



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Construction of additional office facilities and improvements to conference facilities at the United Nations Office at Nairobi

Construction of the new office facilities is in progress following a delayed pre-contract phase

16 November 2009

Assignment No. AC2009/514/08

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

TO: Ms. Angela Kane, Under-Secretary-General
A: for Management

DATE: 16 November 2009

Mr. Achim Steiner, Under-Secretary-General and
Executive Director, UNON

REFERENCE: IAD: 09- 03121

FROM: Fatoumata Ndiaye, Acting Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AC2009/514/08 - Audit of the construction of additional office facilities and improvements to conference facilities at the United Nations Office at Nairobi**
OBJET:

1. I am pleased to present the report on the above-mentioned audit.

2. Based on your comments, we are pleased to inform you that we will close recommendations 1, 2, 3, 4, 8, 9, and 13 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.

3. Your response indicated that you did not accept recommendation 11 in its original form. It has been redrafted and in OIOS' opinion this recommendation seeks to address a significant risk area. We are therefore requesting that you reconsider your initial response based on the additional information provided in the report. (A memorandum dated 27 October 2009 and sent to the Director, Office of the Under-Secretary-General for Management also refers).

4. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 11, 14, 15, 16, and 17), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Michael Adlerstein, ASG Executive Director, Capital Master Plan
Mr. Warren Sach, ASG Office of Central Support Services
Mr. Jun Yamazaki, ASG and Controller, Office of Controller and Programme Planning and Budgeting Division
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Freuh, Executive Secretary, Joint Inspection Unit Secretariat
Mr. Moses Bamuwanye, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. William Petersen, Chief, New York Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of the construction of additional office facilities and improvements to conference facilities at the United Nations Office at Nairobi

OIOS conducted an audit of the construction of additional office facilities and improvements to conference facilities at the United Nations Office at Nairobi (UNON). The audit was conducted in response to a request made as part of the resolution 63/263 of the General Assembly to entrust the Office of Internal Oversight Services to ensure continuing effective audit coverage as well as regular, thorough management reviews of the construction of additional office facilities at the United Nations Office at Nairobi. The overall objective of the audit was to assess the adequacy of controls related to the project. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The new office facilities project has been the subject of delays and this report identifies the main causes of the delays and contains recommendations that aim to promote better control and minimize delays in future.

The most significant findings related to the new office facilities project and were as follows:

- (a) The new office facilities project has not been the subject of regular progress reports to the General Assembly.
- (b) Subsequent to the initial procurement of architectural services by the Procurement Division (PD), procurement and project management has been undertaken by UNON, with technical support from PD and the Facilities Management Service (FMS), Office of Central Support Services (OCSS).
- (c) The organization proposed by UNON for project management and endorsed by the Assistant Secretary-General, Executive Director, Capital Master Plan and FMS, should afford adequate control. However, the roles, responsibilities and reporting lines of the various members of the project team need to be firmed up and documented. There is also a need to ensure that sufficient staff are in place before construction commences.
- (d) The performance of the international firm of architects that was initially appointed fell short of expectations and this led to the termination of their contract. Much of the delay to the project is attributable to the difficulties experienced with the procurement and contract management of the architectural services. At the time of the OIOS visit to UNON, it was reported that the Nairobi-based architectural firm that replaced the international firm was performing well. Construction drawings had been prepared within a reasonable time, together with a comprehensive bill of quantities.

(e) The outcome of the procurement exercise for the new office facilities construction contract has been well received at UNON. Three competitive eligible bids were received and the accepted bid is within the available budget resources.

(f) As the project progresses, there will be a need for an increased emphasis on stakeholder management.

(g) Records should be kept of important issues affecting progress as the project proceeds, and lessons learned should be used to benefit future projects.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the construction of additional office facilities and improvements to conference facilities at the United Nations Office at Nairobi. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The underlying need for the construction of additional office facilities at UNON stemmed from the General Assembly's (GA) resolution 44/211 in which the GA called upon all organizations of the UN system to make the necessary arrangements for the implementation of the UN common house concept for establishing common premises at the country level.

