



INTERNAL AUDIT DIVISION

REPORT 2018/046

Audit of the management of capital renovation projects in the Economic Commission for Latin America and the Caribbean

Governance and oversight mechanisms for the North Building project had been initiated and procurement processes for construction projects were being improved

25 May 2018

Assignment No. AN2018/730/01

Audit of the management of capital renovation projects in the Economic Commission for Latin America and the Caribbean

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the management of capital renovation projects in the Economic Commission for Latin America and the Caribbean (ECLAC). The objective of the audit was to assess the adequacy and effectiveness of the management of the capital renovation projects and related procurement activities in ECLAC. The audit covered the period from January 2016 to February 2018 and included an examination of project pre-planning activities, project governance and oversight mechanisms, project management and procurement activities for construction projects.

ECLAC adequately completed pre-planning activities for the North Building project and developed a strategy for identifying and securing suitable swing space. It was implementing action plans to monitor and report on the implementation of the acquisition plan for construction activities and improve on the time taken to complete procurement activities. However, ECLAC needed to finalize the project governance mechanism.

OIOS made one recommendation. To address the issue identified in the audit, ECLAC needed to finalize and sign the Administrative and Coordination Agreement to formalize the roles and responsibilities and thus accountability of ECLAC and the Office of Central Support Services for the management of the North Building capital renovation project.

ECLAC accepted the recommendation and took the necessary action to implement it.

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Audit of the management of capital renovation projects in the Economic Commission for Latin America and the Caribbean

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of capital renovation projects in the Economic Commission for Latin America and the Caribbean (ECLAC).

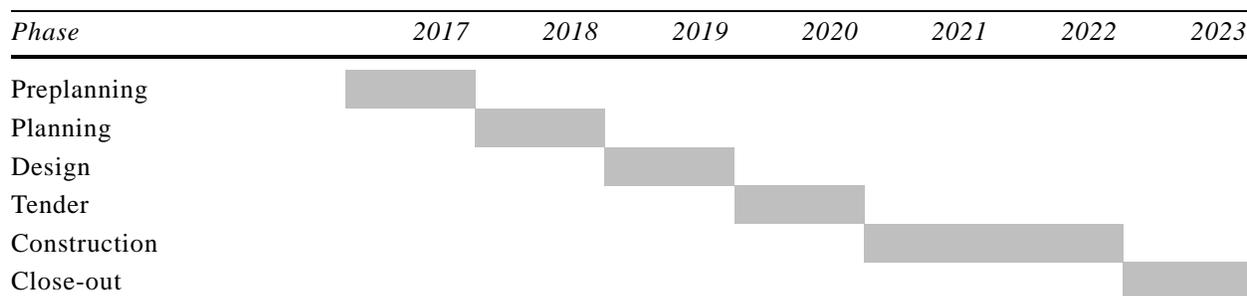
2. The ECLAC compound in Santiago, Chile is located along the Mapocho River on 5.5 hectares of land donated to the United Nations by the Government of Chile in 1960. The ECLAC premises currently consist of eight buildings, including the North Building, occupying 20,108 square metres (m²), of which 13,556 m² comprises office space and 6,552 m² consists of common spaces.

3. As part of the strategic capital review in 2014, ECLAC assessed the conditions of its buildings to identify remedial works needed to upgrade the facilities in line with United Nations standards and industry codes. The results showed an urgent need for a series of major maintenance works and minor alterations that could be implemented by one of two strategies: (a) programmed multiple interventions that will be part of the regular maintenance operations of ECLAC with minor disruptions in the secretariat’s operations and minimal use of swing space; and (b) executing a capital project such as a comprehensive renovation of the North Building with extensive use of swing space. On the basis of the cost-benefit analysis, the recommended option is to perform a one-time capital renovation project with an overall investment cost of \$14.1 million. This option would provide ECLAC with a fully renovated, code compliant, energy efficient and safe building for its staff and visitors.

4. The project plan is divided into the following six phases, with the planned timelines shown in Figure 1:

- 1) Pre-planning, which began in 2017 and included costing, feasibility study, preliminary design and investigation activities.
- 2) Planning, to be performed during 2018 and includes recruitment of a project team and preparation of the scope of work and tender documents for the design phase.
- 3) Design of the structural proposal and specifications.
- 4) Tender, including preparation of bidding documents and award of the construction contract.
- 5) Construction, involving moving all staff to temporary swing space, dismantling and demolition works, construction, installation testing, commissioning and handover of the renovated facility.
- 6) Close-out, which includes return of staff to the new building, finalization of pending punch list items by the contractor and initiation of the defects and liability period.

