



## **INTERNAL AUDIT DIVISION**

### **REPORT 2021/076**

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#### **Audit of the Strategic Heritage Plan at the United Nations Office at Geneva**

**There is need to strengthen the management  
of project risks, including risks related to  
contract amendments**

**23 December 2021**

**Assignment No. AE2021-310-01**

# **Audit of the Strategic Heritage Plan at the United Nations Office at Geneva**

## **EXECUTIVE SUMMARY**

The Office of Internal Oversight Services (OIOS) conducted an audit of the Strategic Heritage Plan (SHP) at the United Nations Office at Geneva (UNOG). The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of the SHP. The audit covered the period from January 2019 to June 2021 and included a review of risk areas relating to: (a) management of key project risks, including impact of COVID-19; (b) project reporting, monitoring and control; (c) contract variations, change management and claims; and (d) funding and project expenditure controls.

The SHP project team produces regular reports and key information that are used to keep governing bodies and senior management informed, to aid decision-making and to assist in managing and controlling the project. SHP had established some good project management practices including robust mechanisms for identifying and reporting on risks and the use of a project management software computer application as a repository for project documentation and for supporting workflows for project consultants. However, the audit showed that there is need to strengthen the management of some project risks, including risks related to contract amendments.

OIOS made eight recommendations. To address the issues identified in the audit, UNOG needed to:

- Ensure that clients take signed ownership for agreed design changes in a timely manner; and report to the General Assembly the design changes that have a significant impact on the SHP in terms of cost, delay or achievement of objectives;
- Use lessons learned from the delays experienced in the recruitment of the Senior Administrative Officer to explore additional measures to mitigate staff retention risk and risk of prolonged vacancies on SHP operations;
- Ensure that records of meetings relating to substantive negotiations with contractors concerning SHP are kept and shared with all concerned;
- Reinforce the requirement to involve procurement officials at every stage of complex negotiations relating to SHP that involve high value contract amendments;
- Ensure that in future SHP monthly reports, programme management consultants include progress against the original and revised schedules approved by Member States;
- Ensure that SHP provides a written record of lessons learned and recommendations for distribution to senior management and relevant offices in UNOG and United Nations Headquarters;
- Ensure that the Facilities Management Section and SHP liaise closely for efficient handover of the SHP sections of work; and
- Closely review the claims made after Contract Amendment 2 of the Building H contract to either refute or resolve them as soon as possible, in order to avoid accumulation of issues when the contract ends.

UNOG accepted the recommendations and has initiated action to implement them. Actions needed to close the recommendations are indicated in Annex 1.

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# Audit of the Strategic Heritage Plan at the United Nations Office at Geneva

## I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Strategic Heritage Plan at the United Nations Office at Geneva (UNOG).
2. The Strategic Heritage Plan (SHP) is a project launched by UNOG to preserve and rehabilitate the United Nations historical Palais des Nations in order to enhance its capacity to adequately meet the existing and future operational needs of the organization and to address health, safety and working conditions. The objectives of the SHP include: (a) making workspaces safer and more flexible; (b) enhancing access to the Palais des Nations buildings for persons with disabilities; (c) reducing energy costs and consumption; (d) preserving the heritage of the Palais des Nations; (e) upgrading the information technology, broadcast and congress systems; and (g) maintaining business continuity.
3. The SHP activities are guided by the General Assembly resolution 68/247 of 27 December 2013 and resolution 70/248 of 23 December 2015 which collectively approved the project's implementation plan, scope, costs and timelines.
4. The SHP is expected to continue until the end of 2024 and has a total projected cost of CHF 836.5 million. The SHP is financed by an interest-free refundable loan from the Government of Switzerland for the maximum amount of CHF 400 million and annually assessed contributions from Member States.
5. The SHP was planned to be implemented in three main phases (see Chart 1): the first phase is the construction of a new permanent office building (Building H), including the enabling site preparation works (2017 to 2020); the second phase is the renovation of the historical Palais des Nations Buildings: A, B, C, D and S (2019 to 2023); and the third phase is the dismantling and renovation of Building E including demolition of the tower (2021 to 2024).

