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Report on the activities of the Office of Internal Oversight Services

In-depth technical construction audit of the capital master plan

Report of the Office of Internal Oversight Services

"Overall results relating to the in-depth technical construction audit of the capital master plan were partially satisfactory"

Summary

Pursuant to General Assembly resolution 66/258, the Office of Internal Oversight Services (OIOS) conducted an in-depth technical construction audit of the capital master plan, emphasizing the circumstances that led to the projected cost overrun of $433 million. The audit was conducted with the assistance of a professional services firm, which was selected after a competitive bidding exercise. Primary objectives of the audit included identifying the root causes of the $433 million shortfall, potential cost-saving measures and ways to keep projected costs within budget.

Based on the latest information presented to the General Assembly in March 2012, the Office of the Capital Master Plan reported a funding shortfall of $433 million, consisting of $266 million in projected costs over the approved budget for the capital master plan of $1.876 billion and the increased scope of the project approved by the General Assembly without a corresponding increase in the budget, including $146 million in associated costs[1] and $21 million for a secondary data centre.

* A/67/150.

[1] Associated costs include operational costs arising from the capital master plan, but not included in the approved budget, such as general operating expenses, non-swing space furniture and equipment and security systems in the swing space.

In the opinion of OIOS, the governance, risk management and control processes used by the Office of the Capital Master Plan which were examined were partially satisfactory in providing reasonable assurances regarding the effective planning and implementation of the project.

The key findings of the audit were as follows:

- The Office of the Capital Master Plan was managing and controlling the plan appropriately given the size, complexity and duration of the programme
- The primary drivers of the current cost overrun are justifiable given the change in execution strategy, increased security requirements and unbudgeted associated costs. Additionally, the costs are reasonable from the perspective of securing market prices and efficiently procuring the range of services through competitive processes or through negotiation of the unit rates established in the various contracts
- The Office of the Capital Master Plan has undertaken various efforts to mitigate cost growth, including several value engineering exercises and continuing change order cost control. While the Office of the Capital Master Plan and the project manager have been diligent in reviewing payment applications and change orders, the audit identified several potential areas for exploring cost recovery.

The audit also identified a number of lessons learned from the implementation of the capital master plan which should be applied to future capital projects including:

- Benefits which would arise from establishing a formal oversight committee with a charter clearly defining its roles and responsibilities to ensure that the committee would provide valuable input, insight and expertise to complex projects, while not reducing the accountability of the project team
- Significant changes of strategy for the plan were approved by the General Assembly but the corresponding approved budget was not adjusted to reflect these changes
- The Department of Management needs to ensure that for future capital projects there is a process in place to recognize and either approve or reject significant changes to original budgets.

The Department of Management stated that the Office of the Capital Master Plan disagrees with the rating of “partially satisfactory” for the three areas of governance, risk management and control. The audit report reflected the fact that the overall project governance of the capital master plan was established in a manner and format that is traditional for a project of its size and complexity; that the Office of the Capital Master Plan is managing and controlling the project appropriately given the size, complexity and duration of the programme; and that the overall costs of the plan appear reasonable, given that a large majority of the costs were procured through competitive processes. In addition, the audit report states that the project has a risk management process in place, whose reports are used actively to manage the decision-making processes. Although the audit identified several potential areas of recovery and lessons learned, none of the issues to which the recommendations related were considered serious enough to affect project implementation. Readers of the OIOS report will have the impression that the plan does not have sufficient controls in place.

OIOS is of the opinion that the audit identified important deficiencies or weaknesses in governance, risk management and control processes such that reasonable assurances may be at risk regarding the achievement of control and/or the business objectives of the capital master plan, including the implementation of the project within budget. For these reasons, OIOS maintains that the governance, risk management and control processes examined were partially satisfactory in providing reasonable assurances regarding the effective planning and implementation of the capital master plan.

OIOS issued 26 recommendations to the Office of the Capital Master Plan and the Department of Management for further strengthening internal controls, all of which were accepted.

Contents

I. Background

1. Pursuant to General Assembly resolution 66/258, the Office of Internal Oversight Services (OIOS) conducted an in-depth technical construction audit of the capital master plan, emphasizing the circumstances that led to the projected cost overrun of $433 million. The audit was conducted with the assistance of a professional services firm, which was selected after a competitive bidding exercise. The findings from the audit and the recommendations arising from it are summarized in the present report.

II. Objective and scope

2. The primary objectives of the audit included identifying the root causes of the $433 million shortfall, potential cost-saving measures and ways to keep projected costs within budget.

3. The following key controls were tested for this audit:

(a) Risk management and strategic planning: controls that provide reasonable assurance that risks relating to the capital master plan are identified, assessed and mitigated;

(b) Programme management reporting: controls that provide reasonable assurance that a system exists to report programme performance, including financial performance, in a timely manner, accurately and completely;

(c) Performance monitoring indicators and mechanisms: controls that provide reasonable assurance that appropriate, measurable metrics are established and reported upon for effective management of project activities;

(d) Regulatory framework: controls that provide reasonable assurance that policies and procedures are in place for the capital master plan, and are implemented consistently.

4. The key controls were assessed for the control objectives shown in table 1 below. Certain control objectives (shown in the table as not applicable) were not relevant to the scope of this audit.

5. OIOS conducted the audit between May and July 2012.

6. Comments provided by the Office of the Capital Master Plan and the Department of Management are set out in italics below.

III. Audit results

7. In the opinion of OIOS, the governance, risk management and control processes of the Office of the Capital Master Plan that were examined were partially satisfactory in providing reasonable assurances regarding the effective planning and implementation of the project.

8. Risk management and the strategic planning of operations were examined to identify key cost overrun drivers which had resulted in the funding shortfall of $433 million. Lease costs were assessed as competitive when compared with market

data, and professional fees were within the industry standard as a percentage of construction costs. Most of the costs associated with the capital master plan were subject to a competitive procurement process. The overall costs, therefore, were considered reasonable for the scope of work performed. Governance of the project consists of a steering committee on associated costs, an advisory board on design issues and management meetings with stakeholders. There is no one overall body responsible for monitoring costs, schedule and scope. In addition, project risk management would have benefited from a greater degree of quantitative analysis.

9. Examination of programme management reporting highlighted the fact that the budget had not included associated costs and had not been revised after the change of strategy. The remaining $59 million of contingency funds may not be sufficient for completion of the plan. Some areas where cost savings or recoveries may be sought were identified, but they will not be significant in terms of the projected budget shortfall.

10. Examination of performance monitoring indicators and mechanisms resulted in the observation that the use of performance metrics for design and construction needs to be enhanced for the capital master plan and for future projects.

11. With regard to the regulatory framework, there is scope to develop policies and procedures around budgeting and monitoring for future large capital projects. Observations were also made on the contractual aspects of insurance and labour rate mark-ups and the need to update the project manual.

12. Each of the four key controls was assessed as partially satisfactory, and that overall rating is presented in table 1 below.

