of contract periods and NTE amounts and processing of related invoices. Regular reports on the status of work orders were prepared and completion rates monitored against standard turnaround times established for various services. FMS also prepared a Building Manual, which provided guidance on the management of the buildings operations and maintenance. However, performance evaluation of the contracts was not done on an annual basis and minutes of meetings with contractors were not documented. PES also did not maintain adequate stock records to control physical inventories of items. Furthermore, the receiving and inspection procedures for stock items purchased through BPOs were not followed resulting in inadequate segregation of duties and weaknesses over safeguarding of assets.

13. The overall rating is based on the assessment of the key control presented in Table 2 below:

Table 2: Assessment of key controls

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Efficient and effective management of maintenance and building services at Headquarters	Regulatory framework	Partially Satisfactory	Partially Satisfactory	Partially Satisfactory	Partially Satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

Control activities support contract management, but performance evaluation was not done annually

14. OIOS reviewed two of the highest valued contracts managed by PES, the Electrical Preventive Maintenance and Installation Contract - PD/CO114/05 (electrical contract) and Custodial Cleaning and Maintenance Contract - PD/CO227/10 (cleaning contract). PES implemented adequate control activities to monitor the contract period and NTE amounts, and to process payment of the invoices for both contracts. PES used the services of an independent consultant to conduct quarterly inspections of the cleaning contractor’s performance at the United Nations campus at Headquarters. OIOS considered this to be an efficient approach for supporting a clean and healthy environment of the United Nations buildings.

15. The Procurement Manual required the requisitioner to monitor and evaluate annually vendors’ performance against agreed performance measurement criteria. However, PES did not conduct any performance evaluations of contracts examined by OIOS, in 2011 and 2012. Furthermore, while the cleaning contract included key performance indicators (KPIs), the electrical contract established in 2005

did not; rather it stated the basis on which the contractor would be evaluated without specifying the measurement criteria or expected targets. Without regular performance evaluations and specific KPIs, there was the risk that issues affecting service delivery would not be detected and addressed on a timely basis.

(1) OCSS should specify performance evaluation criteria in all contracts and evaluate the performance of the contractors supplying maintenance and building services to the Facilities Management Service annually.

DM accepted recommendation 1 and stated that the recommendation was based on two contracts that were reviewed by OIOS, one of which was of significant age. The establishment of performance evaluation criteria is a common practice in establishing contracts now. The annual review will be conducted as recommended. Recommendation 1 remains open pending submission of the reports on the evaluation of the performance of the electrical and cleaning contractors conducted as required by the Procurement Manual.

Minutes of meetings with contractors were not documented

16. Both contracts examined by OIOS required that meetings be held with the contractors during the contract period; however, there were no records of the meetings. PES explained that while meetings were held periodically, there were no formal minutes prepared to evidence discussion points or meeting dates. PES was unable to confirm the frequency of the meetings held and issues discussed. Consequently, there was no record of actions agreed to be taken by the respective parties and their target dates to facilitate follow-up and for future reference.

(2) OCSS should document the minutes of meetings held between the Facilities Management Service and its contractors to record the issues discussed and actions agreed.

DM accepted recommendation 2 and stated that meetings will be recorded as recommended. Recommendation 2 remains open pending submission of the minutes of meetings held with the electrical and cleaning contractors.

Activities related to Blanket Purchase Orders needed to be reviewed

17. PES used BPOs to procure low value (\$4,000 or less) recurring items. Each year PES submitted requisitions for BPOs to the Procurement Division (PD) usually in January. The approval process took approximately two months resulting in difficulties for PES in procuring items required during the first quarter of the year. PES explained that by the end of March 2013 they were still awaiting approval for 16 of the 22 BPOs requested for 2013. There was the risk that delays in processing BPOs could hold up fulfilling service requests. PES explained that they had raised with PD the option of submitting BPO requests to PD in the last quarter of the year to enable timely procurement in the coming year, but were informed that it was not feasible at that time. PES agreed to pursue this matter again with PD.

18. Items procured using BPOs were not inspected by the Receiving and Inspection Unit and recorded by Property Management and Inventory Control Unit (PMICU), where applicable, as required by the Procurement Manual. The receipt and inspection function was performed by PES and only for payment purposes. There was therefore inadequate segregation of duties between the requisitioning and the receipt functions.