**Chart 1: SHP phases**

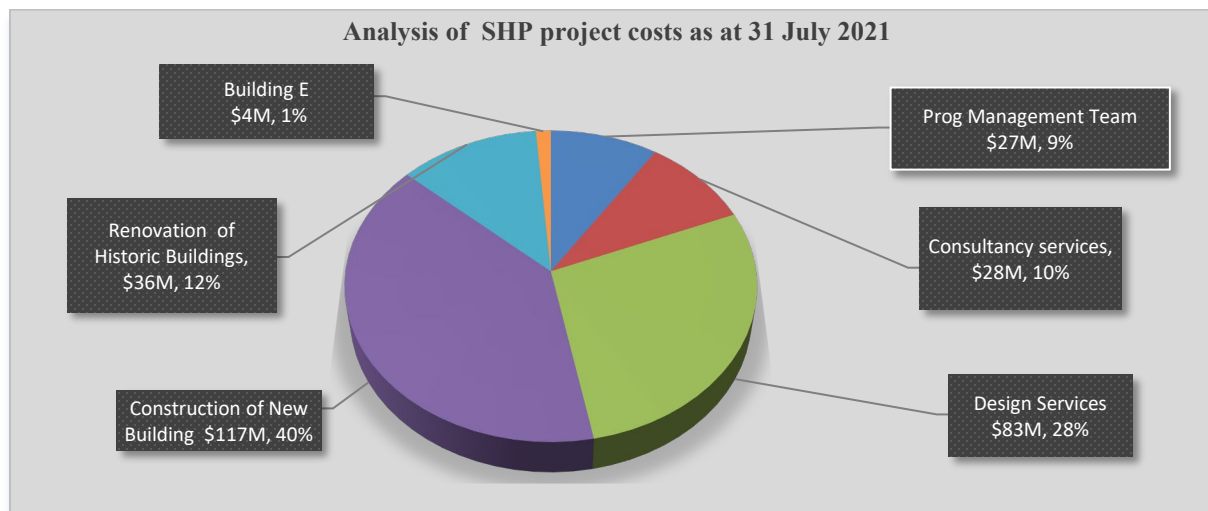


6. The SHP has to date accumulated expenditure of CHF 286.8 million of the CHF 836.5 million budget, representing overall expenditure of approximately 34 per cent of the approved budget. Details of the budget and expenditure are shown in Table 1 and Chart 2 below.

**Table 1: Project cost status as at 31 July 2021**

SHP Project Element	Approved baseline costs (CHF)	Current stage budget (CHF)	Costs as at 31 July 2021 (CHF)	Difference: budget less costs (CHF)
<b>UNOG Programme Management</b>				
SHP Programme Management Team	41,340,075	27,143,755	26,961,622	-182,133
Consultancy services	43,270,541	28,399,887	27,491,567	-908,320
Design Services	87,091,968	82,745,932	83,119,720	373,788
<b>Sub-Total Programme Management</b>	<b>171,702,584</b>	<b>138,289,574</b>	<b>137,572,909</b>	<b>-716,665</b>
<b>Building and Construction</b>				
Building (H)	161,468,667	122,894,735	116,556,244	-6,338,491
Renovation of Historic Buildings (A, B, C, D and S)	296,687,486	45,038,201	28,913,413	-16,124,788
Building E	206,641,263	3,677,534	3,753,898	76,364
<b>Sub-Total Building and Construction</b>	<b>664,797,416</b>	<b>171,610,470</b>	<b>149,223,555</b>	<b>-22,386,915</b>
<b>TOTAL</b>	<b>836,500,000</b>	<b>309,900,044</b>	<b>286,796,464</b>	<b>-23,103,580</b>

**Chart 2: How the money has been spent as at 31 July 2021**



7. On 17 May 2021, the Temporary Occupancy Agreement was signed for the temporary occupation of Building H, paving the way for staff to move in from the historical buildings. The staff move into Building H was completed on 28 June 2021, while substantial completion was achieved on 4 October 2021.

8. The SHP is headed by a Project Director at D-2 level and has a total of 20 approved posts (17 professional and 3 general service).

9. Comments provided by UNOG are incorporated in italics.

## **II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY**

10. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of the SHP.

11. This audit was included in the 2021 risk-based work plan of OIOS due to the large sums of money being expended to provide a new office building and to renovate and modify the existing Palais des Nations buildings. If the SHP is not successful in fulfilling its objectives, there would be a serious impact on UNOG's operations, its use as a primary conferencing facility for Member States and on its workforce's ability to work effectively.

12. OIOS conducted this audit from August to October 2021. The audit covered the period from January 2019 to June 2021. Based on an activity-level risk assessment, the audit covered risk areas in the management of the SHP, which included: (a) management of key project risks, including impact of Covid-19; (b) project reporting, monitoring and control; (c) contract variations, change management and claims; and (d) funding and project expenditure controls.

13. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; (d) sample testing; and (e) physical observation.

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

### **III. AUDIT RESULTS**

#### **A. Management of key project risks**

##### Management established mechanisms for identification and reporting of project risks of the SHP project

15. A proper project risk management framework is vital to ensure that key risks to the SHP project are identified and to enable measures to minimize the probability of adverse impacts on the interdependencies of project budgets, schedule and scope. For this reason, and as part of the project governance framework, UNOG Management engaged an independent risk management firm charged with the responsibility of providing independent assurance directly to the project owner (UNOG Director-General) and providing advice to SHP project governance levels. A risk management team was integrated into the day-to-day management of the project so that risks and uncertainties that could impact the project schedule, budgets and scope are identified and managed. The risk management firm performed continuous risk assessments and produced monthly and quarterly reports of key project risks, forecasts of the positions of project contingency, and completed and outstanding actions to be undertaken to mitigate risks. Collectively, these reports are aimed at supporting the SHP in ensuring that actions to manage risk are undertaken and that the risk exposure is controlled. In addition, the top 10 SHP risks and related mitigating measures were presented in separate monthly reports produced by the SHP programme management team and circulated to senior management.