Table 1

Assessment by the Office of Internal Oversight Services of key controls for the effective planning and implementation of the project, by control objective

	Control objectives			
Key controls	*Efficient and effective operations*	*Accurate financial and operational reporting*	*Safeguarding of assets*	*Compliance with mandates, regulations and rules*
(a) Risk management and strategic planning	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
(b) Programme management reporting	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
(c) Performance monitoring indicators and mechanisms	Partially satisfactory	Partially satisfactory	Partially satisfactory	Not applicable
(d) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory

13. *The Department of Management stated that the Office of the Capital Master Plan disagrees with the rating of "partially satisfactory" for the three areas of governance, risk management and control. The audit report stated that the overall governance of the project was established in a manner and format that is traditional*

for a project of its size and complexity; that the Office of the Capital Master Plan is managing and controlling the project appropriately given the size, complexity and duration of the programme; and that the overall costs of the plan appear reasonable given that a large majority of them were procured through competitive processes. In addition, the audit report states that the project has a risk management process in place, whose reports are used to actively manage the decision-making processes. Although the audit identified several potential areas of recovery and lessons learned, none of the issues to which the recommendations related were considered serious enough to affect project implementation. Readers of the OIOS report will have the impression that the capital master plan does not have sufficient controls in place.

14. OIOS is of the opinion that the audit identified important deficiencies or weaknesses in governance, risk management and control processes such that reasonable assurances regarding the achievement of the control and/or business objectives of the plan may be at risk, including the implementation of the project within budget. For these reasons, OIOS maintains that the governance, risk management and control processes examined were partially satisfactory in providing reasonable assurances regarding the effective planning and implementation of the plan.

A. Risk management and strategic planning

1. Causes of cost overruns

15. As of March 2012, the estimate at completion was reported as $2.42 billion, which includes $2.14 billion in costs of the capital master plan, $167 million in associated costs and costs for the secondary data centre, $100 million in enhanced security upgrades and $11 million in additional scope funded by donations from Member States. As reflected in table 2 below, $1.85 billion has been committed, mostly through design and construction contracts, and $1.27 billion has been paid out.

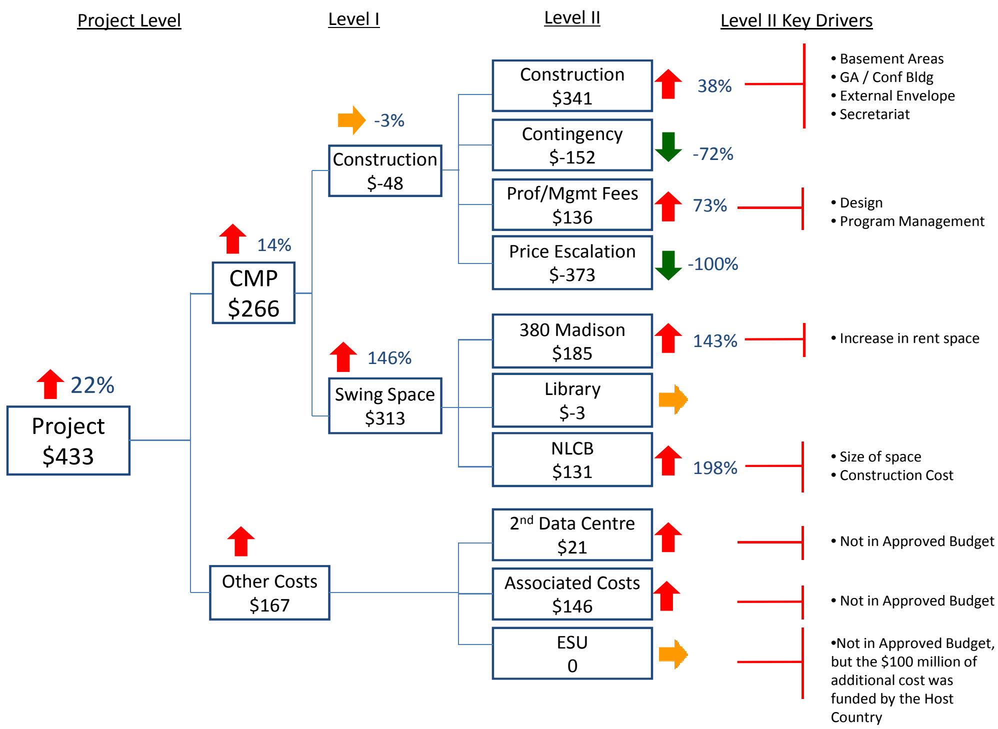
Table 2
Capital master plan cost summary
(Millions of United States dollars)

Description	*Approved budget and funding*	*March 2012 estimate at completion*	*Variance (approved budget less forecast)*	*Commitments*[a]	*Disbursements*[a]
Capital master plan costs	1 876	2 142	(266)	1 688	1 196
Associated costs and secondary data centre	–	167	(167)	96	65
Enhanced security upgrades	100	100	–	68	12
Additional scope related to donations from Member States	11	11	–	Included in capital master plan	Included in capital master plan
Total	**1 987**	**2 420**	**(433)**	**1 852**	**1 273**

[a] Total expenditures report as of 2 April 2012 for the month of March 2012.

16. There is a current projected shortfall of $433 million, including $266 million attributable to capital master plan costs and $167 million in additional costs from the increased scope of the project approved by the General Assembly. The costs can be categorized into three major components: construction costs, swing space and other costs. Using data from the reports of the Secretary-General and the monthly report of March 2012 from the programme management firm, the following cost-driver tree was developed to illustrate the sources of the $433 million gap.

Table 3
Key cost overrun drivers
(Millions of United States dollars; arrows and percentages indicate variances between the March 2012 estimate at completion and the approved budget)



(a) Construction

Level I

17. Construction costs, including professional fees and management costs, increased by $477 million, which was offset by the use of contingency and price escalation reserves of $525 million, resulting in a net reduction of $48 million.

Level II

18. Construction costs increased by $341 million, some of which was attributable to unexpected field conditions and a shift in project execution strategy. Those costs arose as follows:

(a) First, $293 million for increases in the Basement subproject, primarily resulting from asbestos abatement and demolition, mechanical, electrical and plumbing infrastructure, vertical transport and electrical vault B changes;

(b) Second, $84 million for increases to the General Assembly Building and the Conference Building, mainly resulting from changes to the structural steel design to enhance security, unforeseen existing conditions associated with concrete weaknesses, asbestos and lead abatement, additional fireproofing and beam penetrations for the curtain wall;

(c) Third, $80 million for increases to the external envelope as a result of increased blast protection and changes to security;

(d) Fourth, $73 million for increases to the Secretariat Building to address heating, ventilation and air conditioning issues, asbestos abatement and structural changes to the upper floors;

(e) Fifth, $77 million for increases related to smaller components of the capital master plan, including hoist, the Library, security, additional blast protection, audio/visual facilities, site work and preconstruction;

(f) Finally, a $266 million decrease through budget transfers from general conditions, scope options, fees and additional funding from voluntary donations.

19. Professional fees and management costs increased by $136 million, largely as a result of changes in the construction strategy, consisting of a $70 million increase in professional fees, a $45 million increase in the costs of the Office of the Capital Master Plan and the programme management firm and a $21 million increase for other items such as air monitoring for asbestos abatement.

20. Contingency and forward price escalation decreased by $525 million, and the March 2012 estimate at completion was $59 million.

(b) Swing space

Level I

21. Swing space costs increased by $313 million.

Level II

22. Costs for the North Lawn Conference Building increased by $131 million, owing largely to the addition of 98,000 square feet.

