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Report of the Board of Auditors

for the year ended 31 December 2009

Volume V
Capital master plan

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Official Records
Sixty-fifth Session
Supplement No. 5

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Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Contents

Letter of transmittal

[30 June 2010]

I have the honour to transmit to you the report of the Board of Auditors on the capital master plan for the year ended 31 December 2009.

(*Signed*) Terence **Nombembe**
Auditor-General of South Africa and
Chair, United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Report of the Board of Auditors on the capital master plan for the year ended 31 December 2009

Summary

The Board of Auditors has audited the financial transactions and reviewed the management of the capital master plan for the year ended 31 December 2009. The Board also audited statement IX, schedule 9.1 (part I) and note 9 to the financial statements of the United Nations (A/65/5 (Vol. I)) for the period ended 31 December 2009 as they relate to the capital master plan for the biennium 2008-2009.

Implementation of previous recommendations

Of the 17 recommendations made in the Board's report for the year ended 31 December 2008 (A/64/5 (Vol. V)), 9 (53 per cent) were fully implemented, 7 (41 per cent) were under implementation and 1 (6 per cent) was not implemented. This is indicative of a slight deterioration in the rate of implementation of the Board's recommendations, attributable mainly to delays in the set-up of the post-award review committee created in response to several recommendations of the Board regarding procurement management.

Financial overview

According to statement IX of the financial statements of the United Nations for the biennium ended 31 December 2009 (see A/65/5 (Vol. I)), the shortfall of income relating to the capital master plan was $79.0 million, compared to an excess of income over expenditure of $397.0 million for the previous biennium. The shortfall was due to the 10-fold increase in expenditure, from $82.9 million as at 31 December 2007 to $813.4 million, which reflected the further advance of the capital master plan into its operational phase, as well as the time lag between the recognition of income and the recognition of expenditure for the project. The bulk of income was recognized prior to the bulk of expenditure, mainly as a result of: (a) the assessment scheme adopted by the General Assembly, which offered the option of a one-time assessment for the duration of the project; and (b) the delay in the implementation of the project. Therefore, the shortfall of income does not suggest that the project is at risk financially.

The reserves and fund balances amounted to $1.1 billion as at 31 December 2009, compared to $532.5 million at the end of the previous biennium, or a 104 per cent increase. This is attributable mainly to the transfer of $702.0 million to construction in progress, representing the capitalized costs incurred during the biennium.

Total assets amounted to $1.8 billion as at 31 December 2009, compared to $730.8 million at the end of the previous biennium, an increase of 148 per cent. This is due to an increase in the cash balance from $365.3 million to $923.9 million, or 153 per cent, and in funds for construction in progress, which increased from $113.9 million to $763.1 million, or 570 per cent. Total liabilities increased from $198.2 million to $725.7 million, or 266 per cent, mainly as a result of higher unliquidated obligations.

Project management

The latest cost estimate for the project provided to the Board, which was carried out as at January 2010, was $2.0 billion, representing an overrun of almost $95.2 million above the $1.9 billion budget, or 5.1 per cent. This represented a slight increase compared with the estimate submitted to the General Assembly at its sixty-fourth session, in September 2009 (A/64/346). With the exception of construction costs, which declined slightly, all the expense items contributed to the increase.

To bring the total project cost back down to the level of the approved budget ($1.9 billion), the Office of the Capital Master Plan continued to identify savings through the value engineering programme. In this regard, in his seventh annual progress report on the implementation of the capital master plan, the Secretary-General stated that the goal was to achieve an additional $100 million or more in savings so as to allow the project to be completed on or below budget (A/64/346, para. 16).

The Board noted the efforts in this area, particularly in the time spent negotiating guaranteed maximum price contracts. However, the Board was unable to specifically identify and review the individual measures taken to generate those savings. The Office of the Capital Master Plan did not supply a statement listing those measures and the corresponding savings, explaining that savings could not be isolated from other cost-control measures. The Board was therefore unable to provide any assurance as to the actual efficiency of the value engineering programme in terms of cost reduction. Furthermore, the programme is time-consuming and, in view of the efforts already made, further savings within this framework are likely to be limited. This does not mean that the Administration should cease its cost-control measures; on the contrary, such measures are instrumental in bringing costs back on budget. It is uncertain, however, whether the value engineering programme can generate a further $100 million, as suggested in the aforementioned report of the Secretary-General.

Regarding contingencies, the provision of $163.5 million appeared insufficient for the following reasons:

(a) The new formula for calculating the provision excluded all expenses other than those concerning construction, although the other expenses, especially for fees and management expenses, were increasing significantly;

(b) The rate of utilization of the provision for guaranteed maximum price contracts already signed was rather high.

A large proportion of the cost overruns, in particular for construction and professional fees, was due to the high number of change orders, particularly for the swing spaces. The change orders emanated mainly from the final users, the authorities in charge of safety and security or the Administration itself for technical matters. The Office of the Capital Master Plan did not, however, provide the Board with a detailed assessment of those requests or of the financial volume of each category of change order. The absence of an analysis of the causes of overruns limits the ability of the Administration to draw lessons for upcoming operations and thus reduce change order requests.

In terms of the schedule, the project has reached a noteworthy stage since the Board's previous report, with the delivery and occupation of the temporary conference building in late 2009 and early 2010. More than 5,000 United Nations staff left their workplaces, especially in the Secretariat Building, for temporary offices rented and set up by the Office of the Capital Master Plan. At the time of the audit, however, 482 staff or affiliates were still occupying the Secretariat Building (127 at as 10 July 2010).

Since the issuance of the sixth annual progress report of the Secretary-General to the General Assembly in October 2008 (A/63/477), the start of renovation work has been delayed by approximately nine months for the Conference and General Assembly Buildings and approximately a year for the Secretariat Building.

As far as the Secretariat Building is concerned, contingency margins included in the initial schedules had disappeared, and not all subcontractors for the construction manager had yet been selected at the time of the audit.

In its previous report, the Board had recommended that the Administration make provisions for delays that could occur in the work schedule and continue to study methods for reducing delays as much as possible. For the Secretariat Building, the first part of the recommendation was not implemented. For the remainder of the project, the Office of the Capital Master Plan implemented certain provisions to limit delays (optimizing site stages with the construction manager and inspecting the supply chain and delivery sites). It is advisable to continue such efforts given the continuing risks.

Procurement and contract management

In its previous report the Board raised several issues regarding procurement and contract management. In particular the adapted procedures for amendments contained flaws. In addition, the Board was concerned by the great number and the high financial value of amendments signed; it made several recommendations to strengthen internal control over the procurement procedures.

In response to those recommendations, the Administration set up a post-award review committee for amendments to capital master plan contracts, which was expected to be operational in October 2009 (see A/64/368, para. 35). However, as at April 2010, not all committee members had been nominated and the committee could not yet begin to operate fully. The delay was all the more regrettable because it increased the backlog of documents to be examined, which was already significant when the idea to create the committee was suggested.

The Board went further into its review of amendments to design contracts. In 2009 alone, 88 amendments were signed, representing a total of $20.6 million, compared with $51.2 million in 2008, or a reduction of nearly 60 per cent. The Board examined 37 of the 88 amendments. It observed that while some of the amendments involved the activation of design phases included in the initial contracts, some represented significant amounts concerning services without a direct link to the initial scope of services pertaining to the restoration of the buildings of United Nations Headquarters.

The decision-making process for the amendments could be improved in terms of the clarity and completeness of the files. In particular, the exact motives of the requests for amendments and the benefits of the negotiations with the vendors were not clearly assessed.

Main recommendations

The Board's main recommendations are that the Administration:

(a) Include in its progress report on the implementation of the capital master plan a detailed analysis of the trends in the total cost of the project and their causes (para. 51);

(b) Reassess the merits of the value engineering programme (para. 62);

(c) Reduce to a strict minimum requests for change orders, particularly by its own services (para. 67);

(d) Establish a typology of the principal cause of construction cost overruns, especially for change orders, and using that typology, evaluate the financial volume of each category of change order (para. 73);

(e) Reassess the appropriateness of the scope and the level of the provision for contingencies (para. 84);

(f) Quickly define once and for all the main measures relating to the refurbishment of workspaces (para. 102);

(g) Expedite the functioning of the post-award review committee (para. 129);

(h) Improve the management of the files for the amendments by systematically including information on the negotiation process with the vendor, the results thereof, the exact nature of the work and its location and by enhancing the format of the cover note on requests for amendments so as to give the decision makers a clear understanding of the purpose and the authors of the requests (para. 147).

The Board's other recommendations appear in paragraphs 31, 43, 44, 57, 79, 99, 104, 110, 112, 115 and 118.

A. Mandate, scope and methodology

1. The capital master plan, which was established pursuant to General Assembly resolution 55/238, encompasses all expenditure relating to the major refurbishment of the United Nations Headquarters complex in New York. It was initially funded through an appropriation from the United Nations regular budget. The Assembly, in section II, paragraph 24, of its resolution 57/292, established a special account for the capital master plan. Subsequently, appropriations were made to the special account from assessments on Member States. The financial position of the capital master plan is reported as part of statement IX, United Nations capital assets and construction in progress, of the financial statements of the United Nations (see A/65/5 (Vol. I)). Schedule 9.1 (part I) and note 9 to the financial statements also relate to the capital master plan. Any unexpended balances of appropriations are carried forward into the succeeding bienniums until the project is completed.

2. The Board of Auditors has audited the financial transactions of the capital master plan and reviewed its programme management for the year ended 31 December 2009. The accounts of the capital master plan are included in the financial statements of the United Nations, on which the Board expresses its opinion in the relevant report (see A/65/5 (Vol. I)). The audit was conducted in accordance with General Assembly resolution 57/292, in which the Assembly requested the Board to initiate oversight activities with respect to the development and implementation of the capital master plan and to report to it annually thereon. The Board conducted its examination in accordance with article VII of the Financial Regulations of the United Nations and the annex thereto, as well as the International Standards on Auditing.