3. By its resolution 58/272, the GA approved the improvement and modernization of the conference facilities at UNON.

4. The new office facilities construction project has been subject to delays and cost escalation, and there has been criticism from the Advisory Committee on Administrative and Budgetary Questions (ACABQ) that "it is clear from the reports of the Secretary-General on construction projects at...UNON that the arrangements...for planning, managing and monitoring projects for the development of new facilities and major maintenance are neither adequate nor well-implemented." In its report A/63/465 to the General Assembly, the ACABQ went on to make further criticisms relating to governance and delays.

5. The General Assembly, in its resolution 63/263, has also expressed concern about the delays and procedural difficulties in the execution of the project at UNON, which are contributing to project cost escalation and requested "the Secretary-General to entrust the OIOS with ensuring continuing effective audit coverage as well as regular, thorough management reviews of the construction of additional office facilities at...the United Nations Office at Nairobi to be reported on in the annual report of the OIOS to the General Assembly." It is intended that this report will form the basis of the requested information.

6. The improvements to the conference facilities were also examined as a secondary part of this report. Some of the recommendations made with regard to the new offices also apply to the conference facilities.

7. Comments made by staff of the Department of Management are shown in *italics*.

II. AUDIT OBJECTIVES

8. The main objectives of the audit were to:

- (a) Determine whether rules and procedures on procurement, contracting and project management have been complied with;
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(b) Determine whether budgetary provisions are adequate, and whether adequate financial control has been properly applied and payments have been authorized, correct and timely; and

(c) Ascertain the organizational and management structure for the planning and execution of the construction projects and assess its effectiveness.

III. AUDIT SCOPE AND METHODOLOGY

9. A risk-based audit approach was adopted in the examination of the construction projects and their associated systems. This conforms with the general approach taken for audits conducted by the Internal Audit Division, OIOS.

10. Preparation for this audit included reviewing documents held at UNON and past reports of the Secretary-General and the Advisory Committee on Administrative and Budgetary Questions (ACABQ).

11. Key staff in New York headquarters and at UNON were interviewed and project documentation was examined. The scope included the procurement and contract management of architectural services and the pre-contract stages of construction contractor procurement. The aim was to form an opinion of the adequacy of the governance of the projects and progress to date, and to determine where delays and inefficiencies had occurred, and to note the lessons learned. OIOS is not raising any security issues as a part of this audit.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Timeline of events and causes of delays

12. A timeline of events is outlined below and is used to identify delays to the project schedule.

29 October 2001 The Secretary-General in a report to the ACABQ defined the need to build 11,045 square metres of new office facilities in UNON at an estimated cost of \$13.4 million. It was estimated that the pre-construction phase would be completed by March 2003, the construction phase by April 2005 and the final phase by October 2005.

12 December 2001 The ACABQ concurred with the Secretary-General's requests for (i) initiation of the first (pre-construction) phase of the project to proceed, and (ii) entering into associated commitments in an amount not exceeding \$1,416,800 against an advance to be received from the United Nations Environment Programme's Environment

	Fund. The ACABQ also requested an accurate estimate of the additional space required, and asked that a construction management team be established and that the possibility of shortening the pre-construction phase should be explored.
18 December 2002	A request for proposals for architectural services was issued.
February - March 2003	Bids were received on 19 February 2003 and the bid evaluation concluded on 28 March 2003.
30 July 2003	The contract award was approved by the Headquarters Committee on Contracts (HCC).
4 December 2003	The contract was awarded to an international architect based in France.
July 2004	The schematic design was approved by the United Nations.
6 December 2004	Design drawings were submitted by the architects and rejected by United Nations because of a 'significant number of inaccuracies and numerous incomplete drawings,' (A/62/794, 9 April 2008).
January - April 2005	Design drawings were resubmitted by the architects and were again rejected by the United Nations for the same reasons as the first submission (6 December 2004).
26 June - 30 September 2005	The United Nations formally accepted the detailed design. The architects undertook to submit the final construction drawings by 30 September 2005. This deadline was not met.
February - April 2006	A meeting was held between United Nations headquarters and UNON staff and the architects. The architects were instructed to submit the final construction drawings no later than 28 April 2006. Again the deadline was not met.
16 July 2006	A formal letter to terminate the contract was sent to the architects by the Assistant Secretary-General and Controller.
August 2006	UNON invited firms based in Kenya to submit expressions of interest for the completion of the design and construction phases.
August - December 2006	A settlement was made with the previous architectural firm and the United Nations took full possession of the work product.

