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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE
OIOS · BSCI

TO: Mr. Michael Alderstein, Assistant Secretary-General and
A: Executive Director
Capital Master Plan

DATE: 4 October 2007

FROM: *for* Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS

REFERENCE: AUD-8-4:2 (07- 00570)

SUBJECT: **Assignment No. AC2007/514/07: Accuracy and Validity of CMP**
OBJET: **Disbursements**

1. I am pleased to present the report on the above-mentioned audit, which was conducted from February to March 2007. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

I. INTRODUCTION

3. The Office of Internal Oversight Services (OIOS) conducted an audit at Headquarters, New York between February and March 2007 of the accuracy and validity of payments made for the Capital Master Plan (CMP), a project aimed at renovating the UN Headquarters' complex in New York to comply with building and fire safety codes and standards.

4. The CMP project was started by General Assembly Resolution 55/238 of 8 February 2000 with an appropriation of \$8 million for the preparation of a comprehensive design plan and detailed cost analysis; the project's current budget is approximately \$1.9 billion for the years 2006 to 2014. The CMP is now in the "construction documents phase", a period when documents for the refurbishment work are prepared, scheduled to end by late 2007.

5. In July 2007, Skanska USA Building Inc., a subsidiary of Skanska AB, was selected as the construction manager for the project's 18-month preconstruction phase. During this phase, this company will review the current design drawings for constructability, value engineering and cost savings opportunities, and will advise the United Nations accordingly, with a goal to keeping the CMP both within budget and on schedule. Also, starting sometime this year, a temporary conference building is planned for construction on the UN's North Lawn.

6. From the CMP's inception up to 17 April 2007, contract awards totalling \$62 million were given to 30 vendors, and 366 voucher payments totalling approximately \$34 million were paid to these vendors.

7. Comments made by the Office of the CMP are shown in *italics*.

II. AUDIT OBJECTIVES

8. The audit's major objective was to assess whether CMP disbursements were generally valid and accurate, and had complied with established UN rules and procedures.

III. AUDIT SCOPE AND METHODOLOGY

9. OIOS made a random selection from a structured sample of the total vouchers, and reviewed 67 payments amounting to approximately \$9 million or about 26 per cent of the total. Analyses were made of the vouchers and their attachments, as well as other information and documents from the CMP office, the Procurement Service, Office of Central Support Services, and the Accounts Division, Office of Programme Planning, Budget and Accounts pertaining to the payments.

10. A brief review was made of the process identifying which funds were charged for CMP payments. A determination was also made of the transparency of the use of the CMP's programme managing company, Gardiner and Theobald, Inc. (G&T), for reviewing CMP invoices before recommending them for payment. Discussions were held with the responsible officials and their comments, where appropriate, are included in this memorandum.

IV. OVERALL ASSESSMENT

11. The OIOS review indicated that CMP's controls for the processing and monitoring of its disbursements were adequate. OIOS also determined that the process for identifying the funds to be charged for CMP payments was satisfactory, and that the function performed by G&T, the CMP's project managing company, for reviewing CMP invoices before their payment, was made in accordance with the contract and did not indicate any "conflict of interest" situation.

V. AUDIT FINDINGS AND RECOMMENDATIONS

12. OIOS' review of CMP's payment process revealed that the internal controls for the processing and monitoring of its disbursements were adequate. Tracking procedures exist for each document or vendor invoice submitted to the CMP and the Design Procedures Manual stipulated the roles performed by G&T and other CMP staff.

13. During the audit, OIOS noted that payments made for the CMP were charged to either the Construction account (fund CFA for the preliminary phase, CMP for the CMP, and fund CFS for the SSP project) or the United Nations regular budget account (fund UNA) for some portions of the SSP project. As of 17 April 2007, the amounts charged to the Construction accounts totalled \$21 million and those recorded against the regular budget account amounted to \$13 million.