3. The audit was based on the following broad objectives, mentioned by the Board in paragraph 2 of its first report on the capital master plan (A/58/321):

(a) To examine the capital master plan financial statements, including an evaluation of project accounting, payment and reporting systems;

(b) To ascertain compliance with United Nations regulations and rules on procurement and contracting;

(c) To determine adherence to the terms of the contracts, such as deliverables, time and significant provisions;

(d) To review the controls, including internal audit, and processes established to properly manage the project.

4. The Board examined the general state of progress of the capital master plan since the preparation of its previous report (A/64/5 (Vol. V)) and the way in which the risks associated with the project were determined and managed.

5. The Board coordinated with the Office of Internal Oversight Services (OIOS) in the planning of the audit in order to avoid duplication of effort and to determine the extent of reliance that could be placed on the latter's work.

6. The present report addresses matters which, in the view of the Board, should be brought to the attention of the General Assembly, including specific requests from the Assembly and the Advisory Committee on Administrative and Budgetary Questions. In particular, pursuant to section I, paragraph 22 of Assembly resolution 64/228, the Advisory Committee requested the Board to include in its next report on the capital master plan information on the factors that restrict the diversification of the origin of vendors and progress achieved in increasing the procurement

opportunities for vendors from developing countries and countries with economies in transition for the capital master plan. The Board conducted a review of those matters, the results of which are contained in the relevant sections of the present report.

7. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

8. The recommendations contained herein do not address steps which the Administration may wish to consider in respect of officials for non-compliance with the Financial Regulations and Rules, administrative instructions and other related directives.

B. Findings and recommendations

1. Follow-up of previous recommendations

9. Of the 17 recommendations made in its report for the year ended 31 December 2008, 9 (53 per cent) were fully implemented, 7 (41 per cent) were under implementation and 1 (6 per cent) was not implemented. This is indicative of a slight deterioration in the rate of implementation of the Board's recommendations, attributable mainly to delays in the set-up of the post-award review committee created in response to several recommendations of the Board regarding procurement management.

10. The Board reiterates the eight recommendations of its previous report that have not yet been implemented (see A/64/5 (Vol. V), paras. 55, 61, 78, 90, 92, 113, 120 and 121).

2. Financial overview

11. According to statement IX of the financial statements of the United Nations for the biennium ended 31 December 2009, the shortfall of income relating to the capital master plan was $79.0 million, compared to an excess of income over expenditure of $397.0 million for the previous biennium. The shortfall was due to the 10-fold increase in expenditure, from $82.9 million to $813.4 million, which reflected the further advance of the capital master plan into its operational phase, as well as the time lag between the recognition of income and the recognition of expenditure for the project. The bulk of income was recognized prior to the bulk of expenditure, mainly as a result of: (a) the assessment scheme adopted by the General Assembly, which offered the option of a one-time assessment for the duration of the project; and (b) the delay in the implementation of the project. Therefore, the shortfall of income does not suggest that the project is at risk financially.

12. The reserves and fund balances amounted to $1.1 billion as at 31 December 2009, compared to $532.5 million at the end of the previous biennium, or a 104 per cent increase. This is attributable mainly to the transfer of $702.0 million to construction in progress, representing the capitalized costs incurred during the biennium.

13. Total assets amounted to $1.8 billion as at 31 December 2009, compared to $730.8 million as at the end of the previous biennium, or an increase of 148 per cent. This is due to an increase in the cash balance from $365.3 million to $923.9 million, or 153 per cent, and in funds for construction in progress, which

increased from $113.9 million to $763.1 million, or 570 per cent. Total liabilities increased from $198.3 million to $725.7 million, or 266 per cent, mainly as a result of higher unliquidated obligations.

3. Statement of income and expenditure

(a) Expenditure

14. Expenditure for 2009 was $583.8 million, compared to $229.6 million in 2008, or a 154 per cent increase. As shown in Schedule 9.1 of the financial statements of the United Nations (see A/65/5 (Vol. I)), as well as in table 1, cumulative expenditure since the start of the capital master plan was $928.9 million as at 31 December 2009, compared to $345.1 million as at 31 December 2008, a 169 per cent increase.

15. As a percentage of the cumulative total of assessed contributions to the capital master plan, which was $1.2 billion as at 31 December 2009 (see ST/ADM/SER.B/796, annex XLVI), cumulative expenditure was 78 per cent as against 40.4 per cent at 31 December 2008.

Table 1
Capital master plan expenditure

	Expenditure (thousands of United States dollars)					*Share of the total (percentage)*				
Item	*Pre-2007*	*2007*	*2008*	*2009*	*Total*	*Pre-2007*	*2007*	*2008*	*2009*	*Total*
Salaries and other staff expenditure	8 414	3 236	3 999	5 005	20 654	12.2	7.0	1.7	0.9	2.2
Travel	74	25	30	35	164	0.1	0.0	0.0	0.0	0.0
Contractual services	58 425	30 279	105 069	21 145	214 918	84.6	65.3	45.8	3.6	23.1
Operating expenses	1 865	9 912	20 189	35 626	67 592	2.7	21.4	8.8	6.1	7.3
Acquisitions	284	2 942	100 324	522 030	625 580	0.4	6.3	43.7	89.4	67.4
Subtotal	**69 062**	**46 394**	**229 611**	**583 841**	**928 908**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cancellation of prior-period obligations	1 531	10	1 438	2 055	5 034	—	—	—	—	—
Total	**67 531**	**46 384**	**228 173**	**581 786**	**923 874**	—	—	—	—	—

Source: Financial statements of the United Nations (A/65/5 (Vol. I)); calculations by the Board of Auditors.

16. The increase in expenditure concerned mainly acquisitions, which grew by 420 per cent between 2008 and 2009 because of investment in construction and improvements. Amounts expended in 2009 included the renovation of the curtain wall ($128.3 million), work on refurbishment of office swing space ($132.5 million) and additional work on the temporary conference building ($56.3 million).

17. Operating expenses, whose share in total expenditure has remained stable since 2008, concerned mainly the rental of office swing space ($28.7 million in 2009).

18. The cost of contractual services fell significantly in 2009 compared to 2008 as a result of there being fewer design studies in progress. The main costs committed in 2009 were for security matters and studies relating to the Secretariat and General Assembly Buildings.

Unliquidated obligations

19. As at 31 December 2009, unliquidated obligations for the current period were $420.7 million. They mainly concerned acquisitions, since most of the contracts signed related to multi-year construction. The ratio of unliquidated obligations to expenditure was 52 per cent compared to 58 per cent at the end of the previous biennium. These high rates were typical of the capital master plan, under which contracts are frequently signed for high amounts but disbursements are spread out over several years.

Associated costs

20. Associated costs correspond to the acquisition of goods or services which, though made necessary by the work of the capital master plan, are not directly attributable to Headquarters refurbishment operations. They are met by the Secretariat’s departments and offices, with the approval of the Programme Planning and Budget Division, which checks that they are not related to current expenditures.

21. Associated costs are charged against a special account, separate from the capital master plan fund. Operations on the account are disclosed in an ad hoc column of statement IX of the United Nations financial statements. The amount of associated costs for the biennium 2008-2009 was $18.5 million, comprising $3.4 million for capitalized costs and $15.1 million for non-capitalized costs. Those costs mainly concerned staffing ($8 million), acquisitions ($6.6 million), operating costs ($2.1 million) and contractual services ($1.9 million).

22. The cost of furnishings and supplies for some office swing space, as well as the rent for the space, were allocated to the associated costs accounts. This concerned workplaces for temporary staff recruited on the periphery of the capital master plan, whose salaries are also considered to be associated costs.

23. In the sixth report of the Advisory Committee on Administrative and Budgetary Questions to the General Assembly on the proposed programme budget for the biennium 2010-2011 (A/64/7/Add.5), the associated costs that were expected to be committed by the end of the biennium 2008-2009 were estimated at $26.9 million. As shown in table 2, this forecast was an overestimate, particularly for the Department of Public Information and the Office of Central Support Services. As foreseen in the report, most of the funds allocated to the Department of Public Information were not able to be committed by 31 December 2009 and had still not been committed as at the time of the audit. The underutilization of allotments by the Office of Central Support Services was explained mainly by delays in the moves to and the furnishing of the swing spaces and was not due to a reduction in associated costs resulting from cost-cutting measures. The Office of Central Support Services estimated in October 2009 that only $1.8 million would be saved from the provisional budget. At the time of the audit, it did not appear that any further savings could be expected.

Table 2
Status of expenditure pertaining to associated costs
(Thousands of United States dollars)

	Approved 2008-2009[a] (a)	*Expenditure as at 31 December 2009[b] (b)*	*Unencumbered balance for 2008-2009 (c)=(a)-(b)*
Department for General Assembly and Conference Management	995.3	980.9	14.4
Department of Public Information	3 823.1	527.7	3 295.4
Office of Central Support Services	11 720.1	5 182.7	6 537.4
Construction, alteration, improvement and major maintenance	4 521.6	3 883.5	638.1
Department of Safety and Security	7 576.3	7 332.5	243.8
Office of Information and Communications Technology	1 636.0	624.3	1 011.7
Total	**30 272.4**	**18 531.6**	**11 740.8**

[a] General Assembly resolution 63/270.
[b] According to the financial statements of the United Nations for the biennium ended 31 December 2009 (see A/65/5 (Vol. I)).

(b) Income

24. As at 31 December 2009, total income for the biennium 2008-2009 was $734.4 million, compared to $479.9 million for the previous biennium, or a 53 per cent increase. This income comprised $681.9 million in assessed contributions (93 per cent of the total) and $52.5 million in interest income (7 per cent of the total), compared to $461.5 million and $18.3 million respectively for the biennium 2006-2007.