##### Lack of certainty regarding funding for audio-visual changes needs to be addressed

16. Adequate change control processes are essential to manage risks and mitigate the impact of changes to the approved project scope, budgets and timelines. It is often necessary that there will be a need to change the original scope of the contracted construction works when a project proceeds over an extended duration, which has been the case for SHP. The pressure for changes may arise for several reasons including changes in technology, demand from users, design changes, and organizational changes leading to changing accommodation plans. However, changes are a risk to the project if they result in extra costs or delays to the schedule, which in turn could lead to reductions in project scope or quality.

17. Discussions and review of change controls showed that SHP has put in place appropriate mechanisms to limit changes and control their impact on the project. These include controls over the processing of variations and the requirement that clients submit to SHP a signed understanding of the scope of changes requested to be delivered. A specific example was that three parts of UNOG (the Division of Conference Management, the Division of Administration and the United Nations Information Service) had requested a design programme change relating to the audio-visual systems to be made first in Buildings A and C conference rooms followed by all the other main conference rooms. While the original scope of these works was clearly established, it was specified in 2016-2017 before the Covid-19 pandemic. With the advent of Covid-19, conferences have adapted to become a mix of virtual and in-person attendees. With increasing numbers of people attending virtually, there are extra positions and adaptations to the scope of the audio-visual systems that were never envisaged previously and that were considered necessary if UNOG is to remain a modern conferencing hub.

18. The cost of required changes is estimated at CHF 1.8 million across all the main conference rooms in the SHP, of which CHF 400,000 relates to changes to be made to Buildings A and C conference rooms. As well as the cost implications, delays in the Buildings A and C work package were already being experienced due to the delays in agreeing on the final specification of the audio-visual systems and conference room renovations. As of July 2021, the Division of Conference Management had not submitted a signed understanding of the scope of changes requested to be delivered. The Division of Conference Management explained that consultations to clarify the requirements and agree on the design changes took time and that the new practice to have monthly meetings with SHP helped in ensuring more effective consultations and resolution of the issue. The audio-visual case was presented to the Steering Committee on 5 August 2021 and the Committee endorsed the proposals to: (a) implement the necessary audio-visual changes to Buildings A and C in the amount of CHF 400,000, to ensure the renovated conference rooms are capable of hosting hybrid meetings and to avoid any further delays to the ongoing renovation works; (b) implement audio-visual changes required to facilitate hybrid-conferences in all conference rooms for total estimated amount of CHF 1.8 million; and (c) explore alternative funding options in order to reduce or avoid the use of the SHP contingency in this regard.

19. The SHP faces challenges because it is not yet clear how the proposed change is to be funded and this will need to be communicated to the right stakeholders for funding to be assured and there is a risk to the project if it is not. The 2021 SHP progress report to the General Assembly (A/76/350) briefly mentioned the audio-visual related programme design change but did not address the cost impact and funding issues. It is evident that delays and increased costs in one area of SHP have consequential effects on other areas.

**(1) UNOG should: (a) strengthen the engagement between SHP and key stakeholders to ensure that requirements are clarified, and clients take signed ownership for agreed design changes in a timely manner; and (b) report to the General Assembly the design changes that have a significant impact on the SHP in terms of cost, delay or achievement of objectives.**

*UNOG accepted recommendation 1 and stated that: (a) SHP will share communication with stakeholders on agreed changes with OIOS; and (b) SHP will share the report to the General Assembly that will be available in September 2022.*

#### Long-term vacancy of a key staff member caused inefficiencies in project delivery

20. The project team needs to have enough staff and expertise to manage a project of such magnitude and complexity. Staffing of the SHP does not appear in the top 10 SHP risks as presented in July 2021. However, the subject did figure largely when OIOS conducted its interviews. The SHP Project Director indicated that overall, the number of project posts approved (20) are adequate to support a successful

outcome for SHP over the life of the project, but these may need to be increased at times of peak workload. However, as of October 2021 the position of Senior Administrative Officer (P-5) had been vacant for over one year since October 2020. The duties of this officer include supporting senior management on project management and maintaining an administrative and financial management framework, including advising on implementation of United Nations policies, guidelines and practices on areas such as budgeting, audits, financial management, and human resources. The Senior Administrative Officer also provides support and supervision to the Budget and Cost Management Officer whose key role is otherwise not backed up. In addition, the Senior Administrative Officer helps to produce reports to the General Assembly and therefore, during the period the post has been vacant, this task occupied more of the SHP senior team members' time than would otherwise be necessary.