23. Swing space leases and fit-out increased by $185 million, as follows: $99 million in lease costs due to an increase of 667,000 rentable square feet; $40 million in fit-out costs for additional swing space at 305 East 46th Street, UNDC-I (One United Nations Plaza), UNDC-II (Two United Nations Plaza), the United Nations Institute for Training and Research (UNITAR) Building, the Teachers Building and the United Nations Federal Credit Union (UNFCU) Building, which were not planned; $10 million in swing space furniture; $19 million in additional costs related to the fit-out of 380 Madison Avenue; and $17 million in additional design costs.

24. Costs for the Dag Hammarskjöld Library decreased by $3 million owing to a reduction in swing space requirements.

(c) Other costs — project level

25. Other costs are projected to be $267 million and were not included in the approved budget. They include associated costs of $146 million, $100 million in enhanced security upgrade costs and costs for the secondary data centre of $21 million.

26. Overall, several root causes for the overruns were identified, including:

(a) Changes in project execution strategy, which affected the costs of the capital master plan, consisting of:

(i) An initial plan for construction of an off-site United Nations swing space, designated as UNDC-5, which would have allowed personnel to move off site in one move with minimal off-site leased swing space required, but which failed to receive regulatory approval;

(ii) Strategy IV, a new strategy developed in response to the failure of the plan for construction of UNDC-5, to move personnel off site in stages while construction was completed, which required additional off-site leased swing space;

(iii) Accelerated strategy IV, which was another strategy shift adopted to accelerate the construction schedule and move personnel off site in one move, which further increased the need for off-site leased swing space;

(b) Leadership changes during the strategy shifts;

(c) Unbudgeted associated costs;

(d) Increased security requirements.

2. A reasonable level of costs

27. As can be seen in table 4 below, the majority of costs for the capital master plan were subject to a competitive procurement process, selected on best value according to United Nations policies, or subject to scrutiny by other United Nations departments. Additionally, the lease costs were found to be competitive when compared to market data and professional fees were within industry standards as a percentage of construction costs. The overall costs of the capital master plan were therefore reasonable for the scope of work carried out.

Table 4
Procurement analysis
(Millions of United States dollars)

Estimate at completion amount	*Cost type*	*Procurement type*	*Discussion*
986	Construction costs	Competitive	Construction costs procured through guaranteed maximum price contracts with competitively bid trade costs
345	Professional fees	Best value	Architecture, engineering and consulting services procured through a best value approach and negotiated amendments
278	Other costs and departmental costs	Operating costs	Associated costs managed by other United Nations departments

Estimate at completion amount	Cost type	Procurement type	Discussion
195	Lease costs	Market rate	Swing space leases procured at market rates
126	Construction change orders	Negotiated	Change orders generally negotiated on the basis of agreed upon unit pricing
490	Pending costs	Not available	Costs not yet procured
2 420	**Total**		

3. Project governance

28. The overall project governance of the capital master plan was established in a manner and format that is traditional for a project of this size and complexity. The plan is being executed by an experienced design and construction management team who are familiar with overseeing large construction programmes and the practices of the New York City construction industry. The management team includes a third-party programme management firm, as well as dedicated personnel from procurement, legal and facility management services. While the Office of the Capital Master Plan is led by a seasoned construction executive who is accountable for delivering the plan, the existing oversight committees (e.g., the Steering Committee on Associated Costs and the Advisory Board as well as meetings held by the Department of Management) do not fulfil the function of monitoring costs, schedule and scope. Typically, oversight is provided by a steering committee that includes representatives from senior management and other key project stakeholders.

Recommendation 1

The Department of Management should ensure that for future major capital projects, there is a formal oversight committee or governance body between the project team and the General Assembly, while not reducing the accountability of the project team. Additionally, there should be a document or charter which clearly defines the roles and responsibilities of the oversight committee. Those roles and responsibilities need to be carefully balanced in such a way that they provide valuable input, insight and expertise to complex projects. The oversight committee should receive summary monthly performance and dashboard reports and provide input on significant project decisions in a timely manner.

The Department of Management accepted recommendation 1 and stated that it would be implemented upon the completion of the capital master plan, or prior to the development of future major capital projects, whichever comes first.

4. Project risk management

29. The Office of the Capital Master Plan has a risk management process in place which is being led by the programme management firm. This process was not defined in the project manual or a risk management plan, but was presented in the latest annual risk report prepared in October 2011. The Office of the Capital Master Plan uses the annual risk review and report process to identify and rank project risks as well as to update the risk register. The risk report and register are being used to actively manage project decision-making. However, the process is only qualitative and does not include quantitative analysis to assign probability and financial impacts to each of the risks and is not used as an additional tool to assess the amount of contingency required.

Recommendation 2

The Office of the Capital Master Plan should consider updating the risk register with a quantitative analysis focusing on project-related risks to assess whether the balance of contingency is adequate for the remainder of the plan. For future capital projects, the United Nations should carry out a quantitative risk assessment, in keeping with industry practice, on large or complex projects and update it regularly throughout the life of the project.

The Department of Management accepted recommendation 2 and stated that the recommendation has two discrete components: the first part refers to the capital master plan and the second part to future capital projects of the Organization. The Department of Management concurred with both parts of the recommendation and indicated that there were separate responsible officials and implementation dates. The risk register will be updated during the annual risk assessment in October 2012 and the General Assembly will be presented with the outcomes of the quantitative risk assessment and contingency required during its resumed sixty-seventh session in the spring of 2013 or at its sixty-eighth session in the autumn of 2013. As regards the second part of the recommendation, all large and complex projects will in future be the subject of a risk assessment, which will be updated regularly throughout the life of the project.

5. Business case

30. A clear business case was proposed in the report of the Secretary-General on the capital master plan (A/55/117 and Add.1), with objectives communicated to the General Assembly. However, the design and renovation of the Dag Hammarskjöld Library and the South Annex are on hold and incomplete owing to security concerns related to the proximity of the Franklin D. Roosevelt East River Drive 42nd Street ramp. Failure to renovate the Dag Hammarskjöld Library and South Annex, budgeted at $65 million, will result in an unmet business objective, namely, that the Headquarters complex should be energy-efficient, free of hazardous materials and compliant with host city building, fire and safety codes and should provide full accessibility to all persons.

Recommendation 3

The Office of the Capital Master Plan should seek the advice of the General Assembly as soon as possible on the strategy for the Dag Hammarskjöld Library and South Annex Building and communicate the cost and schedule implications so that future financial obligations are clearly defined.

The Department of Management accepted recommendation 3 and stated that a proposed course of action would be transmitted to the General Assembly in the forthcoming tenth annual progress report of the Secretary-General on the capital master plan.

B. Programme management reporting

1. Associated costs

31. The approved budget did not include associated costs, which resulted in an estimated shortfall of $146.8 million as of March 2012. Associated costs include items pertaining to various United Nations departments, such as additional operating expenses for security, archival storage and furniture.

Recommendation 4

The Department of Management should ensure that in future, United Nations capital projects include a budget for associated costs in addition to the actual direct cost of construction and carry out a budgeting exercise with each of the relevant departments.

The Department of Management accepted recommendation 4 and stated that it would prepare budget requests for future capital projects to include direct and associated costs, but that ultimately the approval of the budget is the responsibility of the General Assembly.