25. According to annex XLVI to the report on the status of contributions as at 31 December 2009 (ST/ADM/SER.B/796), the cumulative total of contributions paid by Member States since the start of the capital master plan (excluding contributions received in advance) was $1.165 billion, or 98.2 per cent of the cumulative total assessed contributions payable by that date ($1.187 billion). This high rate revealed an acceleration in the payment of contributions. Only 6 per cent of contributions due for the year 2009 were outstanding by the end of that year. The rate was 23 per cent at the end of 2008 for the contributions due for that year (ST/ADM/SER.B/761, annex XLV).

26. Furthermore, by the end of 2009, $120.5 million of contributions had been received in advance from Member States, down 35 per cent compared to 31 December 2008.

27. The cumulative total of contributions actually paid by Member States to the capital master plan fund as at 31 December 2009, including contributions received in advance, was $1.286 billion for cumulative expenditure of $928.9 million. This difference, added to the large amount of interest income and unliquidated

obligations, explained the high cash balance of $923.9 million as at 31 December 2009.

Management of voluntary contributions

28. In its resolution 63/270, the General Assembly specified that donations by Member States to the capital master plan should be accepted without distinction or conditions and without prejudice to the scope, specifications and design of the project. On that basis, the Office of the Capital Master Plan sent a letter to Member States on 27 August 2009 setting out the terms applying to donations. Member States were invited, if they so desired, to make a financial contribution in order to be identified as sponsors of refurbished premises. Contributions of $1 million to $5 million would be accepted for that purpose, depending on whether the sponsorship concerned small rooms or large areas. In addition, cash contributions of any size, not involving the adoption of a room, would be accepted.

29. As at 31 December 2009, no Member State had pledged a donation. Without yet having formalized their offers, some Member States had, however, expressed an interest in making a voluntary contribution.

30. Thirteen areas (such as the meeting rooms of the Security Council, the Economic and Social Council and the Trusteeship Council) had already been sponsored by 11 Member States. Those areas were not listed by the Office of the Capital Master Plan among the new opportunities for sponsorship. However, whether those 11 Member States would still be considered to be sponsors of the refurbished areas if they did not make a new voluntary contribution was not specified. The donations policy stated only that as a general principle, Member States that had already made a donation in respect of a particular space in the past would continue to have priority over that space.

31. **The Board recommends that the Administration refine its donations policy so as to clarify the status of past sponsorships.**

4. Statement of assets, liabilities, reserves and fund balances

(a) Assets

32. As at 31 December 2009, total assets amounted to $1.8 billion. That figure takes into account a reclassification performed, as recommended by the Board, to distinguish capitalized costs from operating costs. The method used for the reclassification consisted of categorizing costs according to the following:

(a) The date of commitment. Costs committed prior to 1 July 2006, the launch date of strategy IV in accordance with General Assembly resolution 60/282, were considered to be operating costs;

(b) The nature of the costs, which were analysed within the framework of the United Nations system accounting standards, according to which the costs incurred during construction or major long-term acquisitions that extend over more than one financial period should be accumulated and disclosed in a separate account but also in anticipation of the implementation of the International Public Sector Accounting Standards (IPSAS). Non-expendable property should not be capitalized according to the United Nations system accounting standards, but should be capitalized according to IPSAS because it generally corresponds to equipment and furniture that generate benefits for the United Nations for a period of more than one year. In accordance with the United Nations system accounting standards, the Administration therefore considered non-expendable property acquired by the capital master plan as operating costs, but put those acquisitions in a separate category with a view to the application of IPSAS. Accordingly, the Administration considered that operating costs included staff costs (which were administrative costs), moving costs, rent and non-expendable property. Capitalized costs included professional services, the fees of architects, the construction manager and the consultants and other types of fees;

(c) Planned length of use of the property acquired. If this period is less than one year, the cost cannot be capitalized.

33. However, as an exception to the first of these criteria, some costs committed before 1 July 2006, amounting to $15.6 million, were considered capitalized costs. These corresponded to contractual services committed between 1 January and 30 June 2006 but paid for after 1 July 2006.

34. As a result of the reclassification exercise, out of the $923.9 million of total cumulative expenditure (including the cancellation of prior-period obligations) from the start of the project to 2009, $160.8 million, or 17 per cent, was recognized as operating costs (of which $108.0 million related to the biennium 2008-2009), while $763.1 million, or 83 per cent, was recognized as capitalized costs.

35. Applying the reclassification retroactively, that is, applying the reclassifications to accounts related to the previous biennium, would imply that total assets had grown by 167 per cent compared to 31 December 2007. This growth was explained by the inclusion of construction in progress (which increased by 570 per cent, from $113.9 million to $763.1 million) and the increase in the cash balance (up 153 per cent, from $365.3 million to $923.9 million). As at the same date, contributions receivable from Member States fell 83 per cent, from $127.5 million to $21.7 million.

(b) Liabilities

36. Total liabilities as at 31 December 2009 were $725.7 million compared to $198.3 million at the end of the previous biennium, an increase of 266 per cent. This increase is due mainly to the growth in unliquidated obligations for the current period (from $48.4 million to $420.7 million). The increase in the amount of contributions or payments received in advance (from $7.2 million to $120.5 million) also played a part in the increase.

37. Unliquidated obligations for future periods, amounting to $98.9 million according to statement IX, were underestimated in view of actual commitments made for the capital master plan, which relate mainly to rent for office swing space until the end of September 2012. An amount of $98.2 million was entered as unliquidated obligations for future periods in relation to the rent, even though the future amount for the rent paid from the capital master plan fund was calculated by the Office of the Capital Master Plan and the Procurement Division to be $106.9 million based on the signed leases.

38. The Administration acknowledged that there was an error in the accounting of these unliquidated obligations for future periods, although it was unable to supply the exact figure.

39. This error in the obligations for future periods was due largely to the fact that not all rent for office swing space was paid from the capital master plan fund. Where staff relocations were not directly linked to the capital master plan, the corresponding rent was paid from the regular budget, under the responsibility of the

Facilities Management Service of the Office of Central Support Services. Of the 5,499 completed or upcoming moves, the costs of only 3,396 were allocated to the capital master plan fund. Those were for moves planned at the time the project was launched.

40. The 2,103 other moves managed by the Facilities Management Service were the result of:

(a) Moves to group together physically, in adjoining areas, departments that had previously been scattered;

(b) The inclusion of consultants and other affiliates who had not been counted;

(c) The recruitment of new staff;

(d) Cascade effects.

41. The distinction between moves directly linked to the capital master plan and those not linked to the plan was, in practice, highly complex, as were the ensuing financial arrangements. A single swing space building could accommodate both staff whose moves were allocated to the capital master plan accounts and staff whose moves were allocated to other accounts. The sharing of facilities between the Office of the Capital Master Plan and the Facilities Management Service was sometimes difficult to disentangle. For the United Nations Federal Credit Union Building, for instance, although the lease for four floors was signed by the Office of the Capital Master Plan, the rent for two floors was allocated solely to the capital master plan accounts, the rent for one floor was split among the capital master plan, the Facilities Management Service and others, and the rent for the other floor was paid from the Facilities Management Service budget. This sharing arrangement was simplified somewhat from 1 January 2010 onward.

42. Identifying and evaluating the obligations for future periods, which involves the Procurement Division, the Office of the Capital Master Plan and the Accounts Division, was therefore complicated, which partly explains the error highlighted above.

43. **The Board recommends that the Secretariat review the list and the value of the unliquidated obligations for future periods corresponding to rent associated with the capital master plan.**

44. **The Board also recommends that the Secretariat conduct a thorough review of rent partition between the capital master plan fund and other funds.**

5. Project management

(a) Cost estimate

Overall analysis

45. In his seventh annual progress report to the General Assembly on the implementation of the capital master plan (A/64/346), the Secretary-General provided a total cost estimate for the project and the increase in the cost compared to the previous year. The Office of the Capital Master Plan also sent the Board, upon request, the most up-to-date version of the budget at the time of the audit.

46. The cost estimates for the project from the final estimate for the old strategy (known as strategy IV) to the most recent estimate for the current strategy, which the Office of the Capital Master Plan supplied to the Board, are provided in table 3. The values are not completely comparable in that the first column relates to a

strategy abandoned by the General Assembly, while the next three columns relate to the current strategy, in accordance with the decision of the Assembly in its resolution 62/87. Without in any way calling this decision into question, the Board nevertheless referred to the figures for the old strategy in some instances because it is the only estimate that met the approved budget.

Table 3
Total cost estimate of the capital master plan as against the budget approved by the General Assembly
(Thousands of United States dollars)

		Approved accelerated strategy IV				
Expense item	*Strategy IV, with option cost layered into renovation costs[a] (September 2007)*	*Estimate submitted to the General Assembly at its sixty-second session[a] (September 2007)*	*Estimate submitted to the General Assembly at its sixty-third session[b] (October 2008)*	*Estimate submitted to the General Assembly at its sixty-fourth session[c] (September 2009)*	*Most recent estimate available at the time of the audit (January 2010)*	*Variance from September 2007 to January 2010 (percentage)*
Construction	935 300	964 625	1 032 900	1 057 402	1 045 605	8.4
Professional fees, management costs	231 000	234 508	280 340	302 365	311 772	32.9
Office swing space	129 100	254 534	273 441	273 622	288 237	13.2
Library swing space	19 300	16 636	2 714	2 714	2 714	-83.7
Conference swing space	66 100	118 688	149 540	150 545	159 968	34.8
Contingencies	199 900	199 859	235 236	181 423	137 303	-31.3
Forward price escalation	296 000	277 960			26 284	-90.5
Total	**1 876 700**	**2 066 810**	**1 974 171**	**1 968 071**	**1 971 884**	**5.1**
Approved budget	**1 876 700**	**1 876 700**	**1 876 700**	**1 876 700**	**1 876 700**	—
Variance against approved budget	—	**190 110**	**97 471**	**91 371**	**95 184**	—

Source: Office of the Capital Master Plan; calculations by the Board of Auditors.
[a] As disclosed in A/62/364 and Corr.1.
[b] As disclosed in A/63/477.
[c] As disclosed in A/64/346.