21. The delay in filling the post was due to a combination of factors. A first-choice candidate was selected from the roster, but she declined on 11 November 2020. A second roster selection was immediately made after the first-choice candidate declined, but this second selection was not approved by the hiring manager making a full competitive recruitment exercise necessary. OIOS was informed that the Secretary-General's guidance to achieve gender balance in line with the United Nation's gender equality policy was behind the decision to initiate the full competition. It was more than four months afterwards that 15 other prospective candidates were tested in March 2021. The time taken to interview the five best scoring candidates and get results to the Central Review Board on 22 June 2021 was a further three months. Approval by the Director-General was given on 22 July 2021. The onboarding process of the selected candidate was still ongoing as at the end of October 2021, with the selected candidate being expected to start on 22 November 2021.

22. The risk of high staff turnover (staff retention risk) is likely to increase as the project progresses and particularly as it nears the end. OIOS is of the view that appropriate lessons learned need to be drawn from the various factors that caused delays in the recruitment of the Senior Administrative Officer post to help inform mitigating measures and strategies for the staff retention risk.

**(2) UNOG should use the lessons learned from the delays experienced in the recruitment of the Senior Administrative Officer to explore additional measures to mitigate the staff retention risk and the risk of prolonged vacancies on SHP operations.**

*UNOG accepted recommendation 2 and stated that it will review the assessment of the retention risk in the risk register through a meeting with the risk management firm.*

#### Contractual negotiations related to the impact of the COVID-19 pandemic were satisfactory

23. In common with other similar contracts, the contract used by the United Nations and main contractors has a condition covering 'force majeure', which is an exceptional event or circumstance which is beyond a Party's control. The impact of COVID-19 on the execution of the Building H contract fulfilled the condition of force majeure and the Contractor notified the SHP Project Director of this in writing on 16 March 2020. The Canton of Geneva instructed all construction sites to be shut down by noon on 20 March 2020 and this measure remained valid until 19 April 2020. OIOS examined a series of transmittals that were sent between the SHP Project Director and the Contractor between mid-March and July 2020 which showed both parties robustly upholding their contractual rights regarding the force majeure. Both parties also showed appreciation of the mutual benefit of avoiding a formal dispute around the COVID-19 force majeure. With this background, UNOG strongly favored an amicable resolution by way of Contract Amendment 2. In summary, Contract Amendment 2 for the Building H contract signed on 29 January 2021 meant that agreement was reached between both parties whereby:



- (a) Times of completion of sections and milestones were extended meaning that the United Nations cannot pursue delay damages before the new dates;
- (b) The phased delivery dates of sub-sections of work were specified;
- (c) Agreements were reached concerning the costs and times for completion for over 90 variations; and
- (d) The Contractor no longer had claims for extensions of time under the contract, subject to specified exceptions. Claim 62 which was the Contractor's force majeure claim related to COVID-19 was fully resolved.

24. OIOS acknowledges that, if Contract Amendment 2 had not been signed, significant additional costs would probably have arisen from furtherance of the dispute with the Contractor. Records reviewed by OIOS reflect collaboration between the SHP project team, the Office of Legal Affairs (OLA) and the Contractor which led to the drafting of Contract Amendment 2.

25. However, OIOS observed some shortcomings with regard to: (a) maintenance of records of meetings with the Contractor; and (b) the role and involvement of procurement officials. These are discussed in more detail below.

Need to maintain records of meetings with the Contractor to ensure a clear and complete audit trail

26. As required by section 13.9 of the United Nations Procurement Manual and section 3.2 of the SHP Programme Manual, and in the interests of full transparency, OIOS expected to access notes of meetings with the Contractor which should have recorded officers present and details or key issues arising from the discussions. A file note prepared by the SHP Project Director on 12 January 2021 outlined the details of the consultations and meetings that took place leading to the drafting of Contract Amendment 2. The file note specified the attendees and results of two key meetings that were held one internally on 18 November 2020 and the other with the Contractor on 20 November 2020. The file note also made general reference to numerous meetings and exchange of documents that took place but the details of the meetings in terms of dates and who attended were not indicated in the file note, and minutes of such meetings were not documented. Further, the file note had not been shared with all those involved which is necessary for transparency and to allow those involved to provide any comments and also to help ensure there is a common understanding of the action points arising from the meetings.