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- 13 February 2007 A request for proposals was circulated to twelve Kenyan architectural firms.
- 28 September 2007 The contract for architectural and engineering services for design and construction administration phases was signed with a Kenyan architectural firm.
- 9 April 2008 The Secretary-General reported (A/62/794, 9 April 2008) to the General Assembly that a new office survey had resulted in an increase of the area needed for the new office space to 16,500 square metres with a revised cost estimate of \$25,252,200 (including security staffing costs).
- 1 September 2008 Expressions of interest were invited for contractors to undertake the construction. There were six responses from local companies that were considered technically compliant.
- 30 January 2009 Five bids were received, but one was disqualified as it did not provide requested information. One other bid proved technically unacceptable. This left three bids to be considered.
- 17 March 2009 The agreement of the Local Committee on Contracts was granted for the award of the construction contract in the sum of \$17,536,410, prior to the approval of the Director of Administration.
- 4 May 2009 A groundbreaking ceremony was held to mark the commencement of construction.

Identification of causes of delays

13. Delays are a prime cause of cost escalations in construction projects and are considered a major risk to achieving the business plan. In view of the length of time taken before construction commenced, OIOS has identified the main causes of delays to the project as follows:

- (a) The ACABQ concurred with the Secretary-General's request for the project to proceed with the preparation of detailed design and cost estimates on 12 December 2001, but the request for proposal for architectural services was not issued until twelve months later. The approved commitments were against an advance from the United Nations Environment Programme (UNEP) through a loan from the Environment Fund. OIOS received an explanation that the delay in issuing the request for proposals for architectural services was in part due to prolonged negotiations with a previous Director of UNEP concerning the loan and its conditions. There was no allocation for start-up in the meantime.

(b) Bids for architectural services were received on 19 February 2003, but the award of the contract was not approved by the HCC until 30 July 2003. Another four months passed before a contract was awarded on 4 December 2003.

(c) The design drawings submitted by the architects on 6 December 2004 were rejected by the United Nations. Acceptable design drawings were not received until 26 June 2005.

(d) The architects undertook to submit the final construction drawings by 30 September 2005. This deadline was not met. A further commitment was made to submit final construction drawings no later than 28 April 2006. Again the deadline was not met and the contract was terminated by letter on 16 July 2006. Settlement with the initial architectural firm and full possession of the work product took until December 2006.

(e) The contract with a replacement firm of architects from Kenya was not signed until September 2007. It was a further year before expressions of interest were invited from contractors.

14. OIOS' examination of records supports the view that some of the delays were attributable to the securing of funding, and procedures related to the procurement of architectural and contractor services. However, most of the delay was due to the difficulties in getting the original firm of architects to perform, and negotiations that were required before and after the termination of their contract. The non-performance of the international firm of architects resulted in much extra work for UNON and the concerned headquarters departments and offices.

B. Project approval and progress reporting

15. In its resolution 44/211, the General Assembly called on all organizations of the United Nations system to make the necessary arrangements for implementation of the common house concept for establishing common premises at the country level. In line with that resolution, the report of the Secretary-General on United Nations office accommodations at Nairobi was submitted to the ACABQ on 29 October 2001, and the ACABQ concurred that the pre-construction phase should proceed and be funded against an advance from UNEP through a loan from the Environment Fund

16. The project has not been the subject of regular progress reports to the General Assembly, but was included in the Report of the Secretary-General as Agenda Item 128 to the sixty-second session (A/62/794). In that report the General Assembly was invited to: (i) approve the revised total estimated cost of \$25,252,200, and (ii) approve the use of interest income of \$798,200 as at 31 December 2007, and also to approve the use of future interest income generated by accumulated rental income for the construction of the project.

17. At the sixty-third session of the General Assembly, ACABQ issued a report (A/63/465) critical of the project as agenda item 118. This report included a recommendation that annual progress reports be submitted to the Assembly.

Recommendation 1

(1) The Assistant Secretary-General, Office of Central Support Services should ensure that annual progress reports on future major construction works are submitted to the General Assembly as called for by the Advisory Committee on Administrative and Budgetary Questions.