47. Since October 2008, the cost estimate for the project has been stable, staying above the approved budget by almost $100 million, an overrun of 5.1 per cent. The latest estimate, made in January 2010, confirmed and even accentuated the savings made on library swing space, contingencies and forward price escalation. However, according to the same estimate, the construction cost was 8 per cent higher than for the initial cost estimate of September 2007; similarly, professional fees and management costs have increased by 33 per cent and the cost of other swing space has risen by 13 per cent for offices and 35 per cent for the Conference Building. Those increases were explained in part by the change in the strategy itself, since the new strategy involves undertaking construction work in a single phase, which means renting more swing space to relocate all the staff.

48. However, all of those expense items — apart from construction costs, which have decreased slightly — increased not only in relation to the initial estimate for the current strategy, but also compared to the latest estimate submitted to the General Assembly (A/64/346).

49. In addition, as shown in table 4, the share of construction costs in the total cost of the project, excluding contingencies and forward price escalation, which is an indication of the investment effort by the Organization, has been decreasing constantly. While the largest part of this decrease occurred immediately after the strategy change, the downward trend continued even after the new strategy was approved.

Table 4
Share of expense items in the total cost estimate, excluding contingencies and forward price escalation
(Percentage)

		Approved accelerated strategy IV			
Expense item	*Strategy IV, with option cost layered into renovation costs[a] (September 2007)*	*Estimate submitted to the General Assembly at its sixty-second session[a] (September 2007)*	*Estimate submitted to the General Assembly at its sixty-third session[b] (October 2008)*	*Estimate submitted to the General Assembly at its sixty-fourth session[c] (September 2009)*	*Most recent estimate available at the time of the audit (January 2010)*
Construction	67.7	60.7	59.4	59.2	57.8
Professional fees, management costs	16.7	14.8	16.1	16.9	17.2
Swing spaces	15.5	24.5	24.5	23.9	24.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Office of the Capital Master Plan; calculations by the Board of Auditors.
[a] As disclosed in A/62/364 and Corr.1.
[b] As disclosed in A/63/477.
[c] As disclosed in A/64/346.

50. In its annual progress reports on the implementation of the capital master plan, the Administration was not providing a detailed analysis of the trends in the total costs and their causes, making it harder to assess how well the project was being managed.

51. **The Board recommends that the Administration include in its progress report on the implementation of the capital master plan a detailed analysis of the trends in the total cost of the project and their causes.**

52. Part of the Board's audit was to outline the analysis recommended above and to provide the result, which is set out in the following paragraphs.

Construction costs

53. To compare construction costs year by year, the Board considered it essential to take into account the general escalation of prices and to work in constant dollars rather than current dollars. Data in constant dollars reveal more clearly the impact of decisions made by the Office of the Capital Master Plan by neutralizing the effect of the economic environment. The Office was unable, however, to provide the Board with the total cost estimates in constant dollars. The Board therefore produced such a presentation itself on the basis of an evaluation of the escalation of prices in construction provided by the Office of the Capital Master Plan, summarized in table 5. The rates used by the Board are the same rates used by the Office of the Capital Master Plan; the Turner index, which is a reference for changes in construction costs for the United States market, is provided only by way of comparison.

Table 5
Annual rate of construction price escalation, 2006-2010
(Percentage)

	2006	*2007*	*2008*	*2009*	*2010*
Assessment by the Office of the Capital Master Plan	9.0	7.5	7.5	(10.0)	2.5
Turner construction index	10.6	7.7	6.3	(8.4)	—

54. Deflated construction costs are shown in table 6. This presentation, produced by the Board, was approved by the Office of the Capital Master Plan.

Table 6
Construction costs under the accelerated strategy in current versus constant 2007 dollars
(Thousands of United States dollars)

	Estimate submitted to the General Assembly at its sixty-second session[a] *(September 2007)*	*Estimate submitted to the General Assembly at its sixty-third session*[b] *(October 2008)*	*Estimate submitted to the General Assembly at its sixty-fourth session*[c] *(September 2009)*	*Most recent estimate available at the time of the audit (January 2010)*
Current dollars	964 625	1 032 900	1 057 042	1 045 605
Constant 2007 dollars	964 625	961 046	1 068 816	1 043 247

Source: Office of the Capital Master Plan; calculations by the Board of Auditors.
[a] As disclosed in A/62/364 and Corr.1.
[b] As disclosed in A/63/477.
[c] As disclosed in A/64/346.

55. Table 6 shows that construction costs increased in constant dollars; it therefore does not show the savings identified by the value engineering programme, which the Office of the Capital Master Plan estimated at $100 million in 2008 (A/63/477, para. 47). Any such savings were compensated for by overruns exceeding that amount. In addition, between October 2008 and January 2010, construction costs grew by 1 per cent in current dollars and 11 per cent in constant dollars. This indicated that the operation did not fully benefit from the effects of the economic situation, characterized by lower costs during this period.

56. In its report for the period ended 31 December 2007 (A/63/5 (Vol. V)), the Board recommended that the Administration detail the economic assumptions used to arrive at the cost estimate for the project and monitor the evolution of those assumptions and their consequences for the project. The fact that the Board obtained only a few economic assumptions from the Administration and that it had to draw up an economic analysis of the project cost itself indicated that the Administration had not fully implemented the recommendation. This limited the ability of the Administration to identify factors that would generate savings and overruns, negatively affecting the budgetary management of the operation.

57. **The Board reiterates its previous recommendation that the Administration detail the economic assumptions used to arrive at the cost estimate for the project and monitor the evolution of those assumptions and their consequences for the project.**

58. To bring the total project cost back down to the level of the approved budget ($1.9 billion), the Office of the Capital Master Plan was continuing to look for savings through the value engineering programme. In this regard, in his seventh annual progress report on the implementation of the capital master plan, the Secretary-General stated that the goal was to achieve an additional $100 million or more in savings so as to allow the project to be completed on or below budget (A/64/346, para. 16).

59. The Office of the Capital Master Plan explained that the programme was continuing but in a different manner from that which enabled the Administration to generate its first series of savings of about $100 million at the end of 2007. This one-time exercise consisted of completely reviewing the project in a limited amount of time. The value engineering programme has since then been a cost control tool used continuously as the project was implemented, and more intensively when negotiating guaranteed maximum price contracts.

60. However, the Board was unable to specifically identify the individual measures taken to generate the savings. The Office of the Capital Master Plan did not supply a statement listing the measures and the corresponding savings, explaining that finding savings could not be isolated from other cost-control measures. The Board therefore was unable to provide any assurance as to the actual efficiency of the value engineering programme in terms of cost reduction.

61. Furthermore, the programme was time-consuming and increased the risk of lowering project quality. The Board did not find any loss of quality, but is of the view that, considering the efforts already made, further savings within this framework were likely to be limited. This does not mean that the Administration should cease its cost-control measures; on the contrary, such measures are instrumental in bringing the cost estimate back on budget. However, it was uncertain whether the value engineering programme could generate a further $100 million, as suggested in the aforementioned report of the Secretary-General.

62. **The Board recommends that the Administration reassess the merits of the value engineering programme.**

Professional fees and management costs

63. The other expense items are less sensitive to annual general price escalation: professional fees and management costs correspond on the one hand to contracts already entered into and on the other to the staff costs of the Office of the Capital Master Plan, which follow the trend of salary increases; office swing space costs consist mainly of rent, which is negotiated for a short period of time and is not subject to revision. The Board therefore examined these items in current dollars.

64. There was significant continuous growth in professional fees and management costs. There was a 33 per cent increase in this expense item between September 2007 and January 2010, from $235.0 million to $311.8 million. This increase is due in part to the strategy change and the value engineering programme, which generated additional studies. The effect was most in evidence between 2007 and 2008, just after the decision to change strategy. Over the past two years, between 2008 and January 2010, it has risen by 11 per cent (see table 7).

Table 7
Breakdown of professional fees and management costs
(Thousands of United States dollars)

	Estimate submitted to the General Assembly at its sixty-third session[a] *(October 2008)*	*Estimate submitted to the General Assembly at its sixty-fourth session*[b] *(September 2009)*	*Most recent estimate available at the time of the audit (January 2010)*	*Variance from October 2008 to January 2010 (percentage)*
Design	131 581	144 061	152 195	16
Construction manager's fee	42 736	44 781	44 781	5
Construction work	57 284	64 784	64 784	13
Programme manager's fee	27 161	27 161	27 361	1
Other	21 578	21 578	22 651	5
Total	**280 340**	**302 365**	**311 772**	**11**

Source: Office of the Capital Master Plan; calculations by the Board of Auditors.
[a] As disclosed in A/63/477 in current dollars.
[b] As disclosed in A/64/346 in current dollars.

65. The overall increase of 11 per cent between 2008 and 2010 was due to the cost of studies and, to a lesser extent, to the costs of the Office of the Capital Master Plan. The latter grew by $7.5 million mainly because of an increase in the number of staff. Five extra officials had been added to the staff of the Office since the last estimate; in addition, two extra staff, one working in the Procurement Division and the other in the Accounts Division, were working full-time for the capital master plan and were therefore paid for from its fund. As regards the cost of studies, which were the main cause of the increase in professional fees and management costs, the Office of the Capital Master Plan indicated that the increase was due to the need to start construction work even though the studies were not completely finished and because of programme modifications due to unforeseen events and requests by the security services and users, particularly during the relocation operations.

66. The Board wishes to underline the fact that these programme modifications have not only a direct financial cost but also high indirect costs, although they are difficult to quantify because of the redoing of studies and delays in the entire operation.