**(3) UNOG should ensure that records of meetings relating to substantive negotiations with contractors concerning SHP are kept, and file notes or notes of meetings are shared with all concerned.**

*UNOG accepted recommendation 3 and stated that this will be done as part of the substantive negotiations with the Contractor which are yet to start. The procurement officers will participate to the different phases of the negotiations. Negotiation plans and minutes of the meetings will be shared with OIOS.*

Need to involve procurement officials during negotiations with the Contractor

27. The Procurement and Transport Section (PTS) was represented with a Procurement Officer in the 20 November 2020 meeting between the United Nations and the Contractor and was involved in the processing of the amendment once the details to be included in the amendment had been agreed on. PTS was however not informed or involved in the substantive meetings and exchanges that took place between 20 November and 10 December 2020 where the details of the agreements to be included in the contract amendment were discussed and negotiated. PTS indicated that it had proposed to participate but was advised that the meetings were of a technical/operational nature. Interviews with PTS and SHP staff showed that there was lack of common understanding of the extent to which PTS was to be informed or

involved in the meetings and in what capacity. The SHP Programme Manual addresses the role of procurement officials in processing contract amendments but does not go into detail on how this should be operationalized in cases where negotiations with the Contractor are necessary.

28. Since the meetings and consultations that SHP had with the Contractor between 20 November and 10 December 2020 included deliberations on details to be included in Contract Amendment 2, they went beyond the normal technical meetings and consultations that SHP regularly has with the Contractor for operational reasons and when processing variations that fall within the SHP Project Director's authority (less than \$1 million). Therefore, PTS should have been involved and kept informed about the details of the meetings and consultations as this is in line with their role as defined in section 13.5 of the United Nations Procurement Manual. This states that: "It is the responsibility of procurement officials as part of their contract administration duties, in consultation with the Requisitioner, to negotiate the appropriate contract changes regarding price, schedule, quality and performance, and ensure that the contract is amended so that, at all times, it defines the agreed expectations of both parties under the contract". The involvement of procurement officials helps to provide the required transparency and internal checks. As the role of procurement officials in negotiations can vary depending on the nature of negotiations, it should be formally agreed on upfront and/or documented in the negotiation plan.

**(4) UNOG should reinforce the requirement to involve procurement officials at every stage of complex negotiations relating to SHP that involve high value contract amendments.**

*UNOG accepted recommendation 4 and stated that this will be done as part of the substantive negotiations with the Contractor which are yet to start. The procurement officers will participate to the different phases of the negotiations. Negotiation plans and minutes of the meetings will be shared with OIOS.*

## **B. Project reporting, monitoring and control**

### Need to track/report progress against the original baselines

29. The SHP project team produces reports and key information which are used to keep the governing bodies and senior management informed and to aid decision-making and help manage and control the project. SHP project team prepares monthly presentations to the Director-General, Director of Administration and other senior SHP and UNOG managers. The presentations are based on project information and risks and provide an opportunity for a two-way exchange between SHP staff and the project owners. In addition, SHP issues regular monthly and quarterly reports as outlined below:

(a) Risk Management Quarterly Reports: These reports are produced by the independent risk management consultant and comprise a summary of the principal risks, the results of the cost and schedule risk analysis and the changes since previous quarter. They are distributed to the Director-General and the Director of Administration of UNOG, the Chief of the Global Asset Management Policy Service within the Office of the Controller in United Nations Headquarters, as well as the SHP Project Director and senior SHP staff.

(b) Monthly Risk Reports: These are produced by the risk management consultants and provide the SHP management team with an overview of risk activity during the month and the current forecast position of contingency assessment, completed actions and outstanding actions.

(c) SHP Monthly Reports: These are prepared by the programme management consultants with input from the risk management consultants and provide a monthly dashboard for senior stakeholders, SHP managers and consultants.

30. OIOS reviewed the quarterly risk management report for the period ended 30 June 2021 and noted that it is useful for explaining the current status of SHP and supporting decision-making. The report outlined details on project risks and included graphics to aid senior stakeholders. Similarly, the monthly reports gave useful commentary on the project status in terms of schedule, budget and expenditure and risk. The reports also provided information on important operational issues including: the SHP staff list and status of recruitment of vacant posts; cashflow analysis; list of active contracts; outreach activities; and statistics on documents posted in the project management information system.

31. According to the original scope, costs and timelines approved in General Assembly resolution 70/248, SHP was scheduled to be completed in 2023. In the sixth annual report to the General Assembly (A/74/452), the completion date was revised to 2024. While the monthly reports referred to baseline costs (original approved cost and approved revisions), the project schedule reported current projected timelines for the three phases but did not refer to the original timelines specified in General Assembly resolution 70/248 and/or subsequent approved revisions. It is essential to provide this comparison to stakeholders to clearly show the delays experienced as against the original target.