Figure 1: Planned schedule of the North Building capital renovation project



Source: Proposal for the renovation of the North Building (A/72/367)

5. The estimated maximum cost is illustrated in Table 1.

Table 1: Project costs schedule – 2018-2023 (in millions of US Dollars)

<i>Cost estimates</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>	<i>2023</i>	<i>Total</i>
Trade costs				4.266	4.266		8.532
Consultancy fees		0.250	0.050	0.100	0.100	0.050	0.550
Subtotal	–	0.250	0.050	4.366	4.366	0.050	9.082
Escalation costs		0.026	0.008	0.938	1.202	0.017	2.190
Contingency costs		0.027	0.006	0.529	0.555	0.007	1.124
Project management costs	0.112	0.225	0.290	0.290	0.290	0.225	1.431
Risk management costs	0.080	0.030	0.030	0.030	0.030		0.200
Additional swing space costs				0.045	0.045		0.091
Subtotal	0.192	0.308	0.333	1.832	2.122	0.248	5.036
Total	0.192	0.558	0.383	6.198	6.488	0.298	14.118

Source: Proposal for the renovation of the North Building (A/72/367)

6. The Director of Administration in ECLAC is responsible for the project while the Office of Central Support Services (OCSS) provides oversight and strategic support.

7. In addition, \$2.5 million was allotted to ECLAC from Section 33 of the biennium 2016-2017 programme budget for alterations and improvements and for major maintenance of multi-year phased, recurrent and new projects.

8. Comments provided by ECLAC are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

9. The objective of the audit was to assess the adequacy and effectiveness of the management of capital renovation projects and related procurement activities in ECLAC.

10. This audit was included in the 2018 risk-based work plan of OIOS due to the risks of delays, wastage and cost overruns inherent in major construction and alterations projects.

11. OIOS conducted this audit in February and March 2018. The audit covered the period from January 2016 to February 2018. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in the management of capital renovation projects, which included a review of: (a) progress made in establishing the governance and oversight mechanisms and management team for the North Building project; (b) steps taken to assess the associated risks, including fraud and corruption risks; and (c) procurement activities for construction projects. The audit also included a review of the actions taken to incorporate in the project design comments from the General Assembly for clarification in the Secretary-General's next progress report related to: (i) provisions for persons with disabilities concerning accessibility and technology; and (ii) energy efficiency and reducing the environmental impact of the North Building's operation.

12. The audit methodology included: (a) interviews of key personnel, (b) review of relevant documentation, (c) analytical review of data, and (d) sample testing of control activities.

13. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. North Building project pre-planning activities

Pre-planning activities of the project were being undertaken

14. In accordance with the Guidelines for the Management of Construction Projects, ECLAC conducted project pre-planning activities including commissioning inspections and a feasibility study of its buildings, and preparing a business case for the project. An amount of \$50,000 was allotted for this phase in 2017 under programme budget Section 33.

15. ECLAC used the results of the 2016 strategic capital review to prepare a proposal for the renovation of the North Building that was submitted to the General Assembly under the Secretary-General's report A/72/367 dated 29 August 2017. Under its resolution 72/262 of 24 December 2017, the General Assembly approved for the project: (a) the establishment of one national officer position; and (b) the appropriation of \$160,000 for the biennium 2018-2019. The General Assembly, however, deferred consideration of the proposal to establish a multi-year construction-in-progress account until the Secretary-General presents an analysis of further options in his next progress report.

B. Project governance and oversight mechanisms

Project governance mechanisms were being established

16. In accordance with the OCSS Guidelines for the Management of Construction Projects, ECLAC was expected to ensure that its project governance structure includes: (i) well-defined coordination and support arrangements between OCSS and ECLAC to share knowledge and to provide alerts to ensure early remedial action; (ii) a project management team and support functions with clear reporting lines; (iii) a Steering Committee to assist the Executive Secretary and the Director of Administration to manage the project; and (iv) the implementation of an independent risk management framework early on in the project implementation process. The progress status as of 28 February 2018 was as follows:

- (i) Coordination and support arrangements between OCSS and ECLAC were being formalized

17. In line with the Secretary-General's report emphasizing the importance of close interaction and coordination among key stakeholders, a draft Administrative and Coordination Agreement was prepared in February 2018 outlining the need for effective coordination with OCSS, the Host Country, and ECLAC's Corporate Support Unit.