67. **The Board recommends that the Administration reduce to a strict minimum requests for change orders, particularly by its own services.**

Swing spaces

68. Overall, the expenditure on swing space shown in table 3 was $450.9 million in January 2010, compared to $425.7 million in October 2008, or a 6 per cent increase. Of those, costs for office swing space amounted to $288.2 million in January 2010, compared to $273.4 million in October 2008, or a 5.4 per cent increase. The amount spent on rent was $164.3 million in January 2010 compared to $147.8 million in October 2008. The balance was for office refurbishment.

69. The 11.2 per cent increase in the cost of office rent between 2008 and 2010 reflects the correction of the underestimate of the number of people who were occupying the Secretariat Building and who were relocated. The Administration had originally put this figure at 3,030, although the actual figure was 5,500; this

discrepancy was due to the fact that several Secretariat services had not included consultants in their headcount and new staff had been recruited between the headcount and the move. Extra office swing space therefore had to be leased to accommodate those staff.

70. The cost of the temporary conference building continued to increase, rising from $149.5 million in October 2008 to $159.9 million in January 2010, or 7 per cent.

71. Financial monitoring of this operation was complicated because it was composed of six guaranteed maximum price contracts. In addition, it was not possible to evaluate the entire cost of part of the operation, such as the temporary conference building, using the usual presentation of the total cost of the capital master plan as it appears in table 3, since it was distributed over several budget lines. In order to analyse the entire cost of the temporary conference building, the Office of the Capital Master Plan provided the Board with the evaluation given in table 8.

Table 8
Total cost of construction of the temporary conference building
(Thousands of United States dollars)

	Initial cost estimate	*Actual guaranteed maximum price contract*	*Projected cost estimate*[a]
Construction	132 618	133 550	168 184

Source: Office of the Capital Master Plan.
[a] Including use of contingency funds for change orders.

72. The total projected construction cost for the temporary conference building amounted to $168.2 million, including site work and work related to connected infrastructure in the basements, some of which support other portions of the compound, while the total value of the guaranteed maximum price contracts corresponding to this operation amounted to $133.5 million, or an increase of 26 per cent. The cost overrun of $34.6 million was explained by change orders financed by contingency funds. The change orders originated from requests by the Department of Safety and Security, New York City and end-users or result from technical contingencies (such as soil decontamination). The Board sought to ascertain the financial volume of each of those categories, but the Office of the Capital Master Plan, which closely monitored the use of the provision for contingencies, did not provide the Board with even an approximate figure. The lack of financial analysis of the causes of overruns limited the ability of the Administration to draw useful lessons for upcoming operations and reduce change order requests.

73. **The Board recommends that the Administration:**

(a) **Establish a typology of the principal causes of construction cost overruns, especially for change orders;**

(b) **Using that typology, evaluate the financial volume of each category of change order.**

Contingencies and forward price escalation

74. The method of evaluating provisions for contingencies and forward price escalation has changed significantly from year to year. In the past, the method of

calculating those expense items, the purpose of which is to anticipate the predictable financial consequences of necessary project adjustments and the general evolution of the economy, clearly isolated a provision for contingencies distinct from the forward price escalation, calculated in a precise manner using expenditure schedule assumptions and changes in cost-of-living assumptions.

75. In the sixth annual progress report on the implementation of the capital master plan (A/63/477), provisions for contingencies and forward price escalation, previously separated, were combined in a single provision, which included 5 per cent of committed expenses and 20 per cent of expenses to be committed.

76. The Board, in its previous report, commented on this practice, which impeded the appropriate financial monitoring of the project. It recommended that the two provisions be separated again (A/64/5 (Vol. V), para. 55). The Administration had initially not accepted this recommendation because of the advanced stage of the project; a significant share of the expenses had already been committed, so the associated risks were no longer present (A/64/368, para. 10).

77. In the seventh annual progress report on implementation of the capital master plan (A/64/346), the Administration continued to present a single provision covering both contingencies and forward price escalation. The method for calculating this provision had changed. It was evaluated on the basis of 10 per cent of the signed guaranteed maximum price contracts and 20 per cent of future guaranteed maximum price contracts. However, only construction costs were included in the calculation base for this provision, which excluded fees, management expenses and rent for temporary offices.

78. Even though it had initially declined to implement the Board's recommendation, the Office of the Capital Master Plan finally separated the two provisions in the estimate of the total project cost as of January 2010 (see table 3). The Secretary-General's forthcoming eighth annual progress report on the implementation of the capital master plan will confirm that this recommendation has indeed been implemented. In the interim, the Board considers it to be under implementation.

79. **The Board reiterates its previous recommendation that the Administration distinguish between the provision for contingencies and that for forward pricing escalation, as was done in the previous presentation of the cost estimate for the project**.

80. In order to separate the two provisions, the Office evaluated the provision for forward price escalation then subtracted that amount from the total calculated provision according to the formula given previously to obtain a provision for contingencies. This method resulted in a total provision of $163.6 million, including $137.3 million for contingency provisions and $26.3 million for forward price escalation.

81. The Board is of the view that the calculation formula for the overall provision would be satisfactory if it covered only contingencies and not forward price escalation. An analysis of guaranteed maximum price contracts that have already been signed and are being executed shows that the contingency funds used to cover cost overruns are about 10 per cent of the budgeted cost for many contracts. The guaranteed price mechanism protects the United Nations from cost overruns only if there are no change orders; conversely, any change order, no matter what its origin,

increases the guaranteed total. This increase is financed by the provision for contingencies.

82. In addition, the guaranteed maximum price contracts that the Office of the Capital Master Plan had signed by the time of the audit totalled $718.4 million. In compliance with the formula given above, part of the total provision for contingencies (including forward price escalation) corresponding to those previously signed contracts amounted to $71.8 million. At the time of the audit, $62.5 million, or nearly three quarters of the provision, had already been used to cover change orders accepted for guaranteed maximum price contracts that had not been completed. This indicates that the provision of 10 per cent projected by the Administration was just enough, especially since, as it was calculated, it is intended to also absorb forward price escalation.

83. Noting the uncertainties concerning the conclusion and the execution of guaranteed maximum price contracts in its previous report, the Board had recommended that the Administration continue to study the issue of the level of the contingency provision in case of modification of the definition of work carried out for the capital master plan. The Board observed that the Office of the Capital Master Plan had rigorously monitored the provision for contingencies and its use (A/64/5 (Vol. V), para. 66). For this reason, it considered that its recommendation had been applied. Nevertheless, in the light of developments since its previous report, the Board is concerned that the provision for contingencies was insufficient for the following reasons:

(a) The new formula for calculating the provision excluded all expenses other than those concerning construction, although the other expenses, especially for fees and management expenses, were increasing significantly;

(b) The rate of utilization of the provision for guaranteed maximum price contracts already signed was rather high.

84. **The Board recommends that the Administration reassess the appropriateness of the scope and the level of the provision for contingencies**.

85. Because of the separation of the provisions for contingencies and forward price escalation, as provided by the Office of the Capital Master Plan for its estimate of the total cost as at January 2010, the Board can assess more clearly how the Administration has taken into account the inflationary risk for the project. According to this estimate, the provision for forward price escalation totalled $26.3 million, a reduction of a little more than 90 per cent compared with the September 2007 estimate given in the Secretary-General's fifth annual report (A/62/364 and Corr.1).

86. The calculation method used by the Office of the Capital Master Plan to evaluate the forward price escalation included expenses related to construction work only. However, construction work was not the only element subject to price changes; design studies and other professional fees were also subject to such changes, since most contracts contain a forward price escalation clause that may be implemented starting in 2010.

87. The Board recommends that the Administration extend the scope of the provision for forward price escalation to include professional fees and management costs.

(b) Schedule

88. Since the Board's previous report, the project has reached a noteworthy stage with the delivery and occupation of the temporary conference building in late 2009 and early 2010. At the same time, more than 5,000 United Nations staff have left their workplaces, especially in the Secretariat Building, for temporary offices rented and set up by the Office of the Capital Master Plan. These large moves have raised numerous problems, which in some cases caused delays, but they were eventually resolved for the most part. At the time of the audit however, 482 staff and affiliates were still occupying the Secretariat Building; there were 127 as at 10 July 2010.

89. Another positive point is the resolution of the problem of a temporary site for the Security Council. The Board was concerned about the impact this problem could have on the start of construction work on the Conference Building, planned for early April 2010. The Council was transferred as planned at the end of March 2010 so that work on the Conference Building could begin.

90. While it appeared that renovation was imminent on the Secretariat and the Conference Buildings, the Board observed that work was starting considerably later than previously anticipated, as demonstrated in table 9.

Table 9
Schedule of principal work

	Schedule submitted to the General Assembly at its sixty-third session[a] (October 2008)		*Schedule submitted to the General Assembly at its sixty-fourth session[b] (September 2009)*		*Most recent estimate available at the time of the audit (March 2010)*	
	Start	*Completion*	*Start*	*Completion*	*Start*	*Completion*
Construction of temporary conference building	Early 2008	Mid-2009	Mid-2008	Late 2009	Mid-2008	Dec. 2009
Renovation of Conference Building	Mid-2009	Mid-2011	Late 2009	Late 2011	April 2010	April 2012
Renovation of General Assembly Building	Mid-2011	Mid-2013	Late 2011	Late 2013	April 2012	Dec. 2013
Renovation of Secretariat Building	Early 2009	Early 2012	Late 2009	Mid-2012	April 2010	Aug. 2012

Source: Office of the Capital Master Plan.
[a] See A/63/477, table 2.
[b] See A/64/346, table 1.

91. Since the issuance of the sixth annual progress report, in October 2008, (A/63/477), the start of work has been delayed by approximately nine months for the renovation of the Conference and General Assembly Buildings, and approximately a year for the renovation of the Secretariat Building.