**(5) UNOG should ensure that in future SHP monthly reports, the programme management consultants include progress against the original and revised schedules approved by Member States.**

*UNOG accepted recommendation 5 and stated that future monthly progress report will be shared with OIOS.*

#### Lessons learned from SHP should be captured and disseminated

32. OIOS has noted several good practices that the SHP Project Director and his staff have applied to managing a complex programme of work. Some examples include: (a) the use of FIDIC (International Federation of Consulting Engineers) form of contract which was a departure from the contracts normally used by United Nations and was considered favorably by the senior SHP technical staff. OIOS examined the contracts for the construction of Building H and the historic building renovations which were vetted by OLA and supports the endorsements given by SHP staff; and (b) the use of a project management software computer application called PMWeb, which is an essential tool being used as a repository for project documentation and for supporting workflows for project consultants. This tool could be of use to UNOG personnel upon project handover including Facilities Management Section, archivists and project managers, in the conduct of their work in future.

33. There have also been some recurring themes, whereby a tension has occurred between staff operating established United Nations policies and procedures, and SHP staff who sometimes consider that not all United Nations policies and procedures promote sound project management of major capital programmes and projects. Examples include procurement procedures and the processing of variations which the project team considers lengthy. Some efforts have been made to address this following the Capital Master Plan at United Nations Headquarters in New York and an overseas Construction Manual was issued. The lessons learned from SHP could be used to update this Manual.

34. Based on the above, OIOS is of the view that it would be of benefit to the United Nations if the SHP Project team would leave a legacy of their experiences in managing the SHP project, and any recommendations, in the form of a written lessons learned. The lessons learned may contribute to revisions

to contracts, procedures and manuals for future programmes and projects. Further, with regards to the processing of variations it would be beneficial for SHP to also reflect whether the contract for Building H adequately facilitated mitigations to the risks of delayed claims and whether it supported an efficient and well-controlled variations process. This would help in identifying lessons learned that could be applied to the SHP going forward.

**(6) UNOG should ensure that SHP provides a written record of lessons learned and recommendations for distribution to senior management and relevant offices in UNOG and United Nations Headquarters.**

*UNOG accepted recommendation 6 and stated that lessons learned for procurement of historical building were used before launching the tender in the procurement process for Building E.*

#### Need to ensure efficient handover

35. The Facilities Management Section (FMS) had experienced increased workload and had two full time Liaison Officers working on SHP. Building H had been occupied, and the substantial completion was achieved on 4 October 2021. The Chief, FMS explained that there was no new technology in Building H to affect handover. There have been training sessions for FMS, and there will be new maintenance contracts, such as the contracts for lifts. Operations and maintenance manuals should be provided by SHP and would be shared with maintenance contractors. In this regard, the SHP project risk register identified the need to closely monitor contractors delivery of required residual items (such as operations and maintenance manuals) prior to substantial completion. Maintenance is the subject of discussions and transfer of Building H will not be accepted by FMS until issues have been resolved. Coordination mechanisms need to be established for FMS and SHP to work closely to enable efficient handover.

36. Traditionally, maintenance has been a reactive approach and funding has always been limited. The need for a planned preventive maintenance strategy and capital funding mechanism was addressed in the 2019 OIOS audit of facilities management (Report 2020/037) and implementation of the recommendation was ongoing. OIOS was told that FMS is working on planned preventive maintenance and would use Archibus (an agency-wide system used to manage real property information and processes). FMS also uses Archibus for space management and building information modelling.

**(7) UNOG should ensure that the Facilities Management Section and SHP liaise closely to ensure an efficient handover of the SHP sections of work, including handover of operation and maintenance manuals and ensuring that outstanding punch list items are remedied in accordance with contractual requirements.**

*UNOG accepted recommendation 7 and stated that maintenance manuals and updates on the punch list will be shared with OIOS.*

### **C. Contract variations, change management and claims**

#### Need to ensure that claims relating to the Building H contract are closely reviewed

37. Variations are initiated by the SHP Project Director (or his representative); the Building H contract stipulates that the Contractor shall not make any alterations or modifications to specified works until the SHP Project Director authorizes a variation. Variations are bound to occur in large programmes of work that span a lengthy duration and a complex scope such as SHP. It is important that change is well managed as variations may contribute to cost and time overruns. The SHP construction of Building H had been

subject to 138 variations between December 2017 and June 2021, and 95 claims between April 2018 and June 2021. Examination of the claims showed that a high proportion are attributed to variations which the Contractor claims has a consequential effect on time and costs required to finish the works.

**Table 2: Construction of Building H – number of variations and claims**

<b>Year</b>	<b>Number of variations</b>	<b>Number of claims</b>
2017	4	-
2018	8	16
2019	44	33
2020	56	10
2021 (to 30 June)	26	36
<b>Total</b>	<b>138</b>	<b>95</b>

38. A few variations accounted for a greater portion of the total CHF 14,759,374 variations incurred to date. These included one variation worth CHF 6,203,916 for the changes required to accommodate flexible working and another variation of CHF 2,032,591 for the revision of foundations works for the new building. OIOS examined 20 variations issued in 2021 in the amount of CHF 916,649. All were found to be correctly authorized by the SHP Project Director. All values were within the SHP Project Director’s delegation, ranging from CHF 4,678 to CHF 398,270.