14. OIOS was initially informed that all charges recorded against the UN account pertained to the Strengthening Security Project (SSP). In its reply to a query, the CMP stated that the SSP projects were funded through the regular UN budget under section 32 –

Construction, alteration, improvement and major maintenance. As the projects span multiple years, the allotments are transferred from the UNA account to the CFS account (construction in progress – Security), which does not close out at the end of a biennium, so the funds can be utilized during the entire period. While the CMP has managed the projects, the latter did not form part of the CMP and were funded by the regular budget.

15. OIOS also noted that a CMP contractor, G&T Inc., performed reviews and recommended payments of CMP invoices instead of UN staff normally assigned these functions. Although there was no evidence of questionable payments in its sample, OIOS queried whether G&T has prepared a “conflict of interest” clause in its contract with the UN if it has or will have any relationship with CMP vendors. In its reply, the CMP stated that G&T is a professional project and cost management company selected by the UN as the programme management firm for the CMP after an open and competitive bidding process made in accordance with UN rules and regulations. One of the company’s services included the task of reviewing and making recommendations on all invoices provided by the vendors for the CMP.

16. The CMP stated that G&T has had and will continue to have relationships with vendors on other projects with other clients, as with those vendors employed by the UN on the CMP project as one of the largest, if not the largest independent project and cost managers in New York City. The CMP explained that, as the role of reviewing the quality of work performed and evaluating the value of this work was a key role that G&T provides the UN as well as to other clients, as is detailed in Annex A-2 of its contract produced and provided by the UN and signed by G&T, it does not believe that there is any reason to require a “conflict of interest” clause.

17. OIOS noted that the CMP’s Design Procedures Manual describes G&T’s evaluation procedures as follows:

- a. Verification that the fees are in accordance with the contract and the level of effort required to perform the services are in its professional judgement reasonable;
- b. Reference to enclosed dated final cost proposal:
 - i. basis for arriving at the fee typically; rates per hour, hours per title, or
 - ii. payment milestones, and or schedule cost proposal with dated modifications or attachments;
- c. Summary of scope and dated final scope of services or dated modifications or attachments prepared by CMP and/or G&T;
- d. Statement that the hourly rates, if used, are per the contract. There will be occasions when rates have not been predetermined in the contract. In such cases, the evaluation will affirm that the rates are reasonable and equal to or better than any GSA or government rates the firm would otherwise be required to pass on to the UN; and
- e. Statement that the number of hours, if used, is reasonable and the basis for that statement.

18. OIOS accepted CMP's explanations and clarifications, and therefore no recommendations are being made in this report.

19. *The Office of CMP agreed with OIOS' findings and observations.*

VI. ACKNOWLEDGEMENT

20. We wish to express our appreciation to the Management and staff of the CMP office, the Procurement Service and the Accounts Division for the assistance and cooperation extended to the auditors during this assignment.

cc: Mr. Jayantilal Karia, Director, Accounts Division, OPPBA
Mr. Paul Buades, Chief, Procurement Service
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS

UNITED NATIONS



OIOS Client Satisfaction Survey

Audit of: Accuracy and validity of CMP disbursements

(AC2007/514/07)

	1	2	3	4	5
By checking the appropriate box, please rate:	Very Poor	Poor	Satisfactory	Good	Excellent
1. The extent to which the audit addressed your concerns as a manager.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The audit staff's understanding of your operations and objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Professionalism of the audit staff (demeanour, communication and responsiveness).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The quality of the Audit Report in terms of:					
• Accuracy and validity of findings and conclusions;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Clarity and conciseness;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Balance and objectivity;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Timeliness.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The extent to which the audit recommendations were appropriate and helpful.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The extent to which the auditors considered your comments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your overall satisfaction with the conduct of the audit and its results.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please add any further comments you may have on the audit process to let us know what we are doing well and what can be improved.

Name: _____ Title: _____ Date: _____

Thank you for taking the time to fill out this survey. Please send the completed Survey as soon as possible to: Mr. Dagfinn Knutsen, Director, Internal Audit Division, OIOS, Room DC2-518, United Nations, New York, NY 10017. You can also send it via e-mail (knutsen2@un.org) or by fax (+1-212-963-2185).