18. *OCSS accepted recommendation 1 and stated that a report providing progress details on both the completion of the conference modernization project and the new office facilities project is being submitted to the General Assembly at its 64th session. Annual reports will be submitted thereafter until completion of the construction. It is to be noted, however, that in the case of the new office facilities project, annual reports to the GA were not required until completion of the pre-construction phase of the project, on which the Secretariat reported at the 63rd session of the GA. Based on the action taken by OCSS, recommendation 1 has been closed.*

C. Organization and staffing: The respective roles of UN headquarters and UNON

Headquarters project role

19. The project has been carried out under the general supervision of OCSS. PD conducted the initial requests for proposals from international architects and undertook the procurement of the international architectural services. As the contract management of the architects proceeded, PD took an active advisory role and was central to the tactics adopted and direction taken. Examination of PD records provided evidence that the difficulties experienced in the contract management were dealt with by senior staff, and in consultation with the Office of Legal Affairs. For example, prior to terminating the contract with the international architect, a high level meeting was held over two days (23 and 24 February 2006) at the architects' office. This meeting was attended by the Assistant Secretary-General, (ASG) and UN Controller, the Chief, FMS, and the Facilities Coordinator, Overseas Property Management and Information Exchange Network (OPMIEN) from headquarters, and the Director of Administration and the Project Manager from UNON.

20. FMS, including its Overseas Facilities Coordinator, have provided technical support and advice on contract management to UNON. In OIOS' view, there may be scope for a greater role for FMS through OPMIEN which in the past had a more prominent role in the organization. (Internal Audit intends to examine the role of OPMIEN at a later date).

21. The ASG, Executive Director of the Capital Master Plan and the Director of the Facilities and Commercial Activities Division visited UNON in March

2009 and reviewed project organization. Weekly video conferences are now being held between UNON and New York headquarters staff with the aim of improving coordination.

UNON project organization

22. The Director of Administration at UNON is responsible for the organization of the project. The Chief, Facilities Management and Transportation Section oversees the project, and supervises a full-time Project Manager. The Project Manager leads a project team that deals with day to day project management, and supervises the local architects, quantity surveyors and other essential personnel. During construction, the Project Manager and his staff will be responsible for day to day control of the construction work.

23. OIOS supports the early recruitment of these staff as they will need to be in place, preferably before construction commences on site, so as not to adversely impact the project or cause further delays. At the time of the audit, two of the posts were vacant. These posts were for a technical assistant (to undertake clerk of works/quantity surveyor role) and a project administrator.

24. Following a visit to UNON by the ASG, Executive Director of the Capital Master Plan and Director, Facilities and Commercial Activities in March 2009, the need was identified for an independent technical adviser to provide verification of quantities and quality. Preliminary drafts of the 'UNON New Office Facilities Project Organization Chart' show this function as reporting directly to the Director-General of UNON. OIOS appreciates the need for oversight and this is the purpose of the independent technical adviser. However, if this reporting line is chosen, the Director-General would need to provide sufficient availability. It may be more practical for a reporting line to the Director of Administration through the Project Manager, with unrestricted access to the Director-General if deemed necessary by the independent technical adviser. The roles, responsibilities, contacts and reporting lines of the various members of the project team need to be firmed up and documented. Also, responsibilities for preparing progress reports on site need to be spelled out, and distributions specified.

Recommendations 2 and 3

(2) The UNON Project Manager should determine when new staff appointments should take effect, and consult the Director of Administration and the Chief, Human Resources Services Section to ensure that staff are recruited in a timely manner.

(3) The UNON Project Manager should draft job descriptions for the project staff, and clear terms of reference and reporting lines for the independent technical adviser. These should be approved by the Director of Administration and the Director-General and included in a project manual.

25. OCSS accepted recommendation 2 and stated that the full project management team is on board for the new office facilities project. The positions mentioned in paragraph 23 above have been filled. The project administrator started working on 4 May 2009, and the clerk of works started on 3 August 2009. Based on the action taken by OCSS, recommendation 2 has been closed.

26. OCSS and UNON accepted recommendation 3 and stated that all members of the new office facilities project management team have terms of references and job descriptions for their respective roles, including clear reporting lines. The terms of reference for the independent technical advisor was prepared by the New Office Facilities Working Group (which is the independent advisory committee providing technical guidance to the Director-General), and was approved by the Director-General. The Director of Administration is a member of the New Office Facilities Working Group. As recommended by OIOS in paragraph 24 of the report, the independent technical advisor does not report directly to the Director-General, but forms part of the New Office Facilities Working Group which provides technical guidance to the Director-General related to the construction project. Based on the action taken by OCSS and UNON, recommendation 3 has been closed.