2. Budgetary impacts due to a change in strategy

32. The switch from strategy IV to accelerated strategy IV significantly changed the capital master plan. Although accelerated strategy IV was approved by the General Assembly, the corresponding approved budget was not adjusted to reflect this change.

Recommendation 5

The Department of Management should ensure that for future capital projects there is a process in place to recognize and either approve or reject significant impacts to original budgets.

The Department of Management accepted recommendation 5 and stated that it would ensure that for future capital projects there is a process in place to address and resolve significant impacts to original budgets, but that ultimately the approval of the budget is the responsibility of the General Assembly.

The Office of Programme Planning, Budget and Accounts accepted that there is limited guidance specific to the monitoring of progress and expenditure on capital projects and that the Secretariat currently adapts existing guidance on operating expenditure, together with specific mandates from the General Assembly, to monitor progress and budgetary performance. The adoption of International Public Sector Accounting Standards (IPSAS) in 2014 requires the Secretariat to review its accounting for fixed assets, including recognition of long-term construction contracts and other capitalized costs. This presents a good opportunity to examine in detail the adequacy of existing procedures around budgeting and monitoring of large capital projects and will enhance the flow of management information as well as ensure that the Organization is compliant with IPSAS.

33. Approximately 90 per cent of the budgeted contingency has been consumed, while total spend on the capital master plan is only 50 per cent complete. The $59 million of remaining contingency may not be sufficient for the remainder of the plan, especially considering the history of change orders and unforeseen field conditions to date.

Recommendation 6

The Office of the Capital Master Plan should quantify the remaining risks, including lessons learned from the completed subprojects, to assess whether the balance of contingency is adequate for the remaining work to be completed.

The Office of the Capital Master Plan accepted recommendation 6 and stated that it would seek to develop a methodology to quantify risks, in order to assess whether the balance of contingency for the remaining work is adequate. The risk register will be updated during the annual risk assessment in October 2012. The General Assembly will be presented with the outcomes of the quantitative risk assessment and the contingency required during its resumed sixty-seventh session in the spring of 2013 or at its sixty-eighth session in the autumn of 2013.

3. Potential cost savings or recoveries

34. A sample of construction change orders and payment applications for the Basement, Secretariat and North Lawn Conference Building subprojects were analysed to identify potential areas of cost recovery. The change orders sampled accounted for $34.2 million, or 27 per cent of the total approved construction change order value of the capital master plan. The payment applications reviewed totalled $549 million, or 74 per cent of the total construction contract values for the three subprojects up to 30 April 2012 and $17.8 million for the month tested. Change orders were tested for compliance with the contracts and processes of the plan, cost reasonableness and entitlement, and payment applications were tested for compliance with the contracts and processes of the plan, appropriate supporting documentation, reconciliation of contingency and allowance usage and proper calculation of fees and insurances. While the Office of the Capital Master Plan and the programme management firm have been diligent in reviewing monthly payment applications and change orders, the analysis identified several potential areas for exploring cost recovery. The recoveries identified in the findings set out below are only reflective of the sample tested and are not extrapolated to the full population of change orders and payment applications relating to the plan.

35. Potential areas for exploring cost recovery were identified as follows:

(a) One Basement change order for $2.08 million included labour rates which were greater than those listed in the trade contracts and were not supported by proof that "over-scale" payments had actually been paid to the relevant union workers. The value of the over-scale payments for this change order was approximately $35,000 and this will be calculated and credited by the construction manager during the subproject close-out process. This issue affects an unknown number of early change orders and allowance requests;

(b) A Secretariat change order included dry-wall trade contractor costs of $650,000. However, the trade contractor cost estimate totalled $580,000, a variance of $70,000. The programme management firm stated that an independent estimate of the change order was carried out which determined that the requested amount was reasonable and therefore no further review was undertaken prior to approval of the change order;

(c) A North Lawn Conference Building change order for $1.48 million included incorrect mark-ups of approximately $9,000 for overhead and profit on equipment;

(d) A change order relating to the North Lawn Conference Building for $3.96 million included high labour rates which were not disputed by the Office of the Capital Master Plan. A sample of the change order labour rates were compared to the most recently agreed labour rates. Based on the sample, the estimated effect of the overstated labour rates on this change order was approximately $80,000;

(e) Three change orders relating to the North Lawn Conference Building included a 15 per cent mark-up on items not allowed under the trade contract. The estimated effect of this mark-up was approximately $82,000 on one change order and a total of $25,000 for the other two.

Recommendation 7

The Office of the Capital Master Plan should:

(a) **Ensure that the construction manager identifies the costs associated with unsupported over-scale pay and confirm the construction manager's review of current and previously closed subprojects for appropriate credits;**

(b) **Review all trade contractor cost estimates included within the change order documentation for accuracy and appropriate scope;**

(c) **Analyse all other change orders where equipment mark-ups, non-compliant labour rates and mark-ups on items not allowed under the trade contracts are included;**

(d) **Issue deductive change orders or revised change orders as appropriate for specific overcharges identified.**

The Department of Management accepted recommendation 7 and stated that it would take steps to continue the review, bearing in mind that full implementation of the recommendation can only be accomplished at the end of the project. This exercise will probably have budget implications. The scope and duration of work of the programme management firm responsible for it will increase.

36. The integrity consultant stated that there were potential concerns with the time charges of the labour trade contractor responsible for the Basement. This contractor was not renewed at the end of the initial contract term. The total committed to this trade contractor was $13.36 million, with corresponding payments made of $13.25 million. There is no evidence that the payments made to this contractor have been reviewed.

Recommendation 8

The Office of the Capital Master Plan should perform a full review of the payment applications of the labour trade contractor responsible for the Basement, including reconciliation with time sheets, for cost-recovery purposes.

The Department of Management accepted recommendation 8 and stated that it would take steps to initiate action, bearing in mind that full implementation of the recommendation can only be accomplished at the end of the project in 2014, when the basement works are scheduled to be completed. In accordance with established practice it will be undertaken as part of the normal review exercise.

37. Payment applications from the labour trade contractor are being billed on a time and materials basis. Individual labourers may work on multiple subprojects in a

given day or week, which makes reconciling the payment applications with the supporting time sheets difficult. Multiple subproject payment applications need to be reviewed for potential double billing and appropriate overtime charges. The programme management firm and the integrity consultant have indicated that they are not undertaking that level of reconciliation. In addition, the work schedule of individual labourers and hoist operators was unusual. For example, within one payment application relating to the Secretariat Building, certain hoist operators reported working up to 18 hours in one day. Overtime for hoist operators is charged at double time, which is significantly more costly to the capital master plan than a shift differential for a second and third crew. The programme management firm is not monitoring the work schedules of the trade contractors, which they believe is part of the responsibility of the construction manager.

Recommendation 9

The Office of the Capital Master Plan should reconcile the time and material payment applications of the labour trade contractors across subprojects, with certified payroll to confirm appropriate billing of hours and overtime. Additionally, the Office should review unusual work schedules for appropriateness and assess lower cost options.

The Department of Management accepted recommendation 9 and stated that it would request the Office to take immediate action, with a view to full implementation no later than December 2013. The contractual terms with the construction manager allow for a review of all records. This review will be dependent on approval of additional funding by the General Assembly, as it implies additional work to be undertaken either by the construction manager or by the programme management firm.