(3) OCSS should review the timing of the submission of requests for Blanket Purchase Orders by the Facilities Management Service to the Procurement Division to ensure they can be processed and approved in a timely manner.

(4) OCSS should ensure that all items purchased by the Facilities Management Service using Blanket Purchase Orders are inspected by the Receiving and Inspection Unit and, where applicable, are bar coded and recorded by the Property Management and Inventory Control Unit in accordance with existing procedures.

DM accepted recommendation 3 and stated this will be addressed during the renewal phase of blanket purchase orders for 2014 and should be implemented by end 2013. Recommendation 3 remains open pending submission of results of the review undertaken to process BPOs in a more timely manner.

DM accepted recommendation 4 and stated that PES, the Receiving and Inspection Unit and PMICU will review the cases referenced and revise current procedures as required. Recommendation 4 remains open pending submission of revised procedures to independently inspect and where appropriate bar code and record items purchased under BPOs.

Inadequate stock management

19. PES did not maintain adequate stock records for inventory items. Up to 2010, FMS maintained inventory records in a system application called MP2. This was replaced with a Customer Relationship Management application (called iNeed), which was expected to have functionality for stock management. However, this functionality was unavailable; therefore, PES did not maintain stock records from 2010 onwards. In April 2012, FMS implemented an interim stock room management system while awaiting the deployment of Umoja, the Enterprise Resource Programme (ERP) solution.

20. During April to October 2012, approximately 45 percent of stock holdings were counted and recorded. However, due to ongoing work pressures, multiple locations being operated during the Capital Master Plan (CMP) project and the impact of storm Sandy, the counting and recording of stock was discontinued. As a result, stock records remained incomplete. Furthermore, stocks were held at six locations to which all the foremen had access to the keys, which diffused responsibility for physical controls over the items.

21. OIOS was therefore unable to verify the accuracy of the stock records. With inaccurate or incomplete stock records and diffused physical controls there was the risk of loss, theft or misappropriation of items due to lack of awareness of actual stock position.

22. The interim stock management system also had many limitations that may result in the eventual stock report being inaccurate, incomplete and inadequate including:

- Stock data prone to errors and omissions during synchronization of recording devices used;
- Lack of an audit trail of stock movement; and
- Stock data not showing the closing stock quantity and value.

(5) OCSS should prepare a complete record of stock items held by the Facilities Management Service to ensure a seamless transition to Umoja and protect assets from any misappropriation due to inadequate stock records.

DM accepted recommendation 5 and stated that FMS will address the matter expeditiously. Recommendation 5 remains open pending the preparation of a complete record of stock items held by FMS.

Documents to handover the CMP project were detailed but had no stock values

23. At the time of the audit, refurbished buildings and new equipment and related spare parts purchased under the CMP project were being handed over to PES. CMP provided handover notes, which contained information on the work completed during the project and other information related to the future maintenance of buildings. They also included a list of stock items, vendors who had performed the work or supplied equipment and their warranty periods. However, the Office of CMP did not provide values for stock items that were handed over. In view of the ongoing implementation of International Public Sector Accounting Standards (IPSAS), which required that material balances of items held for internal consumption be recognized as inventory stock items likely to meet this definition should be valued for reporting purposes.

(6) OCSS should, in coordination with the Office of the Capital Master Plan (CMP), ensure that the values assigned to CMP project-related stock items are in line with International Public Sector Accounting Standards policy framework reporting requirements.

DM accepted recommendation 6 and stated that OCSS will continue to work with the Office of CMP and the IPSAS implementation team to obtain IPSAS compliant values for stock items where required. It is anticipated that this recommendation will only be fully implemented with the conclusion of the CMP project. Recommendation 6 remains open pending the valuation of stock items relating to the CMP project in line with the IPSAS policy framework.

Building Manual provided general guidance on building operations and maintenance

24. FMS prepared a Building Manual in July 2012, which provided general information on the management of the buildings owned and leased by the United Nations, guidance on operations and maintenance activities, responsibilities of staff on use of premises, services provided by FMS, security, and energy initiatives and sustainability practices. The implementation of the manual was pending approval of an administrative instruction on the use of premises. In view of the fact that the administrative instruction was being prepared, OIOS is not making a recommendation.

