



INTERNAL AUDIT DIVISION

REPORT 2015/073

Audit of the closure of the capital master plan

Overall results relating to effective closure of the capital master plan were initially assessed as satisfactory.

FINAL OVERALL RATING: SATISFACTORY

21 July 2015

Assignment No. AC2015/514/01

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AUDIT REPORT

Audit of the closure of the guaranteed maximum price contract for the renovation of the United Nations Secretariat building

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the closure 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. The capital master plan was established by General Assembly resolution 55/238. The purpose of the plan was to refurbish the United Nations Headquarters complex in New York and bring the facilities into compliance with local codes and standards, replace components and systems, and preserve the architectural integrity and the original design intent of the landmark complex. The plan included the renovation of the Secretariat and Conference buildings, the replacement of major infrastructure in the basements and the enhanced security upgrades initiative to strengthen the eastern and western perimeters of the United Nations Headquarters. The budget of \$1,876.7 million was approved by General Assembly resolution 61/251.
4. The United Nations and the Construction Manager entered into 22 construction management agreements with guaranteed maximum prices for the different projects that together comprised the entire capital master plan project. With the successful re-occupancy of the Secretariat and Conference buildings, and the hosting of the General Debate of the 69th session, in September 2014, the capital master plan was substantially completed. As of 30 April 2015, the total anticipated cost to complete the capital master plan was \$2,305 million, comprising \$2,150 million for construction costs and \$155 million for associated costs and the cost of the secondary data centre, which was advanced by the capital master plan based on the request of the General Assembly. The final anticipated cost of \$2,305 million, which also included the cost of post renovation activities amounting to \$49.1 million, was noted by the General Assembly in resolution 69/274.
5. The Secretary-General reported in the twelfth annual progress report (A/69/360), that the Office of the Capital Master Plan would close on 30 June 2015 and the remaining activities mainstreamed into the responsibilities of the Office of Central Support Services (OCSS) in the Department of Management. There would be close coordination between the two Offices during the transition period up to 30 June 2015 in order to ensure a smooth and comprehensive handover of all responsibilities for the United Nations Headquarters Buildings.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of the Office of the Capital Master Plan's governance, risk management and control processes in providing reasonable assurance regarding **effective closure of the capital master plan**.

7. The audit was included in the 2014 OIOS risk-based plan due to financial and reputational risks related to construction contracts.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls that provide reasonable assurance that policies and procedures: (i) exist to guide the closure of the capital master plan; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.
9. The key control was assessed for the control objectives shown in Table 1.
10. OIOS conducted this audit from February to April 2015. The audit covered the period from January 2014 to April 2015.
11. The audit team 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 and conducted necessary tests to determine their effectiveness. In the absence of Secretariat wide procedures for planning and implementing the close-out of major capital projects, OIOS used the main principles in the liquidation manual of the Department of Field Support as a basis for the review. The manual was widely used in the liquidation of peacekeeping missions.

III. AUDIT RESULTS

12. The Office of the Capital Master Plan's governance, risk management and control processes examined were assessed as **satisfactory**¹ in providing reasonable assurance regarding **effective closure of the capital master plan**. The closure of the capital master plan was initiated through the preparation of a close-out plan. The plan had a schedule of activities in priority order and full quantification of the estimated project costs for the outstanding activities as required by the liquidation manual. There were delays in clearing punch list items, which delayed the closure of all the guaranteed maximum price contracts. To facilitate their orderly closure, the Office of the Capital Master Plan agreed with the Under-Secretary-General for Management that a core team of the Office's staff would be retained until 31 October 2015 to finalize the remaining close-out activities under the auspices of OCSS. Adequate arrangements for the handover of documents and new systems were largely in place and the archiving plan was adequate.
13. The initial overall rating was based on the assessment of key control presented in Table 1 below. The final overall rating is **satisfactory**.