38. The full tax percentage for state unemployment insurance and federal unemployment insurance were applied to all labour hours billed on a time and materials basis without consideration for the stipulated salary caps. Assessment of the labour rates included in the Secretariat payment application of the labour trade contractor revealed that the yearly overcharge for both types of insurance would be approximately $4,500 for one labour journeyman. Additionally, this issue would be compounded if the labourer worked overtime throughout the year, which happened on a regular basis. While these labour rates over-recovered the costs for both types of insurance, they were agreed upon in the trade contracts.

Recommendation 10

The Office of the Capital Master Plan should require future trade contractors to propose effective rates for state unemployment insurance and federal unemployment insurance which incorporate the stipulated salary caps. The Office should consider carrying out a full analysis with regard to the overcharging of payroll taxes in labour rates on completed work on base contracts and change orders.

The Department of Management accepted recommendation 10 and stated that it would request the Office to take steps to implement it without delay.

4. Retainage

39. The contract with the construction manager provides guidance on retainage withholding; however, the Office of the Capital Master Plan has elected to reduce and release retainage for many trade contractors earlier than suggested by the contract. Accounting for only those trade contractors for which less retainage is being held than suggested by the contract, retainage is currently under-withheld by $1.11 million for the Secretariat Building and $3.53 million for the Basement.

Recommendation 11

To best protect the capital master plan against poor performance by trade contractors or other disputes, the Office of the Capital Master Plan should withhold and maintain retainage at the rate stipulated in the construction manager's contract.

The Department of Management accepted recommendation 11 and stated that it was being implemented. This recommendation does not acknowledge that the contract terms provide authority to the United Nations, as owner, to adjust retainage requirements, notwithstanding the rates stipulated in the contract. Nonetheless, the Office concurs with the intent of the recommendation and will implement it, unless there are specific circumstances which warrant other treatment.

5. Contingency and allowances

40. The remaining amounts included in the payment applications from the construction manager for contingency and allowance for the Secretariat, Basement and North Lawn Conference Building could not be reconciled with the remaining amounts calculated using the original contract values and the contingency and allowance logs. Even though the payment applications represent a specific point in time, while the logs are continuously updated, the reconciliation should still be possible.

Recommendation 12

The Office of the Capital Master Plan should carry out reconciliations on a monthly basis as part of the review process on payment applications to confirm that the construction manager is not allocating contingency and allowance funds without approval from the Office.

The Department of Management accepted recommendation 12 and stated that it had been implemented. All payment applications are reviewed on a monthly basis. The records of the construction manager and the programme management firm are reconciled. The construction manager's cost allocation to various budget items (contingency, allowance) can be tracked based on the monthly change order log. The construction manager is not allowed to charge invoices to a particular contract cost item unless specifically authorized by the Organization.

6. Reporting on progress on the capital master plan

41. The Office of the Capital Master Plan is required to provide annual progress reports to the General Assembly (A/57/7/Add.4, para. 28). The frequency and content of the reports to the General Assembly may not have provided the most timely and effective method for decision-making, which may have impacted the schedule of the capital master plan. For example, the fourth annual progress report (A/61/549) states that a decision on strategy was requested in December 2005, but a strategy was not selected until June 2006. This six-month period was used to move design development work along in a fashion that was neutral in terms of the strategy. In this way, any negative impact on the project budget was minimized. The annual reporting process is not the most efficient or effective method for capital project reporting and is not consistent with industry practices.

Recommendation 13

The Office of the Capital Master Plan should consider developing more succinct monthly project status reports, with key performance indicators to inform stakeholders of progress on the plan. The status reports should include planned versus actual tracking for budgets, commitments and costs and visibility into the current budget and schedule status. These reports can be used as early warning indicators of potential delays or budget overruns on a monthly basis and would enhance the efficiency of creating annual reports for the General Assembly.

The Department of Management accepted recommendation 13 and stated that the General Assembly had not requested monthly briefings. More frequent project reports would be feasible. Monthly internal reports continue to be distributed to relevant offices in the Secretariat. The format and substance will be enhanced.

7. Impact of design status on the reporting of cost estimates

42. The original basis of the design was impacted by delays to the capital master plan schedule, modifications by end users, changes in leadership, additional security requirements and changes in technology. As a result of these changes, there were several instances in which the Office of the Capital Master Plan provided a cost estimate to the General Assembly, but did not have a developed design or specification. For example, an estimate of $230 million was presented to the Assembly for additional security, back-up systems and sustainability improvements, which were grouped and labelled as scope options (A/61/549, paras. 24 to 32), but which was only based on a conceptual design, while the remainder of the budget was based on completed design documents.

Recommendation 14

The Office of the Capital Master Plan should identify in future reports the potential variability of the cost and schedule for scope items that are not clearly developed.

The Department of Management accepted recommendation 14.

8. Reasons for change orders

43. The Office of the Capital Master Plan assigns the following categories to reasons for construction change orders:

(a) Capital master plan scope change — initiated by the Office or other United Nations departments;

(b) Field condition/unforeseen condition — unidentified condition not shown on the design documents or not known about at the time of design;

(c) Generated by the architect or engineer — initiated by the design professionals, including errors and omissions;

(d) Generated by the construction manager — deviation from the design, including value engineering;

(e) Other — miscellaneous changes in scope.

44. The majority of construction change orders (63 per cent) were categorized as capital master plan scope changes, with the remaining portion primarily attributable to field conditions (16 per cent) and changes generated by the architect or engineer (13 per cent). The scope changes include those initiated by other United Nations departments as well as the Office of the Capital Master Plan.

45. Although the reason categories were applied appropriately, they are broad, are not easily compiled for reporting purposes and do not track important change order details. In particular, certain change order items that will need to be addressed during the subproject close-out, such as acceleration costs, are not easily identifiable. In addition, costs resulting from design errors or omissions are not readily tracked and reported.

Recommendation 15

The Office of the Capital Master Plan should implement a system whereby subcategories can be tracked in addition to the reason categories currently being applied to construction change orders. Consideration should include, but not be limited to, the following subcategories or distinctions:

(a) **Changes initiated by the Office versus those initiated by other United Nations departments;**

(b) **Change orders addressing design errors or omissions;**

(c) **Value engineering change orders;**

(d) **Change orders issued for acceleration costs;**

(e) **Change orders, including trade contractors not enrolled in the contractor-controlled insurance programme.**

The Department of Management accepted recommendation 15 and stated that with regard to category (e), a change order that includes multiple subcategories will have to be divided into single change orders in order to profile each subcategory. This will probably triple the number of change orders. The Office of the Capital Master Plan already has categories (a), (b) and (c) established and can implement (d). For category (a), distinction by department was important for the Secretariat. All departments are requested to identify their own funding source if they request changes.

9. Buy-out savings

46. While there were no material exceptions in the information contained in the reports of the construction manager, the programme management firm or the Secretary-General, both the programme management firm and the Office of the Capital Master Plan include buy-out[2] savings in the estimate at completion, while the construction manager does not. This inconsistency is considered and noted in the latest annual progress report (A/66/527); however, the magnitude and probability of the recovery of the buy-out savings were not included.