92. The completion dates have also been pushed back, but not to the same extent, for the most important buildings, the Secretariat and General Assembly Buildings. In both cases, a reduction in the time required for the work will limit the delivery

delay to six months using the late-2008 schedule. The Board notes that meeting the planned date for the completion of work on the Secretariat Building is imperative if relocated staff are to be moved back without an increase in rental expenses beyond what is currently budgeted.

Secretariat Building

93. The delay in commencing work on the Secretariat Building is due both to the previously mentioned delay in relocating staff to other sites and a postponement of the contract signing compared to previous schedules audited by the Board.

94. The delay in transferring staff had numerous causes. First, as mentioned above, the number of staff to be moved was distinctly underestimated owing to the presence in the building of recently hired staff and numerous persons related to the United Nations who were not directly employed by it (consultants, temporary staff, etc.). As noted, the refurbishing of office swing space also experienced delays related to work to be done by the owners as well as by public service providers (e.g., telecommunications).

95. The delay in signing the contract is also significant: in its previous audit, the Board noted that the signing was to take place in late August 2009, according to the construction manager's master schedule of February 2009. In actuality, the contract was not signed until 28 January 2010, or five months later. According to the Office of the Capital Master Plan, more time was spent negotiating the contract with the construction manager because of the delay in leaving the building. The negotiations were aimed at detecting excessive contingency margins for the construction manager and subcontractors or the inclusion of additional work that was neither planned nor necessary so as to lower the cost proposal. The negotiations proved to be effective, since the initial bids from the construction manager, in the range of $260 million, were decreased to $207 million, in line with budget.

96. The August 2012 deadline for the completion of work on the building, which, as indicated, was necessary for complying with the budget allocated for rented swing space offices, allowed only 29 months for work (from April 2010 to August 2012 inclusive), instead of the 36 months initially planned. As the three-year period did not seem excessive, the Board wished to have further specifics on the detailed schedule for all work: preliminary work for removing furniture and partitions, heavier demolition work, dismantling the present façade after the removal of components containing asbestos, reassembly of the new façade and completion of other work. Presentations by the Office of the Capital Master Plan and representatives for the construction manager gave the Board some assurance that such a schedule was feasible: extensive resources were planned for the most critical work, such as dismantling and reassembling the façades.

97. The Board observed, however, that contingency margins included in the initial schedules had disappeared and that not all subcontractors for the construction manager had yet been selected at the time of the audit.

98. In its previous report, the Board recommended that the Administration make provisions for delays that could occur in the work schedule and continue to study methods for reducing delays as much as possible (A/64/5 (Vol. V), para. 78). For the Secretariat Building, the first part of the recommendation was not implemented. For the remainder of the project, the Office of the Capital Master Plan took some measures to limit delays (optimizing site stages with the construction manager and

inspecting the supply chain and delivery sites). It is advisable that such efforts be continued, given the continuing risks.

99. **The Board reiterates its previous recommendation that the Administration make provision for delays in the schedule of the project and continue to consider ways to mitigate such delays**.

100. Technical risks related to construction work and existing buildings appeared to have been correctly identified and controlled by the Office of the Capital Master Plan. In addition, necessary verifications (such as the quality of reinforced steel in existing concrete and the condition of clips in the stone covering building gables) were performed and their results were reassuring. However, there remained risks related to the complexity of the work to be coordinated, the large role of elements manufactured in workshops (and thus the related detailed schedules for assembly, transportation, delivery and installation of components) and even weather conditions that could affect work on the façades. All those in charge, both the construction manager and those in the Office of the Capital Master Plan, were aware of the significance of these potential difficulties.

101. The risks over which there was no control, such as changes requested by future occupants, the effect of site activity on working conditions (such as noise interruptions during the day, sites encumbered by deliveries and security areas for staff or materials), must also be included. The Office of the Capital Master Plan did not have for each floor a refurbishment plan accepted by the future occupants. The refurbishment project may have some margin for flexibility in the open spaces, but a very limited one, if at all, for certain elements like lighting and ceilings. For example, the number and location of enclosed offices had not yet been determined at the time of the audit.

102. **The Board recommends that the Administration quickly define once and for all the main measures relating to the refurbishment of workspaces**.

103. The Office of the Capital Master Plan planned a gradual return of staff to the building beginning in the second quarter of 2012 and thus several months before the completion of work. This was not impossible, especially if it only concerned upper floors, but would add new difficulties to an already problematic worksite: issues related to separate access, fluid supply and communication systems, noise and various inconveniences related to construction. The Board thus remained unconvinced of the appropriateness of such a measure.

104. **The Board recommends that the Administration perform a cost/benefit analysis for the gradual move back into part of the Secretariat Building and to confirm the project only if it does not compromise the schedule for completion**.

105. Finally, meeting the delivery deadline of August 2012 assumes that the greatest priority and vigilance will be given to the construction work and its coordination. This confirms the Board’s doubts expressed above about expending too much effort to find savings beyond those resulting from a sound bidding process for the work that remains to be assigned.

Conference Building

106. As previously indicated in regard to the renovation of the Conference Building, the Administration has succeeded in solving the delicate problem of temporarily relocating the Security Council. The Board noted that the Council was able to resume work as planned in late March 2010 so that work on the Conference

Building could begin as scheduled in April; the master schedules issued by the construction manager in both 2009 and 2010 stated that the work would be carried out from April 2010 to April 2012.

107. The schedules nevertheless indicated a change in how the work would be conducted. During the Board's previous audit, in March 2009, the plan was to sign a single contract in October 2009 for all building renovation work. The initial contractual arrangement was replaced by a three-phase process: a "task order" for preliminary work planned for 2 April 2010 and announced as upcoming by the Office of the Capital Master Plan followed by two guaranteed maximum price contracts for which approval was expected in July and October 2010 respectively.

108. In theory, this change should have no effect on the actual date for beginning work: in the schedule issued in 2009, work was not to begin in October 2009 with the signing of the contract, but in April 2010 after the move of the Security Council. It was regrettable that the Office of the Capital Master Plan still had no firm contract for that building to reduce the uncertainty around the cost and the overall operation schedule. Asked by the Board about the reasons for the division of the work into three phases, the Office of the Capital Master Plan indicated that it would submit the project for value engineering with the goal of reducing the cost.

109. The Board estimates that the potential benefit from this new value engineering phase was not significant given the risk for delay implied in putting off and separating the work into three contractual phases. It is advisable that agreement be reached as soon as possible with the holders of the contracts regarding preparation of the worksite, which was perhaps less complex than the Secretariat Building but which was critical for the operation since work on the General Assembly Building could not begin until after work was completed on the Conference Building. Moreover, the current economy actually favoured programme managers, since the recession encouraged businesses that were potential subcontractors to propose lower prices. There was a risk that such favourable conditions might not continue in 2010.

110. **The Board recommends that the Administration perform a cost/benefit analysis on postponing negotiations on contracts related to the Conference Building and preparation of the worksite**.

111. Once the contracts are signed, work will need to be completed according to plan. Numerous changes affected completion of the temporary conference building, which has the same function, and caused numerous delays and cost overruns, as indicated in the present report. This has led the Board to ask the Office of the Capital Master Plan if it feared similar risks. The reply was that the relocation of users to their former workplaces was expected to be carried out under more favourable conditions than the move to a temporary site. Nevertheless, the Board noted that the lessons of the move from the Conference Building had not been taken into formal consideration. Guarantees that the same causes of delays and cost overruns would not recur when staff return to their former workplaces were insufficient.

112. **The Board recommends that the Administration immediately take appropriate measures to prevent any functional change in the project relating to the Conference Building after the signing of the work contracts**.

General Assembly

113. As indicated in table 9, work on the General Assembly Building was expected to begin only in April 2012, on the condition that the Conference Building has been

completed, thus making the temporary building available to house the Assembly and associated services. In theory, there was no urgency in preparing and approving the corresponding contract. The Office of the Capital Master Plan has proposed to defer those tasks while awaiting the lessons of the value engineering process and contract negotiation on the Conference Building; those lessons could, according to the Office, affect the direction of the final stage of the General Assembly Building project.

114. The previous schedule audited by the Board showed a different way of managing this operation. Design tasks were to be completed at the same time for the two buildings and the guaranteed maximum price contract for the General Assembly Building was to be negotiated just after approval of the contract for the Conference Building. This change was due to the concerns of the Office of the Capital Master Plan about the amount of the contract related to the General Assembly Building, the estimate for which, as at the time of the audit, was higher than forecasts in the budget. This situation could call certain plans into question; however, as suggested above for the Conference Building, delaying contract preparation risks losing any benefit from the current economic situation, which is conducive to reduced cost.

115. **The Board recommends that the Administration perform a cost/benefit analysis on postponing negotiations on contracts relating to the General Assembly Building**.

116. As previously indicated, the planned length of the work on the General Assembly Building was reduced by about three months compared with the schedule the Board examined in 2009. The goal was not to go beyond the end of 2013 despite the postponement of work on the Conference Building to April 2010.

117. The great complexity of the infrastructure work, done in the basement of the site, made it nearly impossible for the Board to issue an overall forecast on compliance with the schedule for this part of the project. The Administration was confronted with several unpleasant surprises, including the corrosion of numerous pipes, the presence of lead paint, methane (from the old Turtle Bay waste site) and traces of mercury, unstable walls, deteriorated tiles and false plans. This confirmed that the basement worksite was very difficult from a technical point of view and that all other risks must be eliminated in order to handle contingencies. Nevertheless, several requests to change the site configuration after completion of the construction work were presented by future occupants to the Office of the Capital Master Plan.

118. **The Board recommends that the Administration reduce to a strict minimum requests for change orders with regard to the use and configuration of basement rooms**.

6. Procurement and contract management

(a) Post-award review of amendments and change orders

119. As indicated in the Board's previous report (A/64/5 (Vol. V), paras. 106-122), some United Nations purchase procedures have been adapted for the needs of the capital master plan. This was done so that the Secretariat could take quick decisions concerning contract amendments to avoid delays in the project schedule.