18. ECLAC and OCSS were coordinating their activities and with other stakeholders including the Host Country, Member States and tenants. However, the Administrative and Coordination Agreement had not yet been finalized and signed. As an accountability tool outlining the roles and responsibilities of the management and oversight functions, it is important that the document be formalized at the beginning of the project for compliance and monitoring purposes.

(1) ECLAC and OCSS should finalize and sign the Administrative and Coordination Agreement to formalize the roles and responsibilities and thus accountability for the management of the North Building capital renovation project.

ECLAC accepted recommendation 1 and provided a signed copy of the Administrative and Coordination Agreement with OCSS dated 8 May 2018. Based on the action taken, recommendation 1 is closed.

- (ii) Actions were being taken to assemble a project management team and establish a Steering Committee

19. The Executive Secretary of ECLAC, as the project owner, appointed the Director of Administration as the project executive; however, there was no formal approval of the document establishing the roles and responsibilities of each stakeholder. In the Secretary-General's report (A/72/367), ECLAC had requested the establishment of a project team comprising a project manager at the national officer level and an architect at the general service level. The project team was to be supported by an administrative assistant. In its resolution 72/262, the General Assembly approved the establishment of a national officer position effective 1 January 2018, as part of the dedicated project team, under Section 21 of the programme budget.

20. The General Services Section in ECLAC had prepared a job description for the project manager post and was awaiting the approval of the Executive Secretary's Office to advertise the post.

21. ECLAC had also established the Steering Committee for the project. The Executive Secretary approved the proposed terms of reference for the Steering Committee, which also included the list of proposed committee members.

22. OIOS concluded that adequate actions had been taken at this time by ECLAC in assembling a project team and establishing a Steering Committee to oversee the project.

- (iii) An independent risk management function and an anti-fraud and anti-corruption framework were being established

23. General Assembly resolution 70/248 emphasized the importance of ensuring integrated and independent project assurance for the renovation projects. In terms of the information circular ST/IC/2016/25 on the anti-fraud and anti-corruption framework of the United Nations Secretariat, the independent risk manager, the project team and OCSS are expected to carry out systematic fraud risk assessments as part of the risk management framework.

24. The Secretary-General's proposal to the General Assembly (A/72/367) identified the role of an independent risk management firm as part of the project governance structure. The firm, reporting to OCSS, would develop a corporate level risk management strategy for the Secretariat's major construction and alteration projects. The strategy would integrate operational risks of individual construction projects managed in different Secretariat entities. The project managers of individual construction projects are expected to develop risk registers for their projects in collaboration with the independent risk management consultant and develop risk treatment plans and mitigating measures. The corporate level risk management strategy is intended to assist OCSS in its oversight responsibility of Secretariat-wide construction projects and to support individual construction projects in sharing lessons learned and providing appropriate project management guidance.

25. OCSS appointed an independent risk management firm to provide independent assurance of the construction projects in the regional commissions in Africa and Asia and the Pacific with the objective of

identifying and assessing project uncertainties and defining optimum risk responses. The contract with the risk management firm was signed in November 2017. According to OCSS, the same firm will also cover ECLAC.

26. ECLAC was also preparing an anti-fraud and anti-corruption framework to guide the project team and stakeholders in the management of the North Building capital renovation project. The framework will highlight the standards and principles for staff and non-staff members involved in the project. OIOS reviewed the terms of reference for the independent risk management firm contracted by OCSS, and noted that they were comprehensive. However, in OIOS' view, additional emphasis should be placed on addressing fraud and corruption risks when project execution begins. These should include procedures to identify and prevent fraudulent claims from contractors and/or suppliers. Report no. 2017/050 on the audit of major construction and alteration projects in the Economic Commission for Africa already included a recommendation to OCSS to incorporate such an approach for addressing fraud and corruption risks in the risk management framework of capital renovation projects. This recommendation is still in progress; therefore, OIOS did not make an additional recommendation on this issue.