[2] Trade contractor buy-out refers to the process of procuring trade contractors to execute portions of the scope of work, typically at a fixed price. The variance between the guaranteed maximum price budget values and the trade contract procurement values may result in buy-out savings or overages.

Recommendation 16

The Office of the Capital Master Plan should accurately report buy-out savings and clearly state how they affect the estimate at completion.

The Department of Management accepted recommendation 16 and stated that it had been implemented. It further stated that buy-outs were reported on an ongoing basis and obligations regularly reduced. Reference was made to a report from the integrated management information system for savings on prior-period obligations. Buy-outs were regularly reported by the programme management firm to the Office of the Capital Mater Plan, which in turn reported the buy-outs to the General Assembly during its sixty-sixth session.

C. Performance monitoring indicators and mechanisms

1. Design consultant costs

47. The method for invoicing and tracking the costs of the design consultants is not consistent between contracts, which may lead to potential reporting misrepresentations. While contract amendments issued to design consultants were initially grouped into standard design phases, this allocation was not preserved on invoices or tracking logs. This reduced the ability to accurately track design costs and progress against specific milestones or phases.

Recommendation 17

The Office of the Capital Master Plan should consistently track and report on design phase costs and ensure that the tracking logs accurately reflect these allocations.

The Department of Management accepted recommendation 17 and stated that this could be implemented for future design contracts.

2. Interim milestones

48. The contracts for the construction manager address the time required to achieve substantial completion and associated liquidated damages, which can be assessed if the contractual completion date is not met. In certain subprojects, only the substantial completion milestone is included, with no interim milestone dates. In view of the phased turnover approach of the capital master plan subprojects, interim milestones could have mitigated risks around specific move-in dates or other significant milestones.

Recommendation 18

The Office of the Capital Master Plan should define interim milestones for future capital master plan contracts to mitigate schedule risks.

The Department of Management accepted recommendation 18 and stated that it had been implemented. The detailed schedule with tasks and milestones is available for review by OIOS.

3. Damages relating to time extensions or delays

49. The delay notification requirements and allowable damages in the contracts of the construction manager are consistent with industry standards; however, the contract does not state that delays must be critical to the substantial completion of the subproject to be considered for a time extension or damages. Delays that only affect non-critical work do not subsequently delay the substantial completion of the subproject and do not typically affect the subproject schedule and therefore should not be allowable or eligible for compensation.

Recommendation 19

The Office of the Capital Master Plan should consider requests for damages for time extensions or delays only for those delays which affect the critical path of a subproject.

The Department of Management accepted recommendation 19 and stated that it had been implemented. The detailed schedule with tasks and milestones is available for review by OIOS.

4. Space utilization tracking

50. The United Nations does not use a system to track space utilization throughout the New York City real estate portfolio; therefore, a comprehensive space analysis was not carried out in connection with swing space for the capital master plan. The swing space procured allowed for approximately 250 square feet per person, while the average market space usage in New York City is approximately 225 square feet per person.

Recommendation 20

The Department of Management should implement a system to track office space vacancies and square footage per person in order to efficiently manage the use of the real estate portfolio. For future capital projects, this system could be used to make use of existing vacancies or restack occupants to potentially reduce the amount of swing space required.

The Department of Management accepted recommendation 20 and stated that it was in the process of implementing a computer-aided facilities management system, which includes a space management module.

D. Regulatory framework

1. Policies and procedures for future large capital projects

51. The original and subsequent budgets were prepared in accordance with United Nations Financial Regulations and Rules and industry standards[3] for estimating costs. The construction contingency amount was originally calculated as 20 per cent of construction, design and management costs. While the processes used to establish the original budget and contingency amount were appropriate, the current policies and procedures do not provide adequate guidance or controls for larger capital expenditure projects such as the capital master plan. Without appropriate financial policies and procedures for large capital project budgeting and cost control, management may not have reasonable transparency and control of expenditures.

Recommendation 21

The Department of Management should develop or enhance policies and procedures around budgeting and monitoring for future large capital projects. For example, a policy for establishing original budgets, managing contingency and developing earned value reports should be formalized and customized for large capital projects.

The Department of Management accepted recommendation 21 and stated that it would be implemented for future large capital projects planned to take place following the completion of the capital master plan.

2. Insurance mark-ups

52. Percentages applied for fees and various insurance amounts included in the contract of the construction manager were reasonable. However, the costs to which

[3] ASTM E1557-93 Uniformat II Elemental Classification for Building Specifications, Cost Estimating, and Cost Analysis.

those mark-ups have been applied were not consistent with industry standards. Based on the original contract values for the Secretariat subproject only, this method of calculation resulted in a $450,000 increase in the insurance costs of the subproject. For example, a mark-up of 3.6 per cent on the contractor-controlled insurance programme is applied to the costs of the trade contractor, general conditions and the contingency amount, fees and other insurance costs controlled by the construction manager. That programme is generally only applied to the costs of the trade contractor, general conditions and contingency, as the other costs do not contribute to insurance risks. Other insurance values were also calculated in the same manner as the contractor-controlled insurance programme. This calculation method was stipulated by the Office of the Capital Master Plan and potentially inflates the insurance costs.

Recommendation 22

For future capital master plan contracts, the Office of the Capital Master Plan should utilize a typical mark-up structure, whereby insurance percentages are only applied to the cost of work covered by the particular insurance.

The Department of Management accepted recommendation 22 and stated that this structure could be implemented and would enhance future construction projects. The capital master plan contractual instruments were established a few years ago on the advice of the Procurement Division and the Office of Legal Affairs.

53. The mark-up on the contractor-controlled insurance programme is applied to trade contractors which are not enrolled in the policy. Some of the trade contractors which are excluded from the programme have significant portions of work. Abatement trade contractors are fully excluded and electrical trade contractors are partially excluded from the policy. Based on the original contract values for only the abatement and electrical trade contractors working on the Secretariat Building, this pre-payment of the contractor-controlled insurance programme on non-enrolled trade contractors accounted for approximately $700,000. This is likely to exceed $2 million for the whole of the capital master plan. The Office of the Capital Master Plan proposes to reconcile the overpayments on the contractor-controlled insurance programme related to non-enrolled contractors during the subproject close-out procedures. In addition, the full contract value of the programme was paid to the construction manager at the beginning of the subproject, as opposed to being paid on an earned value basis over the life of the subproject.

Recommendation 23

The Office of the Capital Master Plan should apply the mark-up for the contractor-controlled insurance programme only to those trade contractors which are enrolled in the programme, on both the initial contract values and on change orders. The Office should conduct this reconciliation prior to the subproject close-out. For future United Nation capital projects, insurance payments should be reimbursed on an earned value basis.

The Department of Management stated that it considers that this recommendation has two discrete components; the first part refers to the capital master plan and the second to future capital projects. The Department of Management accepted both parts of the recommendation and stated that it had been implemented. The contractor-controlled insurance programme is not applied for change orders related to subcontractors in cases where it is known from the beginning that the work of the subcontractors will not be subject to the programme. It is also dealt with and reconciled at the close-out stage of the guaranteed maximum price contract.

For future United Nations capital projects, the Administration will seek to negotiate with contractors on the insurance payments being reimbursed on an earned value basis.