39. OIOS’ examination of claims showed that the 36 claims issued in 2021 had been made by the Contractor since the signing of Contract Amendment 2, and all of these claims were linked to SHP instructions or variations that had been issued close to, or later than, the newly agreed substantial completion dates. This could result in a situation where claims may be used by the Contractor as a bargaining device to deter SHP from imposing damages for delays.

**(8) UNOG should closely review the claims made after Contract Amendment 2 of the Building H contract to either refute or resolve them as soon as possible, in order to avoid accumulation of issues when the contract ends.**

*UNOG accepted recommendation 8 and stated that updates on the claims will be provided to OIOS.*

## **D. Funding and expenditure controls**

The SHP budget is likely to be insufficient to meet the planned full scope of SHP

40. The overall budget for SHP has remained the same at CHF 836,500,000 since it was approved by the General Assembly in its resolution 70/248 of 23 December 2015. The SHP Monthly Report for July 2021 states the Risk Management Consultant’s estimate of forecast outturn as CHF 870,025,712 at P80 (80 per cent) confidence level, which would equate to an over-expenditure of CHF 33,525,712, or 4 per cent of the budget. OIOS was told that Member States together with the Department of Management emphasize that they want delivery of SHP within schedule and budget. A lot of uncertainty on the budget will be eliminated when the guaranteed maximum price for Building E is determined (Phase 3 of the project).

41. As of July 2021, the SHP Risk Management Consultants assessed the likelihood of completion within budget at around 16 per cent. The challenge to come within budget has become harder with costs from COVID-19 exacerbating the projected overspend. Value engineering is being considered but will require difficult decisions and ultimately it may be necessary to descope the project (subject to receiving approval of the General Assembly) in order to meet the originally approved budget. Descoping or deferring part of the scope beyond the end of SHP could cause cost inefficiencies in the longer term which would

outweigh cost savings in the short term. Mitigations include developing cost saving activities during and after pre-construction services period, continuing to hold value engineering workshops and monitoring outputs, and the enabling of changes to be valued clearly and quickly, avoiding design programme changes as far as possible and tightly managing contingencies. UNOG also has to report any scope reductions to the SHP Steering Committee and the General Assembly for their approval and these mechanisms would provide the required oversight to help ensure that the rationale for scope reductions and cost inefficiencies that may arise in the longer term due to the scope reductions are clearly explained and taken into account in decision making.

SHP has established appropriate controls for processing payments to the Contractor

42. The application and certification of interim payments to the Contractor in the construction of Building H has been governed by clause 14 and related annexes of the contract between the Contractor and the United Nations. OIOS tested a sample of 15 interim payments totaling \$53 million out of the \$117 million spent in the construction of Building H as of July 2021 and verified that the payments were all subjected to the certification and verification controls specified in the contract and SHP Programme Manual. OIOS verified that the amounts invoiced by the Contractor were in line with the amounts certified/approved by the independent project cost consultants and architects and matched the Interim Payment Certificates issued by the SHP Project Director. OIOS also verified that the amounts invoiced were correctly calculated considering the approved retentions (at the approved rate of 5 per cent) and deductions made for amounts previously paid.

#### **IV. ACKNOWLEDGEMENT**

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

*(Signed)* Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the Strategic Heritage Plan at the United Nations Office at Geneva

Rec. no.	Recommendation	Critical/ Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	UNOG should: (a) strengthen the engagement between SHP and key stakeholders to ensure that requirements are clarified, and clients take signed ownership for agreed design changes in a timely manner; and (b) report to the General Assembly the design changes that have a significant impact on the SHP in terms of cost, delay or achievement of objectives.	Important	O	Receipt of: (a) evidence of regular engagement between SHP and key stakeholders; and (b) evidence that details of design changes that have a significant impact on the SHP in terms of cost, delay or achievement of objectives have been incorporated in the 2022 annual progress report to the General Assembly.	30 September 2022
2	UNOG should use the lessons learned from the delays experienced in the recruitment of the Senior Administrative Officer to explore additional measures to mitigate the staff retention risk and the risk of prolonged vacancies on SHP operations.	Important	O	Receipt of details of the measures put in place to mitigate the staff retention risk and the risk of prolonged vacancies on SHP operations.	30 March 2022
3	UNOG should ensure that records of meetings relating to substantive negotiations with contractors concerning SHP are kept, and file notes or notes of meetings are shared with all concerned.	Important	O	Receipt of evidence that records of meetings and file notes relating to substantive negotiations with contractors concerning SHP are kept and shared with all concerned.	30 June 2022
4	UNOG should reinforce the requirement to involve procurement officials at every stage of complex negotiations relating to SHP that involve high value contract amendments.	Important	O	Receipt of evidence that UNOG has issued instructions and established arrangements to ensure that the role of procurement officials in every stage of complex negotiations relating to SHP is formally agreed on in advance and/or documented in the negotiation plan.	30 June 2022
5	UNOG should ensure that in future SHP monthly reports, the programme management consultants	Important	O	Receipt of evidence that the design of the SHP monthly reports has been revised to include	30 June 2022

<sup>1</sup> Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

<sup>2</sup> Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

<sup>3</sup> Please note the value C denotes closed recommendations whereas O refers to open recommendations.