FMS had an adequate customer relationship management application for work order management

25. In 2010, FMS implemented iNeed, an automated service request tracking system developed by the Office of Information and Communications Technology (OICT) to track work order requests. iNeed captured information such as: service request creation date; work order reference number; and work order closure and completion dates by respective PES shops. FMS established standard turnaround times (STTs) for various types of work and weekly, FMS reviewed its performance against the STTs. Therefore FMS had an adequate customer relationship management application for work order management.

Response rate to customer satisfaction surveys was low

26. After delivery of a service, work orders were closed in the iNeed application and a customer satisfaction survey sent to the requestor. However, as shown in Table 3, the response rate during 2010-2012 was extremely low (less than one percent) therefore, the usefulness of customer satisfaction surveys

to measure performance was limited. *FMS commented that the data received in the past had been analyzed and formed part of FMS' assessment of its performance. This was one avenue for receiving feedback that was built in the system.*

Table 3: Summary of customer satisfaction survey responses received

Year	Total number of work orders	Number of responses received	Percentage of respondents
2010	18 040	179	0.99%
2011	14 578	38	0.26%
2012	11 505	94	0.82%

Source: PES

(7) OCSS should review the reasons for the low response rates to the customer satisfaction surveys administered by the Facilities Management Service on building services and take steps to increase them to obtain useful feedback.

DM accepted recommendation 7 and stated that FMS has made efforts to increase the response rate in the past and it will endeavour to assess potential measures to address this recommendation. Recommendation 7 remains open pending notification of the measures taken to improve the response rate to the customer satisfaction surveys.

Long-term maintenance strategy was being prepared

27. FMS did not have a long-term maintenance plan. FMS explained that an ongoing Strategic Capital Review (SCR), which was being conducted by a consultant for offices away from Headquarters, would establish a framework for the Strategic Maintenance Plan. The framework was expected to include establishing a global programme for “capital improvements” over the next 20 years; and identifying a method for proposed project phasing, which would be aligned with budget cycles and funding availability. *FMS commented that this long-term maintenance strategy would only be completed after the conclusion of the CMP project.* In view of FMS’s comments, OIOS is not making a recommendation.

Delay in creating the in-house Electrical Unit

28. At the time of the audit, the electrical maintenance operations were fully outsourced. As part of a continuous reorganization, PES was planning to set up a fully operational in-house unit “Electrical operations and Maintenance Shop” to conduct day to day normal minor maintenance activities. It was expected that this unit would cover 70 percent of all electrical work orders relating to routine maintenance and would also provide a faster first response to emergency calls and reduce the Organization’s vulnerability to unpredictable contract negotiations. PES had a total of 10 posts at the Trades and Crafts level for this Unit that included seven additional posts allotted in the biennium 2012-2013.

29. PES expected to reduce the number of contract staff from 19 to 7 by July 2012 to maximize cost savings for the Organization. However, this target was not achieved. PES explained that they faced several challenges relating to recruitment such as selected candidates accepting other job offers due to the lengthy United Nations recruitment process. Nevertheless, three new Trades and Crafts staff started on 1 April 2013; therefore OIOS does not make a recommendation.

IV. ACKNOWLEDGEMENT

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

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

STATUS OF AUDIT RECOMMENDATIONS

Audit of maintenance and building services provided by the Office of Central Support Services at Headquarters

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	OCSS should specify performance evaluation criteria in all contracts and evaluate the performance of the contractors supplying maintenance and building services to the Facilities Management Service annually	Important	O	Reports on the evaluation of the performance of the electrical and cleaning contractors conducted as required by the Procurement Manual.	30 June 2014
2	OCSS should document the minutes of meetings held between the Facilities Management Service and its contractors to record the issues discussed and actions agreed.	Important	O	Minutes of meetings held with the electrical and cleaning contractors.	31 December 2013
3	OCSS should review the timing of the submission of requests for Blanket Purchase Orders by the Facilities Management Service to the Procurement Division to ensure they can be processed and approved in a timely manner.	Important	O	Results of the review undertaken to process Blanket Purchase Orders in a more timely manner.	31 December 2013
4	OCSS should ensure that all items purchased by the Facilities Management Service using Blanket Purchase Orders are inspected by the Receiving and Inspection Unit and, where applicable, are bar coded and recorded by the Property Management and Inventory Control Unit in accordance with existing procedures.	Important	O	Revised procedures to independently inspect and where appropriate bar code and record items purchased under Blanket Purchase Orders.	30 June 2014
5	OCSS should prepare a complete record of stock	Important	O	Preparation of a complete record of stock items	31 March 2014