D. Architectural services

27. Procurement of the international architect was undertaken by PD. The reason given to OIOS for engaging an international firm was that at that time (2002) there were not enough satisfactory architectural firms in Nairobi. However, the international firm sub-contracted substantial amounts of work to a Nairobi based firm (a sub-consultant).

28. Difficulties were experienced with the international architectural firm from an early stage when two initial submissions of the design documents were rejected by the United Nations. The work that had been sub-contracted to the sub-consultant failed to meet required standards of quality, and did not meet time schedules. Deficiencies that were pointed out by UNON's review of submittals were not corrected. (The United Nations communicated solely through the principal firm and had no contractual arrangement with the sub-consultant).

29. Documentation examined by OIOS reflects the succession of delays because of the deficiencies with the architects right through to the construction document stage. Perhaps the most revealing is a letter from the principal architectural firm to its sub-consultant on 3 February 2006. A copy of the letter was sent to the United Nations and extracts are as follows:

“...whereas we were committed to submit the Construction Documents to UN/UNON on September 30, 2005, we could only hand over an incomplete draft on October 14, 2005. The final set, with all relevant amendments and complements, is yet to be submitted.

You have not even committed yourself on any specific schedule of delivery for the various subsets of these documents.

...you obviously do not perform your contractual obligations in accordance to the skill, care and diligence expected...you have totally ignored instructions and directions issued by us...

This situation entails a serious commercial prejudice for us vis-à-vis our Client and we cannot accept any longer to wait passively until you decide to perform your obligations.

Therefore, we summon you to submit to [name of principal architectural firm] and UN/UNON the full set of...construction documents (architectural, structural and technical trades, amended Bill of Quantities and specifications), with all comments from [name of principal architectural firm] and UN/UNON duly taken into account, by February 13, 2006.”

The letter further indicated that the sub-consultant’s contract would be terminated without compensation for the construction documents phase if the deadline was not met.

30. The principal architectural firm’s continuing failure to deliver led to the termination of their contract by the United Nations on 16 July 2006. Reaching settlement with the architectural firm and gaining possession of the work product was characterized by further failure to make speedy progress. Both sides sought to safeguard their interests, and settlement took until December 2006.

31. It is clear from OIOS’ review of records at United Nations headquarters and UNON that the experience with the principal architectural firm caused a great deal of undue effort and expense for the Organization. Staff at UNON had to spend a great amount of time reviewing submittals that were not of the required standard. Prior to settlement, there was much involvement at a senior level between staff from UNON, as well as headquarters Procurement, Legal Affairs, Central Support Services and Facilities Management Services. OIOS concludes that United Nations staff did their best to safeguard the Organization’s interests in dealing with a challenging situation.

32. After seeking expressions of interest, requests for proposals were sent to eleven local architectural firms in February 2007. Three bids were received and evaluated by an Evaluation Committee prior to the award of the contract. At the time of the OIOS visit to UNON, it was reported that the replacement architectural firm was performing well. Construction drawings had been prepared within a 12 month period, together with a comprehensive bill of quantities. This facilitated an estimate to be calculated prior to commercial bids being evaluated.

33. OIOS recognizes advantages in using suitable firms that operate in the locality of proposed construction works and a recent audit (draft report AC2009/514/01, dated 5 August 2009) at the Economic Commission for Africa highlighted problems that were experienced when a different firm of international architects was not empathetic to local conditions. The same recommendation that was made in that audit applies here.

Recommendation 4

(4) In future, if an international architect is engaged for a major construction project, it should have a local consultant as a complementary counterpart of its team to advise from an early stage. This should be included by the Procurement Division and Facilities Management Service, Office of Central Support Services as a clause in the request for proposal.