3. Labour charges

54. At the outset of the capital master plan, there was no restriction on trade contractors charging overhead and profit on the premium portion of overtime labour charges for time and materials or change order work. However, on 5 February 2010, the Office of the Capital Master Plan decided that this additional mark-up would no longer be permitted, but no adjustment would be made for trade contracts currently in place. Review of the labour rates used by the labour trade contractor for the Secretariat Building, who was retained after February 2010, indicates that this mark-up is being applied to the premium portion of overtime. The Office of the Capital Master Plan allowed this additional fee for the labour trade contractor as their mark-up was 5.75 per cent instead of the standard 15 per cent.

Recommendation 24

The Office of the Capital Master Plan should consider revisiting the early trade contracts for potential recovery of the overtime mark-up. Additionally, the Office should enforce the policy consistently across all the trade contractors and explicitly include it in future contracts with the construction manager.

The Department of Management accepted recommendation 24 and stated that at the close-out stage a reconciliation between the status of various contract cost elements and amounts billed would be carried out.

55. A review of amounts committed to selected trade contractors revealed that the general conditions trade contractor for the North Lawn Conference Building and the mechanical piping trade contractor for the Basement were issued with amounts which were lower than the "request for approval" amount approved by the Office of the Capital Master Plan. The contract variances totalled $172,000 and were due to final negotiations between the construction manager and the trade contractors and the removal of certain trade contract alternates. While the variances observed indicate that the construction manager undercommitted funds to the trade contractors, it is also possible to overcommit funds based on the current process. However, the construction manager would not be able to invoice more than the approved request for approval amount.

Recommendation 25

The Office of the Capital Master Plan should reconcile the "request for approval" values to the trade contract amounts, as the discrepancies lead to an overstatement of the committed amount for the capital master plan.

The Department of Management accepted recommendation 25 and stated that this would be managed as part of the interim close-out of the guaranteed maximum price contracts. There are also instances where alternate bid options are not necessarily immediately contracted and are instead contracted at a later stage. The lower value of trade contracts would be captured and reflected in credits processed by the construction manager.

4. Project manual

56. While the project manual included most of the standard industry elements, it did not include a project charter or management plans for schedule and risk. Additionally, the programme management plan and the project manual have not been updated regularly to reflect current policies and procedures.

Recommendation 26

The Office of the Capital Master Plan should complete the revision of the project manual, which was last updated in December 2010, and ensure that it includes all typical industry standards or best practices.

The Department of Management accepted recommendation 26.

Carman L. Lapointe
Under-Secretary-General for Internal Oversight Services

Annex

Comments received from the Department of Management on the draft report of the Office of Internal Oversight Services on the in-depth technical construction audit of the capital master plan

1. The Office of Internal Oversight Services (OIOS) sets out below the full text of comments received from the Department of Management (the Office of the Capital Master Plan, the Office of Programme Planning, Budget and Accounts, the Office of Central Support Services and the Office of the Under-Secretary-General for Management) on the OIOS draft report on the in-depth technical construction audit of the capital master plan. The inclusion of this information is in line with the decision of the General Assembly in its resolution 64/263, following the recommendation of the Independent Audit Advisory Committee. Overall, the Department concurred with the recommendations of OIOS. The comments of the Department on the draft report have been incorporated, as appropriate, into the final report.

Office of the Capital Master Plan

2. The Office of the Capital Master Plan disagrees with the rating of "partially satisfactory" for the three areas of the OIOS audit (governance, risk management and control).

3. The [professional services firm's] report reflected that the overall project governance of the capital master plan is established in a manner and format traditional for a project of its size and complexity; that the Office of the Capital Master Plan is managing and controlling the plan appropriately given the size, complexity and duration of the programme; and that the overall cost of the plan appears reasonable given that a large majority of the costs were procured through competitive processes. In addition, the [professional services firm] report states that the project has a risk management process in place, whose reports and register are used actively to manage the regular decision-making processes around risk management.

4. Although the professional services firm identified several potential areas of recovery and lessons learned, none of the [professional services firm] recommendations were considered as serious issues that could affect project implementation and they have a much more positive opinion of the capital master plan project. Readers of the OIOS report will have the impression that the plan does not have sufficient controls in place which is not what the [professional services firm] report says. Some findings outlined by the [professional services firm] as isolated cases are presented by OIOS as very broad recommendations in the areas of overall operational control for the whole project duration (recommendations 7, 8 and 9) and should be revisited. It should be noted that the recommendations made by the professional services firm apply to the remainder of the capital master plan and to future United Nations capital projects.

5. The Office of the Capital Master Plan would like to request OIOS to take the above concerns into account in finalizing its report and we cordially request OIOS

to have a meeting with the Office of the Capital Master Plan and our Office to further discuss these important issues.

Office of Programme Planning, Budget and Accounts

Recommendation 5

6. The Office of Programme Planning, Budget and Accounts accepts the auditors' finding that there is limited guidance specific to the monitoring of progress and expenditure on capital projects. The Secretariat currently adapts existing guidance on operating expenditure, together with specific mandates from the General Assembly to monitor progress and budgetary performance. The adoption of IPSAS in 2014 requires the Secretariat to review its accounting for fixed assets, including recognition of long-term construction contracts and other capitalized costs. This presents a good opportunity to examine, in detail, the adequacy of existing procedures around budgeting and monitoring of large capital projects, and will enhance the flow of management information as well as ensure that the Organization is IPSAS compliant.

Recommendation 7

7. The Office accepts this recommendation as a point of principle. However, the Secretary-General should seek the approval of the General Assembly before making any significant modifications to either the scope or size of a project budget which it has previously approved. Accordingly, the Secretary-General will continue to notify the General Assembly of potentially significant impacts to approved or proposed budgets, as these become known.

8. Detailed comments provided by the Office of the Capital Master Plan, the Office of Central Support Services and the Office of the Under-Secretary-General for Management are set out below.

Thank you for the opportunity to comment on the draft report.

Department of Management

Recommendation 1

9. The Department of Management concurs with and will implement this recommendation, upon completion of the capital master plan, or prior to the development of future major capital projects, whichever comes first.

Recommendation 2

10. The Department of Management considers that this recommendation has two discrete components: the first part refers to the capital master plan, and the second part refers to future capital projects of the Organization. The Department of Management concurs with both parts of the recommendation, but there are separate responsible officials and implementation dates. The risk register will be updated during the annual risk assessment in October 2012. The General Assembly will be presented with the outcomes of the quantitative risk assessment and contingency required during the resumed sixty-seventh session in spring 2013 or the sixty-eighth session in fall 2013. Concerning the second part of the recommendation, all large

and complex projects will be the subject of a risk assessment which will be updated regularly throughout the life of the project.

Recommendation 3

11. A proposed course of action responsive to this recommendation will be transmitted to the General Assembly in the forthcoming tenth annual progress report of the Secretary-General on the capital master plan.

Recommendation 4

12. The Department of Management concurs with this recommendation, and will prepare budget requests for future capital projects to include direct and associated costs, but ultimately the approval of the budget is the purview of the General Assembly.

Recommendation 5

13. The Department of Management concurs with this recommendation and will ensure that for future capital projects there is a process in place to address and resolve significant impacts to original budgets but ultimately the approval of the budget is the purview of the General Assembly.