¹A 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 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 closure of the capital master plan	Regulatory framework	Satisfactory	Satisfactory	Satisfactory	Satisfactory
FINAL OVERALL RATING: SATISFACTORY					

Regulatory framework

There was a need to develop a close-out manual for major capital projects in the Secretariat

14. The Department of Management was expected to develop policies and procedures to guide the performance and mitigation of risks for significant activities.

15. There were no documented procedures to guide the closure of major capital projects including procedures for preparing a closure plan, developing a communications strategy, paying outstanding liabilities, completing residual activities and phasing out human resources. In the absence of Secretariat-wide instructions to guide the closure of major capital projects, the Office of the Capital Master Plan used ad-hoc arrangements to plan and implement the closure of the project. While these arrangements were generally satisfactory as described in the present report, established policies and procedures would have streamlined and facilitated the process. OCSS commented that the handover and close-out processes currently in place for the new office facility at the Economic Commission for Africa was developed based on lessons learned from the capital master plan, and will be used as the basis for developing a generic contract close-out manual. The manual will be incorporated into the overall Guidelines for the Management of Construction Projects currently under development. Since OCSS had initiated action to develop a generic contract close-out manual, OIOS did not make a recommendation on this issue.

A close-out plan was in place and anticipated delays in closing guaranteed maximum price contracts were adequately addressed

16. In preparing its close-out plan, the Office of the Capital Master Plan needed to identify all outstanding or unfinished administrative and substantive tasks of the programme. Activities needed to be costed and scheduled for completion in priority order. The close-out plan also needed to include a risk assessment process and related risk mitigating strategies.

17. On 14 February 2015, the Office of the Capital Master Plan produced a close-out plan which included a description of the transition process to OCSS. According to the plan, the main transition involved the assumption by OCSS of project management responsibility for the subprojects that would continue beyond the June 2015 closure of the Office of the Capital Master Plan. These were: (a) demolition of the temporary North Lawn Conference Building; (b) landscaping work; (c) security related work at 42nd and 48th Street; (d) Dag Hammarskjöld Library separation wall and relocation of office space; (e) fit out of the North Lawn Building 3B; and (f) alternate food services centre. The estimated cost of these subprojects was \$49.1 million.

18. OIOS noted that the close-out plan included an activity schedule in priority order. In addition, the estimates included project management costs to cover the project managers that would augment the staff in OCSS and provide continuity on the project. However, there were anticipated delays in closing guaranteed maximum price contracts with the Construction Manager. Some trade contractors' invoices were still outstanding, although the Office of the Capital Master Plan had requested the Construction Manager to submit invoices for all works, including those performed by its subcontractors, by 31 January 2015 for processing. As a result, only 7 out of 22 guaranteed maximum price contracts were closed at the time of the audit. The main cause of the delay was the pace of clearing punch list items and obtaining and revising final close-out documents. In order to mitigate the risk of delays in closing the guaranteed maximum price contracts, the Office of the Capital Master Plan agreed with the Under-Secretary-General for Management that a core team of the Office's staff would be retained until 31 October 2015, to finalize the remaining close-out activities under OCSS auspices and facilitate orderly and fast close-out. Due to actions taken by the Office of the Capital Master Plan, OIOS did not raise a recommendation on this issue.

There were adequate arrangements for monitoring and overseeing the close-out plan

19. As a good practice, a close-out task force should have been put in place with the responsibility of ensuring that the substantive and administrative components of relevant offices work together at the highest level.

20. Whereas no such task force was constituted, there were on-going meetings between the Office of the Capital Master Plan and OCSS to discuss the handover and maintenance of systems and equipment upon their completion and installation by the Construction Manager. In addition, meetings between the Assistant Secretary-General, Office of the Capital Master Plan and the Assistant Secretary-General, OCSS were held regarding the closure of the Office and handover of the remaining activities. The Under Secretary-General for Management was kept up to date on all the transitional arrangements. OCSS staff attended weekly meetings of the Office of the Capital Master Plan during the transition period in order to ensure a smooth and comprehensive handover of all responsibilities for the remaining activities of the capital master plan.