34. *FMS stated that it is in agreement that the international architect should have local experience and should include local consultants as part of their team from an early stage. However, FMS questioned whether the term 'complementary counterpart' should be applied to the local consultant as this implied that the two architectural consultants are both equal and therefore equally accountable. This was not OIOS' intention; the local consultant should be engaged by the international architect. Based on FMS' response, recommendation 4 has been closed.*

E. Construction contract

35. The form of contract used to solicit bids from construction contractors has been developed by the United Nations. OIOS was advised that personnel at UNON and contractors in East Africa are not familiar with the terms and conditions of the United Nations contract and usually use the standard form of the International Federation of Consulting Engineers (FIDIC) instead of the UN contract. Use of this form of contract (or another international standard), would give the advantage of being better understood by contractors. It would also have been tested in arbitration or court for scenarios that may arise, given the complex nature of construction works. The possibility of using FIDIC had been raised with, and addressed by the Office of Legal Affairs back in 2005. At that time the Office of Legal Affairs was not in favour, but it may be worth revisiting this possibility for future projects. The World Bank uses FIDIC with additional clauses included for special circumstances, if required. (It is noteworthy that United Nations staff based in ECA, Addis Ababa also favour the use of FIDIC).

Recommendation 5

(5) The Procurement Division in consultation with the Office of Legal Affairs should examine whether it would be acceptable to use international forms of construction contracts that are familiar to local technical staff and contractors for future construction works.

36. *OCSS accepted recommendation 5 and stated that it will consult with the Office of Legal Affairs and then revert to OIOS. The planned implementation date was stated as March 2010. Recommendation 5 remains open pending OIOS being informed of the outcome of the consultations with the Office of Legal Affairs.*

F. Risk management, administration and coordination arrangements

37. OIOS considers that a risk management approach, whereby a risk assessment is undertaken and a risk register prepared, would help to identify risks and address them in a structured manner during construction. These risks should then be kept under continuous review and mitigating actions taken, as appropriate.

Recommendation 6

(6) The UNON Project Manager, in collaboration with other members of the project team, should conduct a risk assessment for the construction of the new office facility and prepare a risk register. The risks identified should be kept under continuous review by the project team and decisions should be taken on mitigating actions, as appropriate, and responsibilities assigned.

38. *OCSS accepted recommendation 6 and stated that implementation was in progress and was planned to be completed by December 2009. All risks related to the new office facilities construction project are captured and recorded as part of the bi-weekly construction meetings, and are raised to the New Office Facilities Working Group and the Director-General for information, guidance or decision making as appropriate. All risks recorded to date (both open and closed) and any new risks to the project will be recorded in a central register, which will be maintained by the Project Manager and will be available to the New Office Facilities Working Group and the Director-General. Recommendation 6 remains open pending OIOS' receipt of the risk register, or examination of it on site.*

Administration and coordination arrangements

39. The Director of Administration stated that monthly project progress reports would be produced during construction and used to keep the Director-General of UNON fully briefed.

40. In OIOS' opinion, an 'administration and coordination arrangements' document would also assist in project control and ensure that respective roles and responsibilities are clear and understood. OIOS has been informed that this could be integrated within a project manual that will be prepared by the Project Manager.

Recommendation 7

(7) The UNON Project Manager should prepare an 'administration and coordination arrangements' document to be incorporated in a project manual. This document should be approved by the UNON Director of Administration.

41. OCSS accepted recommendation 7 and stated that implementation was in progress and was planned to be completed by October 2009. All administration and coordination arrangements for the new office facilities construction project are clearly documented as part of the construction contract documents. The Project Manager will consolidate all related documentation and formulate this into a single project manual. Recommendation 7 remains open pending OIOS' receipt of a copy of the project manual.

Site Management

42. OIOS' enquiries indicated that the construction contractor will be expected to manage the site and associated administrative tasks. The architect stated that they will attend minuted site meetings every two weeks and site inspections will be held every two days.

G. Project budgeting and finance

Increases in project costs

43. The Secretary-General defined the need to build 11,045 square metres in a report to the ACABQ dated 28 October 2001. The cost was estimated at \$13.4 million. In April 2008, the Secretary-General reported that the area needed had increased to 16,500 square metres with a revised cost estimate of \$25,252,200, comprising:

(Thousands of United States dollars)	
Construction costs	\$18,700
Architects fees	\$ 1,977
Supervision and project management	\$ 1,423
Borrowing costs	\$ 163
Contingency	\$ 1,870
Security	\$ 1,119

44 OIOS identifies the reasons for the increase in estimated costs as follows:

(a) "Scope creep." As time passes, the original business case for projects often becomes superseded. This was the case for the new office facilities at UNON where the need for a greater floor area was determined.