14. The Office of Programme Planning, Budget and Accounts accepted that there is limited guidance specific to the monitoring of progress and expenditure on capital projects and stated that the Secretariat currently adapts existing guidance on operating expenditure, together with specific mandates from the General Assembly to monitor progress and budgetary performance. The adoption of IPSAS in 2014 requires the Secretariat to review its accounting for fixed assets, including recognition of long-term construction contracts and other capitalized costs. This presents a good opportunity to examine, in detail, the adequacy of existing procedures around budgeting and monitoring of large capital projects and will enhance the flow of management information, as well as ensure that the Organization is IPSAS compliant.

Recommendation 6

15. The Office of the Capital Master Plan will seek to develop a methodology to quantify risks, in order to assess whether the balance of contingency for remaining work is adequate. The risk register will be updated during the annual risk assessment in October 2012. The General Assembly will be presented with the outcomes of the quantitative risk assessment and contingency required during the resumed sixty-seventh session in spring 2013 or the sixty-eighth session in fall 2013.

Recommendation 7

16. The Department of Management concurs with this recommendation, and will take steps to continue the review, bearing in mind that full implementation of the recommendation can only be accomplished at the end of the project. This exercise will most likely have budget implications. The scope and duration of work of the programme management firm will increase. Details of implementation are as follows:

(a) It is done as part of an ongoing process for all construction guaranteed maximum price contracts. Recommendation 7 (a) refers to a single case for the overscale payment for the Basement. It is being reviewed, provided that the construction manager submits documents in support of this payment. Otherwise, credits will be agreed;

(b) It is a stand-alone case. As a normal process it is done for every change order as part of an ongoing multi-step review and approval process;

(c) This is a specific incidence in the guaranteed maximum price contract for the North Lawn Conference Building. It will be reviewed and resolved as a stand-alone case;

(d) As per the established process it is done as part of an ongoing process for all construction guaranteed maximum price contracts.

Recommendation 8

17. The Department of Management concurs with this recommendation, and will take steps to initiate action, bearing in mind that full implementation of the recommendation can only be accomplished at the end of the project in 2014, when the Basement works are scheduled to be completed. As per established practice, it is done as part of the normal review exercise.

Recommendation 9

18. The Department of Management concurs with this recommendation, and will request the Office of the Capital Master Plan to take immediate action, with a view to full implementation not later than December 2013. The contractual terms with the construction manager allow for a review of all records. This review will be dependent on approval of additional funding by the General Assembly, as it implies additional scope of work to be performed either by the construction manager or by the programme management firm.

Recommendation 10

19. The Department of Management concurs with this recommendation and will request the Office of the Capital Master Plan to initiate steps to implement it without delay.

20. In consultation with OIOS, the Office of the Capital Master Plan changed the bidding requirements in 2011 to streamline the labour rates review process. Under the present practice, labour rates from trade contractors are bid competitively with federal unemployment insurance (FUI) and state unemployment insurance (SUI) being presented as an integral part of a labour rate bid by subcontractors. OIOS previously concurred with this proposal as long as the construction manager could demonstrate that the competitive bid takes into account the reduction in FUI and SUI.

21. In order to ensure implementation of the OIOS recommendation, verify and cap actual FUI and SUI costs, the Office of the Capital Master Plan will request that FUI and SUI is disclosed in the bidding process as a stand-alone item.

22. A full review of SUI and FUI charges by the Office of the Capital Master Plan will require a retroactive review of the monthly certified payroll of subcontractors.

The review will most likely have budgetary implications and therefore a decision on budget implications is required.

Recommendation 11

23. Being implemented. This recommendation does not acknowledge that the contract terms provide authority to the United Nations, as owner, to adjust retainage requirements, notwithstanding the rates stipulated in the contract. Nonetheless, the Office of the Capital Master Plan concurs with the intent of the recommendation and will implement it, unless there are specific circumstances which warrant otherwise.

Recommendation 12

24. Implemented. All payment applications are reviewed on a monthly basis. The construction manager's monthly log is reconciled with the programme management firm's log. The construction manager's cost allocation to various budget items (contingency, allowance) can be tracked, based on the monthly change orders log. The construction manager is not allowed to charge invoices to a particular contract cost item unless specifically authorized by the Organization.

Recommendation 13

25. The Department of Management concurs with this recommendation. The General Assembly did not request monthly briefings. More frequent project reports would be feasible. Monthly internal reports continue to be distributed to relevant offices in the United Nations Secretariat. The format and substance will be enhanced.

Recommendation 14

26. The Department of Management concurs with this recommendation.

Recommendation 15

27. The Department of Management concurs with this recommendation. With regard to category (e), a change order which includes multiple subcategories will have to be divided into single change orders if we would like to look into the profile of each subcategory. This will most likely triple the number of change orders. We already have categories (a), (b) and (c) established. For category (a), distinction by department was important for the Secretariat. All departments are requested to identify their own funding source in cases they request changes. We can implement category (d).

Recommendation 16

28. The Department of Management concurs with this recommendation. Implemented. We report buy-outs as we go and reduce obligations on a regular basis. Please refer to the latest report from the integrated management information system for savings on prior-period obligations. Buy-outs are regularly reported by the programme management firm to the Office of the Capital Master Plan, which in its turn reported the buy-outs to the General Assembly during the sixty-sixth session.

Recommendation 17

29. The Department of Management concurs with this recommendation. This can be implemented for future design contracts.

Recommendation 18

30. The Department of Management concurs with this recommendation. Implemented. The detailed schedule with tasks and milestones is available for review by OIOS.

Recommendation 19

31. The Department of Management concurs with this recommendation. Implemented. The detailed schedule with tasks and milestones is available for review by OIOS.

Recommendation 20

32. The Department of Management is in the process of implementing a computer-aided facilities management system, which includes a space management module. The module will improve the current tracking of office space vacancies through a space scoreboard (Excel tool).

Recommendation 21

33. The Department of Management concurs with this recommendation and will implement it for future large capital projects planned to take place following the completion of the capital master plan.

Recommendation 22

34. The Department of Management concurs with this recommendation. This structure can be implemented and will be enhanced for future construction projects. The contractual instruments for the capital master plan were established a few years ago in accordance with the expertise of the Procurement Division and the Office of Legal Affairs.

Recommendation 23

35. The Department of Management considers that this recommendation has two discrete components: the first part refers to the capital master plan and the second part to future capital projects of the Organization. The Department of Management concurs with both parts of the recommendation, but there are separate responsible officials and implementation dates.

36. Implemented. A contractor-controlled insurance programme is not applied for change orders related to subcontractors in cases where it is known from the beginning that the work of the subcontractors will not be subject to the programme. It is also dealt with and reconciled at the guaranteed maximum price contract close-out stage.

37. For future United Nations capital projects, the Administration will seek to negotiate with contractors on the insurance payments being reimbursed on an earned value basis.

Recommendation 24

38. The Department of Management concurs with this recommendation. At the close-out stage we reconcile the status of various contract cost elements and amounts billed.

Recommendation 25

39. The Department of Management concurs with this recommendation. This will be managed as part of the interim close-out of guaranteed maximum price contracts. There are also instances where alternate bid options are not necessarily immediately contracted. They might be contracted at a later stage. The lower value of trade contracts would be captured and reflected in credits processed by the construction manager.

Recommendation 26

40. The Department of Management concurs with this recommendation.