120. Some of the procedures included irregularities or flaws that led the Board to make three recommendations. It was first recommended that the Administration "take appropriate measures to regularize the transactions that occurred under the authority granted to the Director of the Procurement Division in accordance with the

memorandum of the United Nations Controller and approved on 15 November 2007" (ibid., para. 113). The Board also recommended that "as long as no ex post facto review procedure is secured, the Administration make every effort to involve the Headquarters Committee on Contracts in the adjudication process prior to signing or amending contracts that are within the scope of the authority of that Committee" (ibid., para. 121). More generally, the Board recommended that "the Administration consider ways and means to increase significantly the level of internal control over amendments to contracts relating to the capital master plan" (ibid., para. 120).

121. While it contested the recommendations in part, the Administration was committed to setting up a post-award review committee to review amendments to capital master plan contracts. According to the report of the Secretary-General on the implementation of recommendations of the Board (A/64/368, para. 35), the committee was expected to be operational in October 2009.

122. By a memorandum dated 30 October 2009, the Assistant-Secretary-General for Central Support Services established the post-award review committee with draft terms of reference. A Chair was designated at the time but, owing to other responsibilities, he resigned from the office early in 2010. Meanwhile, an amended version of the draft terms of reference was issued on 15 December 2009. According to this version, the role of the committee will be to examine the change orders and amendments accepted for carrying out the capital master plan. It will be responsible for assessing change orders and ensuring compliance with financial rules and regulations as well as Procurement Manual recommendations and other instructions when signing amendments. It will not express a view on requests that initiate amendments, since this remains the responsibility of the Executive Director of the Office of the Capital Master Plan.

123. The committee will examine amendments signed by the Procurement Division and change orders adopted by the Executive Director on the basis of documents produced by the Office of the Capital Master Plan, the programme manager and the construction manager.

124. In cases where the committee believes that the procedures followed were not appropriate, it may make recommendations to the Assistant Secretary-General for Central Support Services to improve them. It may even suggest that the procurement authority of the Executive Director of the Office of the Capital Master Plan be reviewed.

125. The staff in charge of signing capital master plan contracts and the administrative staff in the Office of the Capital Master Plan will participate in committee meetings as non-voting experts when they are concerned by the files under consideration. In exceptional cases, the Assistant Secretary-General for Central Support Services can authorize a representative of OIOS to take part in meetings as an observer.

126. The committee is expected to meet once a month to examine change orders and amendments that have been approved or signed in the previous month. However, the plan is for the committee to examine all past amendments and change orders, in compliance with the Board's recommendations. The secretariat of the committee will be provided by a member of the Procurement Division.

127. At the time of the audit, however, not all committee members had been nominated and the committee could not yet truly begin to operate. The delay was all

the more regrettable since it increased the backlog of documents to be examined, which was already significant when the idea to create the committee was born.

128. Since the Administration took measures fairly quickly after the issuance of the Board's previous report to implement this ex post facto review procedure, it determined that it was not useful to involve the Headquarters Committee on Contracts as long as the review procedure was not secure, as the Board had recommended (A/64/5 (Vol. V), para. 121). While an ex post facto review procedure had been defined, it was not effectively implemented for several months. Strictly speaking, the Board's recommendation to involve the Headquarters Committee on Contracts was therefore not implemented. For the same reason, the recommendations to regularize the amendments on the basis of the memorandum dated 15 November 2007 (ibid., para. 113) and to strengthen internal control (ibid., para. 120) cannot be considered as having been implemented. It is thus essential that the post-award review committee begin to function quickly and effectively.

129. **The Board recommends that the Administration expedite the functioning of the post-award review committee.**

(b) Overall analysis of amendments concluded in 2009

130. In its previous report, the Board noted that despite modifications to the project, the Administration continued to rely on the services of firms initially selected in 2004. Through the use of amendments, those firms were given new assignments for significant amounts.

131. The Procurement Division had commented that the Administration had benefited greatly from the instruction on additional scope under existing contracts owing to the need for careful coordination and integration of design work under the complex and extensive capital master plan project. The Division had further stated that it was mindful of the risk to the overall capital master plan schedule should a new sourcing exercise be required for any additional scope that could be interpreted as new. The Division had also noted that the award of any scope that could be interpreted as new to current vendors could further increase the complexity of the design team and concurrently increase the risk to effective project and programme management and design integration, with a concurrent increase in the complexity of the structure of professional indemnities and liabilities.

132. The Board examined the amendments to the design contracts as announced in its previous report (ibid., para. 129).

133. The seven design contracts are identified by the letters A to G. Each contract typically included the following four phases: (a) a design development phase; (b) a construction documents phase; (c) a construction bid support phase; and (d) a construction phase. As the Board explained in its previous report (ibid., para. 125), even though the contracts stipulated all of those phases, the United Nations had committed to only the first phase at the time of signing the contracts because the General Assembly had not yet approved the entire capital master plan operation. The total value of the contracts for only the first phase was $10.7 million, as indicated in table 10.

Table 10
Amendments to design contracts for the capital master plan

Design contract	*Original contract (thousands of United States dollars)*		*Amendments signed as at 31 December 2009*			*Amendments signed in 2009 only*		
	Estimated value of all services envisaged	*Value of services originally committed*	*Number*	*Amount (thousands of United States dollars)*	*Increase (percentage)*	*Number*	*Amount (thousands of United States dollars)*	*Increase (percentage)*
A	858	523	12	3 047	583	3	1 793	343
B	10 054	3 332	80	41 328	1 240	32	5 809	174
C	11 310	2 828	38	18 906	669	13	4 491	159
D	6 658	1 741	74	44 374	2 549	24	6 985	401
E	2 078	519	28	3 895	751	8	686	132
F	4 212	1 053	30	5 510	523	6	755	72
G	2 393	748	21	3 983	533	2	55	7
Total	**37 563**	**10 744**	**283**	**121 043**	**1 127**	**88**	**20 575**	**192**

Source: Office of the Capital Master Plan.

134. After the signature of the contracts and until 31 December 2009, 283 amendments for a total amount of $121.0 million were signed, or more than 12 times the amount of the initial contracts. Of that amount, amendments totalling $26.9 million were signed to activate the three other phases of the initial contracts. The amendments were signed when financial resources were available and gradually as the design progressed.

135. The Board considers that the agreements could be assigned to the holders of contracts A to G to the extent that they corresponded to services that had been arranged contractually from the beginning.

136. If all the phases in these contracts are considered, the base amount was $37.6 million, and the amendments amounted to $94.1 million. In this case, the amendments represented no longer 12 times but 2.5 times the initial amount of the contract; this figure, while much lower, remained significant.

137. The Board examined the reasons behind the Administration’s multiplying by 2.5 the amount of services initially planned for the design for renovating the Headquarters buildings. The additional services resulted from the fact that the temporary offices initially planned (i.e. the UNDC-5 building that was to have been constructed) were lacking and that the accelerated strategy IV changed the design to a large extent.

138. In 2009 alone, 88 amendments were signed, representing a total of $20.6 million, compared with $51.3 million in 2008, or a reduction of nearly 60 per cent. The Board examined 37 of the 88 amendments. It observed that while some of the amendments involved the activation of design phases included in the initial contracts, some represented significant amounts for services that did not have a direct link to the initial scope of services pertaining to the restoration of United Nations Headquarters buildings.

139. For example, the Administration asked architects and engineers initially hired for the renovation of the Headquarters buildings to perform the work necessary to

prepare the swing spaces that were to accommodate relocated staff. The new services were subject to solicitation, but, since the firms finally selected were already working on the capital master plan under an existing contract, the new services were not subject to new contracts, but were covered by amendments. The Administration considered this to be more practical than drafting new contracts. While the Board is of the view that such contractual arrangements do not fully correspond to the generally accepted legal notion of amendment, it did not find any rule of the United Nations that prohibits such a practice.

140. The Board could not perform a detailed and exhaustive examination of the amendments concerned and the compliance of the vendor selection procedure with the procurement rules. It considers that this was the responsibility of the post-award review committee.

141. The Board nevertheless examined the overall procedure for signing amendments.

142. Under that procedure, the programme manager examines the cost proposal that the future beneficiary of the amendment has systematically submitted. This proposal is generally based on the hourly rates included in the annex to the original contract of different categories of consultants needed for the covered service. On the basis of a report summing up the purpose of the additional design and a description of the work area and details on the number of additional hours required, staff in the Office of the Capital Master Plan write a one-page memo for the Executive Director.

143. Once the request is validated, the procurement section of the Office of the Capital Master Plan drafts the amendment, which is then signed by two parties: a representative of the firm and the head of the Procurement Division. A contract follow-up sheet with the total cost and a statement of the award indicating the procedure used for signing the amendment are also available for all amendments.

144. When reviewing the files, the Board observed that the various documents presented to support the proposed amendment did not always indicate who had originated the request for the additional design nor which building or room was the subject of the request. The files were often unclear as to whether the request had emanated from users, whether the previous design had been insufficient or whether the amendment was based on observations of existing buildings. In addition, the similar labelling used for numerous amendments gave the impression that they were requests for the same periodically recurring purpose; the Board dismissed this hypothesis after more detailed examination with the services involved. This demonstrates, nevertheless, an initial weakness in the presentation of files to capital master plan decision makers, who need clear and concise information.

145. Another weakness in the presentation was the fact that the benefits of negotiations with the vendors, essentially conducted by the assistant to the programme manager, were not included.

146. Finally, the cover note for the amendment request was too succinct: it was often difficult, even impossible, to understand the subject of the amendment by reading it alone.