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 DM in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of maintenance and building services provided by the Office of Central Support Services at Headquarters

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	items held by the Facilities Management Service to ensure a seamless transition to Umoja and protect assets from any misappropriation due to inadequate stock records.			held by FMS.	
6	OCSS should, in coordination with the Office of the Capital Master Plan (CMP), ensure that the values assigned to CMP project-related stock items are in line with International Public Sector Accounting Standards policy framework reporting requirements.	Important	O	Valuation of stock items relating to the CMP project in line with the IPSAS policy framework.	31 March 2015
7	OCSS should review the reasons for the low response rates to the customer satisfaction surveys administered by the Facilities Management Service on building services and take steps to increase them to obtain useful feedback.	Important	O	Measures taken to improve the response rate to the customer satisfaction surveys.	31 March 2015

APPENDIX 1

Management Response



TO: Ms. Carmen Vierula, Chief
A: New York Audit Service, Internal Audit Division
Office of Internal Oversight Services

DATE: 28 August 2013

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

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

SUBJECT: **Draft report on an audit of maintenance and building services provided by the
Office of Central Support Services at Headquarters (Assignment No.
AH2013/513/02)**

1. In response to your memorandum dated 15 August 2013 on the above subject, we are pleased to provide the comments of the Department of Management to the recommendations in the draft report in Appendix I.
2. Thank you for providing us with the opportunity to comment on the draft report.

13-02169
30 Aug 2013

Management Response

Audit of maintenance and building services provided by the Office of Central Support Services at Headquarters

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	OCSS should specify performance evaluation criteria and evaluate the performance of the contractors supplying maintenance and building services to the Facilities Management Service annually as required by the Procurement Manual.	Important	Yes	Chief, Facilities Management Service	30 June 2014	The recommendation is based on two contracts that were reviewed by OIOS, one of which was of significant age. The establishment of performance evaluation criteria is a common practice in establishing contracts now. The annual review will be conducted as recommended.
2	OCSS should document the minutes of meetings held between the Facilities Management Service and its contractors to record the issues discussed and actions agreed.	Important	Yes	Chief, Facilities Management Service	31 December 2013	Meetings will be recorded as recommended.
3	OCSS should review the timing of the submission of requests for Blanket Purchase Orders by the Facilities Management Service to the Procurement Division to ensure they can be processed and approved in a timely manner.	Important	Yes	Chief, Facilities Management Service	31 December 2013	This will be addressed during the phase for renewal of blanket purchase orders for 2014 and should be implemented by end 2013.
4	OCSS should ensure that all items purchased by the Facilities Management Service using Blanket Purchase Orders are inspected by the Receiving and Inspection Unit and, where applicable, are bar-coded and recorded by the Property Management and Inventory Control Unit in accordance with existing procedures.	Important	Yes	Chief, Facilities Management Service	30 June 2014	The Plant Engineering Section, the Receiving and Inspection Unit and Property Management and Inventory Control Unit will review cases referenced and revise current procedures as required.

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 maintenance and building services provided by the Office of Central Support Services at Headquarters

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
5	OCSS should prepare a complete record of stock items held by the Facilities Management Service to ensure a seamless transition to Umoja and protect assets from any misappropriation due to inadequate stock records.	Important	Yes	Chief, Facilities Management Service	31 March 2014	The Facilities Management Service agrees with the recommendation and will address the matter expeditiously.
6	OCSS should, in coordination with the Office of the Capital Master Plan (CMP), ensure that values are assigned to CMP project-related stock items in line with International Public Sector Accounting Standards policy framework reporting requirements.	Important	Yes	Chief, Facilities Management Service	31 March 2015	OCSS will continue to work with the Office of CMP and the IPSAS implementation team to obtain IPSAS compliant values for stock items where required. It is anticipated that this recommendation will only be fully implemented with the conclusion of the CMP project.
7	OCSS should review the reasons for the low response rates to the customer satisfaction surveys administered by the Facilities Management Service on building services and take steps to increase them to obtain useful feedback.	Important	Yes	Chief, Facilities Management Service	31 March 2015	The Facilities Management Service has made efforts to increase the response rate in the past and it will endeavour to assess potential measures to address this recommendation.