(b) Preliminary cost estimates sometimes prove to be inaccurate until the designs, construction documents and bill of quantities have been completed. However, the preliminary cost estimates (in the absence of more refined figures) necessarily become the basis of approvals, and are established as the initial budget figures. There needs to be an understanding that preliminary estimates may be subject to change, and this may be because of broader economic issues as well as the need to initially rely on rough estimates. OIOS enquired regarding the original estimates and was informed that there was no involvement of

professional architects or quantity surveyors when the preliminary cost estimates were prepared.

45. OIOS notes that the budget may be affected by factors that are external to immediate project management. These include changes in currency exchange rates, and political uncertainty. The contractor will be paid in Kenya shillings and exchange rates were favourable at the time of the audit, but there is a risk that this could change. The current economic slowdown may have been a factor in encouraging competitive bids at UNON.

Recommendations 8 and 9

(8) The Facilities Management Service, OCSS should ensure that preliminary estimates used to support decisions as to whether to proceed with construction projects should be prepared (or at least checked) by local firms of quantity surveyors or architects who are familiar with the local market.

(9) The Assistant Secretary-General, Office of Central Support Services should ensure that future reports seeking approval for major projects make it clear that preliminary estimates may need adjustment after the preparation of drawings and bill of quantities.

46. *OCSS accepted recommendation 8 and stated that all proposed future UN construction projects would be based on comprehensive programmatic requirements and sound estimating practices reviewed by local firms familiar with local conditions. Based on the action taken by OCSS, recommendation 8 has been closed.*

47. *OCSS accepted recommendation 9 and stated that estimates for construction projects remain preliminary until the completion of the design phase and tender of the construction phase. Although an amount for contingencies, including for the risk of inflation/currency exchange for the duration of the project, is factored into the cost estimate, timely implementation and scope adherence are critical to maintaining reliable budget estimates. In the particular case of the construction of additional office facilities at UNON, the initial report did indicate that the cost estimates of the project would be determined at the completion of the pre-construction phase and it was therefore made clear that the estimates provided were preliminary. Based on the action taken by OCSS, recommendation 9 has been closed.*

Future recurrent costs

48. It was stated that the new office facilities will add approximately 60 per cent more floor area to the existing UNON accommodation. There is concern at UNON that the current budgets for recurrent costs would be insufficient after the construction is complete. There will also be a need to ensure that rent levels for

accommodation are set at a reasonable level to ensure that future recurrent costs are satisfactorily mitigated.

Recommendation 10

(10) The Controller should ensure that rent levels for accommodation at UNON offices are set at a reasonable level and that adequate budgetary provisions are made for future recurrent costs. Rent levels should be an early agenda item for the 'Stakeholders' Interest Group' proposed in Recommendation 15 below.

49. *The Office of Programme Planning, Budget and Accounts (OPPBA) accepted recommendation 10 and stated that with respect to the first part, the Controller will give due consideration to the recommendation made on rent levels by the 'Stakeholders Interest Group', which is to be established by January 2010 as per recommendation 15 below. OCSS further commented that on the second part of the recommendation, the issue of the rent levels will also be discussed in the Stakeholders Group once established. Recommendation 10 remains open pending confirmation that the Stakeholders Interest Group has taken up the issue of the rent levels.*

Value-added tax (VAT)

50. Principal costs for materials for the new office facilities will be exempt from charges for duty and VAT. There is an established procedure and the UNON Chief of Support Services is responsible for liaising with the Host Government on issues related to duty free and VAT exemptions. OIOS, during its examination of records held by the UNON Chief, Facilities Management and Transportation Section noted that there appeared to be some confusion on the part of contractors regarding the procedures to be followed for claiming back VAT and for arranging duty-free imports. It would help to reduce the uncertainty if further guidance was provided on these procedures. The Chief, Facilities Management and Transportation Section stated that future contracts could be improved by including a clause explaining the VAT exemption to reduce possible uncertainty on the part of prospective bidders.

Recommendation 11

(11) The UNON Chief of Support Services should prepare a guidance note on claiming back VAT and arranging duty-free imports. This note should be included in the Project Manual and used by members of the project team to give guidance to the contractor (and sub-contractors, if applicable).

51. *OCSS and UNON accepted recommendation 11 and provided an implementation date of October 2009. Guidelines are in place regarding the claiming back of VAT for construction related payments, which has been handled efficiently and on time each month from the start of the new office facilities*

construction (May 2009 to date). The importation of duty free materials for the project is expected to start from early 2010. A formal guidance note will therefore be prepared by UNON to clarify all procedures related to the claiming back of VAT and the arranging of duty-free imports. Recommendation 11 remains open pending OIOS' receipt of the guidance note(s) issued by UNON.