147. **The Board recommends that the Administration improve the management of the files for the amendments:**

(a) **By systematically including information on the negotiation process with the vendor, the results thereof, the exact nature of the work and its location;**

(b) **By enhancing the format of the cover note on the requests for amendments so as to give the decision makers a clear understanding of the purpose and the authors of the requests.**

(c) Origin of vendors

148. Pursuant to section I, paragraph 22, of General Assembly resolution 64/228, the Advisory Committee on Administrative and Budgetary Questions requested the Board to include in its next report on the capital master plan information on the factors restricting the diversification of the origin of vendors and progress achieved in increasing the procurement opportunities for vendors from developing countries and countries with economies in transition for the capital master plan.

149. The Office of the Capital Master Plan and the construction manager essentially sign contracts with construction firms that would have difficulty operating in New York if they were from developing countries or countries with economies in transition, and more generally from countries other than the host country. Organizing a worksite in New York City requires previous experience, and, as specified in requests for expression of interest issued by the construction manager, workers must be members of New York construction unions. Moreover, in general, non-resident vendors, because of their location, have a major handicap in offering competitive prices compared with local firms.

150. This explains why, as a general rule, construction firms, which are familiar primarily with local manufacturers, acquire the greatest part of construction materials and products locally. These factors are common to all construction sites and are thus independent of the efforts of the Office of the Capital Master Plan and its construction manager.

151. They have, nevertheless, taken action to overcome factors unfavourable to developing countries and countries with economies in transition. In order to monitor progress, the procurement section of the Office of the Capital Master Plan issues a monthly report.

Bulk purchasing

152. The main measure taken was to launch separate calls for bidders for the procurement of certain components, a procedure known as bulk purchasing. The components (such as electrical equipment, surfacing materials and sanitary equipment) were procured from the manufacturer but were received and installed by construction firm staff. The manufacturer thus did not need to have construction experience in New York nor have New York staff. Similarly, furniture procurement was carried out separately. Calls for bidders included a specific request for bids from vendors in developing countries. This bulk purchasing procedure assures a certain level of equipment and component standardization, which was helpful in operating and maintaining different buildings; it was also likely to encourage competition that included vendors and manufacturers based far from New York, since per unit transportation costs are lower for large quantities, resulting in lower

costs. For example, a call for bidders for furniture launched in July 2009 brought 59 bidders, including 39 from countries other than the United States of America.

153. The Office of the Capital Master Plan and its construction manager kept updated bidder lists that included specific mention of potential vendors from developing countries and countries with economies in transition. For bulk purchasing, the share is approximately 10 per cent.

154. The direct procurement procedure was not possible, however, for all components. For example, the Office of the Capital Master Plan and its construction manager could not separately procure the panes and aluminium extrusions that compose the building façades; that must be done by a firm specializing in the design, assembly and installation of those major elements of the structure. Nevertheless, according to information gathered by the Board, the aluminium extrusions would be designed in the Republic of Korea and assembled in Mexico, and the panes would come from various countries in North America and Europe. The Board is of the view that the process for awarding construction work and materials for this important part of the project did not favour firms and vendors in the host country in an exaggerated manner.

Communication

155. The Administration has made several efforts at communicating and increasing awareness in developing countries and organizations in which those countries are represented. Among these are the following:

(a) Supplier seminars during which the Administration highlighted business opportunities linked to the capital master plan. At the time of the audit, the Administration had reportedly held such seminars in 36 developing countries;

(b) Outreach to peacekeeping missions and offices away from Headquarters. The Administration has briefed those offices on the business opportunities for companies from developing countries in their geographical area of influence. The Administration has particularly stressed opportunities to bid on bulk purchase packages and has requested the missions and offices away from Headquarters to disseminate that information.

Construction manager's obligations

156. The construction manager was contractually bound to develop an "outreach plan" to promote international bidding opportunities, and the plan has been developed and implemented. The Board examined the plan and found that, in addition to the bulk purchasing initiative described above, it included the following proposals:

(a) To encourage joint ventures and consortiums;

(b) To use the current procurement arrangements under the guidance of the construction manager to identify potential bidders for chosen products or work in the markets where the construction manager normally operates;

(c) To identify any areas in which it is not necessary to follow United States standards and New York City building codes;

(d) To identify, in the design phase, which products and equipment should be made available for international procurement, adjust the specifications accordingly and introduce alternative standards for product compliance.

157. In addition, the construction manager has developed a system to track the nationality of the trade contractors, the origin of the products and the value of products used for the capital master plan. To feed this tracking system, the construction manager has modified the scope of work section of its standard trade contracts to impose on contractors the obligation to report the country of origin of all materials. Extracts of the tracking system are communicated to the Administration by the construction manager upon request. At the time of the audit, the Board noted that, according to data in the construction manager's tracking system, the total value of purchases originating in developing countries amounted to $9,560,326, including security devices for the North Lawn Building; this represented approximately a 4 per cent increase in comparison with the previous figure of $9,211,494. The data showed that most of the non-resident procurement was from China and Mexico.

158. Although there was an increase in terms of total procurement value, the share of that amount in the total trade cost value decreased as a result of the growth of the project and the additional guaranteed maximum price contracts signed.

159. Despite those modest results, all the elements described above have led the Board to consider that, overall, the Office of the Capital Master Plan and its construction manager were taking adequate measures to facilitate, insofar as possible, the participation of countries with developing or transition economies in this major project.

7. Internal audit findings

160. OIOS indicated that it had completed and reported on four of the seven audit assignments (or 57 per cent) concerning the capital master plan included in its 2009 work programme. A report on project budgeting and financial control processes was to be completed by the end of the second quarter of 2010, and another report, on the security provisions applied to staff, was still in progress because of an extension of its scope. The last report due to the General Assembly, on the audit of procurement and contract management in relation to trade contracts, had been drafted but was being held because of competing priorities on the programme of work of the Fifth Committee.

161. A report dated 27 August 2009 examined the construction manager's procurement process. OIOS observed that the average time taken to sign a guaranteed maximum price contract was 105 days and there was a risk that this might delay the completion of the renovation project. It noted insufficient records for reporting how negotiations with trade contractors had transpired and considered that the presence of Procurement Division staff at negotiation meetings would aid transparency. OIOS also indicated that further actions were necessary to promote access to capital master plan contracts for firms from developing countries and countries with economies in transition.

162. A report dated 31 August 2009 dealt with management of trade contracts by the Office of the Capital Master Plan. It reported the need for increased project management staff, the failure to set up the ex post facto review committee and

invoices that remained unpaid after 30 days. The schedule had slipped by several months, but the time may be recovered.

163. A report dated 8 April 2010 dealt with change orders and associated processes. OIOS reported that prior to the implementation of changes in construction work, those changes should be approved by authorized officials. It observed that on average 58 days were required for approving change orders using the authority delegated to the Assistant Secretary-General and the Executive Director of the Capital Master Plan, or 14 days less than for traditional procedures used for procuring contracts. According to OIOS, reasons for change orders included incomplete designs when the construction contracts were signed and changes in user requirements by staff who were relocated to swing spaces.

164. A report dated 11 June 2010 examined project scheduling. OIOS concluded that the Office of the Capital Master Plan was applying effective controls over project scheduling; the schedule covered the entire project scope and included sufficient details to reflect its execution plan. However, OIOS found that the Office did not maintain a summary to assist in monitoring the construction manager's contractual obligations to complete contracts within the specified time frames. In addition, the estimated project delay cost was based on a 2008 calculation and needed to be updated. OIOS was also of the view that decisions pertaining to the schedule were not supported by formally prepared cost/benefit analyses.

165. **The Board takes note of the findings and conclusions of OIOS and underlines the need for the Administration to address them expeditiously.**

C. Acknowledgements

166. The Board of Auditors would like to thank the staff of the Office of the Capital Master Plan, the Office of Programme Planning, Budget and Accounts, the Procurement Division and the Office of Central Support Services for their cooperation and assistance.

(*Signed*) Terence **Nombembe**
Auditor-General of South Africa
Chair, United Nations Board of Auditors

(*Signed*) Didier **Migaud**
First President of the Court of Accounts of France
(Lead auditor)

(*Signed*) **Liu** Jiayi
Auditor-General of China

30 June 2010

Annex

Status of implementation of recommendations for the year ended 31 December 2008[a]

	Summary of the recommendation	Paragraph reference	Financial period first made	Implemented	Under implementation	Not implemented
1.	Review the accounting policy regarding capitalized costs	47	2008	X		
2.	Distinguish between provision for contingencies and that for forward price escalation	55	2008		X	
3.	Detail economic assumptions used for the cost estimate	61	2007		X	
4.	Keep the extent of the provision for contingencies under review	66	2008	X		
5.	Maintain a schedule linking the renovation costs and the guaranteed maximum price contracts	68	2008	X		
6.	Make provision for delays in the schedule and continue to consider ways to mitigate delays	78	2008		X	
7.	Expedite the preparation and approval of the contracts relating to the Secretariat Building	85	2008	X		
8.	Make additional checks on the state of the Secretariat Building and establish a system for checking progress on works and supplies	86	2008	X		
9.	Oversee strict compliance by the construction manager with its obligations	90	2008		X	
10.	Expedite the relocation of all staff	92	2008		X	
11.	Establish the advisory board	102	2004	X		
12.	Pursue its communication efforts with staff members	105	2008	X		
13.	Regularize the transactions that occurred as per the memorandum of 15 November 2007	113	2008		X	
14.	Increase internal control over amendments to contracts	120	2008		X	
15.	As long as no ex post facto review procedure is secured, involve the Headquarters Committee on Contracts in the adjudication process	121	2008			X
16.	Adhere strictly to the requirements of the Procurement Manual relating to contractual amendments	127	2008	X		
17.	Disclose in the cost estimate the associated costs approved by the General Assembly	133	2008	X		
	Total			**9**	**7**	**1**
	Percentage share of total			**53**	**41**	**6**

[a] See *Official Records of the General Assembly, Sixty-fourth Session, Supplement No. 5* (A/64/5), Vol. V.

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