21. The Under Secretary-General for Management would continue to provide overall supervision and would be accountable for the residual activities of the capital master plan. The General Assembly, in a resolution 69/274, also requested the Board of Auditors to continue to report annually on the capital master plan until final close-out of the accounts, including the remaining activities of the project. OIOS therefore concluded that appropriate accountability mechanisms were in place over the execution the remaining capital master plan activities.

The drawdown of human resources was generally conducted in line with current staff rules and regulations

22. The Secretary-General stated in the twelfth annual progress report that it was not necessary to maintain a dedicated project team after June 2015. The Secretary-General also stated that the expertise of the capital master plan team would be retained to augment staff in OCSS where possible.

23. The core technical staff of the capital master plan consisted of the Director of Construction, the Chief Designer, and four Project Managers. At the time of the audit, the Director of Construction had resigned to pursue other interests while the Chief Designer retired on 30 April 2015. The Office of the Capital Master Plan in conjunction with the Office of Human Resources Management and the Executive Office of the Department of Management conducted one on one meetings with all staff of the Office of the Capital Master Plan, informing them of the impending closure of the Office and the options available

to staff under the current staff rules and regulations. OIOS noted that one of the core technical staff has already been offered a position in OCSS and two others would be retained in OCSS to continue with residual activities and be paid from the budget of the capital master plan. The fourth Project Manager would be moving to the Department of Safety and Security. OIOS concluded that in light of the on-going activities, the human resources drawdown was generally being conducted within the current rules and regulations.

Arrangements were in place to maintain the new systems handed over to the Office of Central Support Services

24. OCSS was expected to make adequate arrangements to service and maintain all plant, equipment and systems commissioned by the capital master plan following substantial completion of the project.

25. The Assistant Secretary-General, Office of the Capital Master Plan, recommended that service contracts be put in place for the various systems handed over to the Owner following substantial completion. The Office listed 26 systems that required service contracts.

26. As of 31 March 2015, OCSS confirmed that all outsourcing arrangements were in place for systems maintenance and that training was conducted for systems that would be maintained in-house. However, there were two systems for which maintenance contracts were not concluded; the modular chiller plant and lighting systems. OCSS explained that the modular chiller plant would be maintained by in-house staff using monthly and annual preventative maintenance procedures developed by the engineering company of record who had installed and was specialized in these systems. The lighting systems were to be primarily maintained by the in-house electrical shop, which had received training from the system installation vendors. Additional support would also be available on an as needed basis via the on-call electrical maintenance contractor. OIOS concluded that OCSS had instituted adequate controls to ensure arrangements were in place to maintain the new systems and therefore did not make a recommendation on this issue.

Arrangements were in place for the archiving of records

27. The Office of the Capital Master Plan developed an archiving plan with the support of the Archives and Records Management Section (ARMS). The records unique to the capital master plan such as drawings, specifications, operations and maintenance manuals, reports, presentations and samples were to be archived in accordance with the plan.

28. In accordance with the retention schedule, the Programme Management Firm, which acted as Document Manager for the Office of the Capital Master Plan had been organizing the various records that had approved retention durations beyond June 2015 for transmittal to ARMS. The Programme Management Firm, Office of the Capital Master Plan and ARMS met weekly to monitor the progress of sorting, transmitting and shredding documents. Documents that were required for future operations were transmitted to appropriate offices such as Facilities Management Service, Department of Safety and Security and Office of Information and Communications Technology. OIOS therefore concluded that satisfactory arrangements were in place to ensure that the retention of records would be conducted in accordance with the approved records archiving plan.

IV. ACKNOWLEDGEMENT

29. OIOS wishes to express its appreciation to the Management and staff of the Department of Management 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

United Nations  Nations Unies
INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

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

DATE 13 July 2015

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: **Confidential: Draft report on an audit of the closure of the capital master plan**
OBJET: **(Assignment No. AC2015/514/01)**

1. With reference to your memorandum dated 1 July 2015, the Management is pleased to inform OIOS that there are no further remarks to the above subject draft report.
2. Thank you for giving us the opportunity to provide comments on the draft report.

15-01848
13 July 2015