C. Project management

Actions to incorporate the General Assembly's comments on the project design were ongoing

27. In its resolution 72/262, the General Assembly stressed the need to ensure compliance with all relevant regulations, including accessibility for persons with disabilities and technology, and requested that the Secretary-General present a detailed analysis of the range of possible options to meet the objectives set out in his report, in particular those relating to energy efficiency and reducing the environmental impact of the building's operation.

28. ECLAC was drafting a report related to energy efficiencies and accessibility in the North Building capital renovation project. It was also initiating the recruitment of a temporary architect with energy specialization. Additionally, ECLAC's internal project team was working, in coordination with OCSS through biweekly meetings, on the development of the overall energy and accessibility strategy. The strategy will be based, not only on onsite energy production, but also on the whole building design and methods for effective integration of high efficiency building envelope/high performance energy generation, and intelligent building systems. Furthermore, the Facilities Management Unit performed a complete building inspection to determine conditions of building components, access by persons with disabilities, and compliance with building and fire code.

29. The report on the energy efficiencies and accessibility and the inspection results of the buildings in ECLAC were intended to feed into the project management plan, which was being developed. OIOS therefore concluded that ECLAC was taking adequate action to ensure accessibility and energy efficiency of the renovated building.

Strategy for identifying and securing suitable swing space was developed

30. In its resolution 71/272, the General Assembly reiterated that space optimization is one of the key objectives of the project. Swing space availability was also a key risk in the project business case.

31. The North Building in ECLAC accommodates around 166 staff, and therefore, the availability of swing space was a key factor in deciding the approach to the project and its implementation. As there was limited onsite swing space, ECLAC was increasing this through the renovation of the Printing Building to

accommodate around 50 staff after renovation. Retrofitting of the Printing Building started in December 2017 and was expected to be completed in March 2018.

32. At the compound level, swing space was available for another 50 staff making it possible to accommodate 100 staff in total. ECLAC planned to accommodate the remaining 66 staff in a temporary building in the south parking lot of the compound. ECLAC had previously used this option with satisfactory results during the renovations and reconstruction works of buildings that were affected by the 2010 earthquake.

33. OIOS, therefore, concluded that ECLAC had developed a strategy for identifying and securing suitable swing space for the duration of the North Building capital renovation project.

D. Procurement activities for construction projects

ECLAC prepared acquisition plans for construction projects annually and was implementing an action plan to monitor and report on their implementation

34. The Procurement Manual requires that requisitioners develop acquisition plans in cooperation with the Procurement Unit in a timely manner, generally not later than six months before the need for receipt of the goods, services or works.

35. The General Services Section prepared acquisition plans with the list of projects for inclusion in the programme budget Section 33. The acquisition plans in 2016 and 2017 totaled \$2.1 million and \$3.8 million of which construction activities amounted to \$1.6 million or 76 per cent and \$1.7 million or 44 per cent, respectively.

36. Procurement activities were divided among the buyers in the Procurement Unit. Each buyer was responsible for monitoring each stage of the procurement process in relation to the acquisition plan. However, there was no evidence of monitoring the acquisition plan. As a result, there was less time available for implementation for some construction projects. One project, estimated at \$261,000 and planned for the fourth quarter of 2017, was divided into smaller activities to remain below the limit for review by the Procurement Division in Headquarters to expedite its implementation. Another project was moved to 2018.

37. Inadequate monitoring of the implementation of the acquisition plan could delay the projects, lead to cost overruns and ineffective use of ECLAC financial resources. This could also negatively affect management's decision-making process related to procurement activities.

38. Subsequent to the end of the audit fieldwork, ECLAC provided evidence that the Facilities Management and Procurement Units had established a monthly coordination meeting schedule to coordinate, revise and update the annual acquisition plan on an ongoing basis. Project managers were also meeting weekly with designated buyers to update source selection plans, allowing for adequate and regular reporting and monitoring of procurement actions. This was being facilitated by the implementation of the project management module as part of Umoja Extension 2. In light of these actions, OIOS did not make a recommendation on this issue.