<sup>4</sup> Date provided by UNOG in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the Strategic Heritage Plan at the United Nations Office at Geneva

	include progress against the original and revised schedules approved by Member States.			details of progress against the original and revised schedules approved by Member States.	
6	UNOG should ensure that SHP provides a written record of lessons learned and recommendations for distribution to senior management and relevant offices in UNOG and United Nations Headquarters.	Important	O	Receipt of the plan of action put in place to document and distribute lessons learned to senior management and relevant offices, with priority given to lessons learned in areas such as processing of variations which SHP could apply going forward.	30 June 2022
7	UNOG should ensure that the Facilities Management Section and SHP liaise closely to ensure an efficient handover of the SHP sections of work, including handover of operation and maintenance manuals and ensuring that outstanding punch list items are remedied in accordance with contractual requirements.	Important	O	Receipt of the arrangements put in place to ensure that the Facilities Management Section and SHP liaise closely to ensure an efficient handover of the SHP sections of work.	30 June 2022
8	UNOG should closely review the claims made after Contract Amendment 2 of the Building H contract to either refute or resolve them as soon as possible, in order to avoid accumulation of issues when the contract ends.	Important	O	Receipt of evidence of action taken to ensure that claims made after Contract Amendment 2 of the Building H contract are refuted or resolved in a timely manner, to avoid accumulation of issues when the contract ends.	30 June 2022



# **APPENDIX I**

## **Management Response**

## Management Response

## Audit of the Strategic Heritage Plan at the United Nations Office at Geneva

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNOG should: (a) strengthen the engagement between SHP and key stakeholders to ensure that requirements are clarified and clients take signed ownership for agreed design changes in a timely manner; and (b) report to the General Assembly the design changes that have a significant impact on the SHP in terms of cost, delay or achievement of objectives.	Important	Yes	Chief of Service, Programme Management	30 September 2022	(a) SHP will share communication with stakeholders on agreed changes with OIOS. (b) SHP will share the report that will be available in September 2022 to the GA.
2	UNOG should use the lessons learned from the delays experienced in the recruitment of the Senior Administrative Officer to explore additional measures to mitigate the staff retention risk and the risk of prolonged vacancies on SHP operations.	Important	Yes	Senior Administrative Officer	30 March 2022	SHP will review the assessment of the retention risk in the risk register through a meeting with the risk management firm. SHP will also share communications held with BOA on a recommendation on a same topic which is now closed.
3	UNOG should ensure that records of meetings relating to substantive negotiations with contractors concerning SHP are kept, and file notes or notes of meetings are shared with all concerned.	Important	Yes	Director, Programme Management	30 June 2022	This will be done as part of the substantive negotiations with the Contractor which are yet to start. The procurement officers will participate to the different phases of the negotiations. Negotiation plans and minutes of the meetings will be shared with OIOS.

<sup>1</sup> Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

<sup>2</sup> Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

## Management Response

## Audit of the Strategic Heritage Plan at the United Nations Office at Geneva

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
4	UNOG should reinforce the requirement to involve procurement officials at every stage of complex negotiations relating to SHP that involve high value contract amendments.	Important	Yes	Director, Programme Management	30 June 2022	Same comment as above.
5	UNOG should ensure that in future SHP monthly reports, the programme management consultants include progress against the original and revised schedules approved by Member States.	Important	Yes	Chief of Service, Programme Management	30 June 2022	The future monthly progress report will be shared with OIOS.
6	UNOG should ensure that SHP provides a written record of lessons learned and recommendations for distribution to senior management and relevant offices in UNOG and United Nations Headquarters.	Important	Yes	Engineer	30 June 2022	Lessons learned for procurement of historical building can be provided now. These were used before launching the tender in the procurement process for building E.
7	UNOG should ensure that the Facilities Management Section and SHP liaise closely to ensure an efficient handover of the SHP sections of work, including handover of operation and maintenance manuals and ensuring that outstanding punch list items are remedied in accordance with contractual requirements.	Important	Yes	Chief of Construction and Design	30 June 2022	Maintenance manuals and updates on the punch list will be shared with OIOS.
8	UNOG should closely review the claims made after Contract Amendment 2 of the Building H contract to either refute or resolve them as soon as possible, in order to avoid accumulation of issues when the contract ends.	Important	Yes	Director, Programme Management	30 June 2022	Updates on the claims will be provided to OIOS.