ECLAC complied with procurement policies and procedures and was taking action to improve the time taken to complete procurement activities

39. United Nations Secretariat policies and procedures require adequate controls over the procurement process.

40. Section 33 of the proposed programme budget for the 2016-2017 biennium included \$2.5 million as ECLAC's resource requirements for procurement. The resources covered: \$1.3 million for alterations and improvements; \$500,000 for major maintenance of facilities and general infrastructure; \$100,000 for safety and security improvement of premises; and \$600,000 for major maintenance of safety and security related installations. ECLAC planned to undertake 13 construction projects against these resources during the 2016-2017 biennium.

41. OIOS reviewed the procurement process for six projects with an estimated budget totaling \$1.8 million or 73 per cent of planned projects and total actual contract value of \$1.3 million. OIOS concluded that the projects had gone through the procurement process in accordance with the Procurement Manual. ECLAC had issued expressions of interest, requested local procurement authority when appropriate, raised shopping carts and ensured they were approved in Umoja by authorized staff. ELCAC also prepared statements of work, which were approved, issued requests for proposals with vendor submitting offers by the established deadlines. The tender opening committee opened the bids and checked their nature before they were provided to the Procurement Unit. Requisitioners and the Procurement Unit conducted technical and commercial evaluations prior to cases being reviewed by the Local Committee on Contracts (LCC) and the Procurement Division at Headquarters as required. Selected vendors were then informed and contracts were signed by authorized officials.

42. The number of days taken from the creation of the shopping cart to the signature of the contract for the selected construction projects ranged from 111 days to 273 days as shown in Table 2.

Table 2: Number of days from shopping cart to contract signature

Project Name	Shopping cart date	Contract signature date	Number of days taken	Number of days per source selection plan
Project 1	11 April 2017	1 August 2017	112	215
Project 2	5 June 2017	28 November 2017	176	187
Project 3	20 July 2016	8 February 2017	203	211
Project 4	8 November 2016	7 June 2017	211	170
Project 5	10 March 2017	16 November 2017	251	201
Project 6	21 July 2016	20 April 2017	273	290

43. Although the time taken for procurement was largely within the periods anticipated in source selection plans, such durations could lead to delays in the implementation of the North Building, which is time sensitive. OIOS analyzed the time taken to complete various stages of the procurement process for the selected projects and noted the following:

- (i) From the approval of the shopping cart to the approval of the source selection plan took 71 days;
- (ii) From vendor submission of proposals to approval of the commercial evaluation took 22 days;
- (iii) From commercial evaluation to approval of the LCC minutes took 50 days; and
- (iv) From approval of LCC minutes to response from Procurement Division took 23 days.

44. The Procurement Unit attributed the time taken to: (a) changes in project budget estimates; (b) late submission of complete documentation to prepare the statement of work; (c) unclear technical evaluation criteria; (d) delays in opening of tenders; (e) delays in LCC meetings and receipt of LCC minutes; and (f) delays in responses from Procurement Division. However, the Unit did not have a mechanism to document these delays and to take to steps to address their root causes.

45. Delays in the procurement processes could delay the North Building project completion schedule leading to cost overruns and ineffective use of ECLAC financial resources.

46. Subsequent to the end of the audit fieldwork, ECLAC provided evidence that the Facilities Management and Procurement Units had established periodic meetings between the Chief of General Services Section and the Chief of Procurement Unit to identify outstanding risk factors and implement the following action plan: (a) determine causes of procurement/project management and overall project delays according to project type, size and cost; (b) propose solutions and related actions including roles and responsibilities of executing partners to minimize backlogs, waiting times, and delays; and (c) monitor implementation of risk mitigation measures through regular coordination with stakeholders, contractors and other assisting external actors. In light of these actions, OIOS did not make a recommendation on this issue.

IV. ACKNOWLEDGEMENT

47. OIOS wishes to express its appreciation to the management and staff of ECLAC for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
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Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of capital renovation projects in the Economic Commission for Latin America and the Caribbean

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	ECLAC and OCSS should finalize and sign the Administrative and Coordination Agreement to formalize the roles and responsibilities and thus accountability for the management of the North Building capital renovation project.	Important	C	Action completed.	8 May 2018

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or 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 ECLAC in response to the recommendation.

APPENDIX I

Management Response

Management response

Audit of the management of capital renovation projects in the Economic Commission for Latin America and the Caribbean

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	ECLAC and OCSS should finalize and sign the Administrative and Coordination Agreement to formalize the roles and responsibilities and thus accountability for the management of the North Building capital renovation project.	Important	Yes	Andrea Marquez	May 8	None.

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.