H. Procurement for the construction project

Selection of the construction contractor

52. An invitation for suitable contractors to submit expressions of interest for the construction of the new office facilities was published in three local newspapers and on the UNON website on 1 September 2008. Fifteen contractors responded and were considered by a technical evaluation committee: nine contractors were disqualified and the remaining six contractors were short-listed based on technical capability. Bids were invited from the six contractors and five proposals were received and opened on 30 January 2009. Two of these proposals were subsequently disqualified leaving three eligible bids.

53. The Local Committee on Contracts concurred with the award of the construction contract in the amount of \$17,436,410 on 17 March 2009, and the contract was subsequently approved by the Director of Administration in accordance with his delegated authority. A contract was signed on 3 April 2009, and a groundbreaking ceremony was held to mark the commencement of construction on 4 May 2009.

Change Orders

54. Construction projects sometimes need change orders to be issued as work proceeds. Some of these change orders have a financial implication that needs to be funded from the project contingency sums. OIOS enquiries with the architect and members of UNON indicated that it was unlikely that a large number of changes would be needed. Reasons for this included the preparation of detailed drawings and bills of quantities, and an experienced project manager in post.

55. The reduction in the project contingency sums will increase the importance of robust control over costs to ensure that they are not overspent.

Recommendation 12

(12) The UNON Project Manager should apply robust financial controls and prepare a written procedure for the issuance of change orders. The written procedure should be submitted to the UNON Director of Administration for approval.

56. *OCSS and UNON accepted recommendation 12 and stated that a clearly defined change order procedure is included as a part of the formal construction contract. The change order procedure was discussed and agreed between*

UNON and headquarters. Based on the action taken by OCSS and UNON, recommendation 12 has been closed.

I. Stakeholder management

57. Some of the major stakeholders in the project are the staff of UN organizations that will be moving to accommodation at UNON. Decisions will have to be made as to the allocation of specific office space. Facilities managers of the organizations to be accommodated will have to be consulted about specific requirements with regard to IT infrastructure, communications and furnishings. Stakeholders will need to be aware of the dates when they may take up occupancy and arrange removals. Also, they will need to negotiate the termination of existing leases and secure funding for requirements that may not have been included in budgeted costs.

58. Other stakeholders that have been identified include UNON security, finance, administration, human resources, and project management personnel; headquarters departments; contractors and consulting firms. Also, local authorities, government departments, and possibly neighbouring residents and businesses may be affected.

Recommendation 13

(13) The UNON Chief, Facilities Management and Transportation Section should consult with the Director of Administration and other UNON offices to prepare a stakeholder management plan to identify the project stakeholders, define an approach to communications and provide key project information. Furthermore, they should closely manage local community and Host Government expectations and concerns that could affect project progress.

59. *OCSS and UNON accepted recommendation 13 and stated that implementation was planned for completion in January 2010.* Recommendation 13 remains open pending OIOS' receipt of the stakeholder management plan.

Stakeholders' Interest Group

60. OIOS considers that a minuted monthly 'Stakeholders' Interest Group' meeting would assist in involving stakeholders. Meetings could logically be chaired by the Chief, Facilities Management and Transportation Section at UNON and could include personnel outside the immediate construction arena such as the Director of Administration, human resources, procurement, security, representatives of United Nations Environmental Programme and Habitat and other prospective occupants of the new offices, and on occasions the Director-General, UNON.

61. It is not OIOS' intention that participation in this group would involve stakeholders in the day to day project or site management, which should be the responsibility of the project management team.

Recommendation 14

(14) A 'Stakeholders' Interest Group' should be convened by the Chief, Facilities Management and Transportation Section at UNON each month to discuss progress and obtain feedback from stakeholders, including stakeholders who are outside the immediate construction arena.

62. *OCSS accepted recommendation 14 and stated that it is planned for the Stakeholder Interest Group to be convened in January 2010, and will include all UN agencies represented as part of the Common Services framework in Kenya. Recommendation 14 remains open pending confirmation of its implementation.*

J. Lessons learned

63. The Chief, Facilities Management and Transportation Section and other members of the project team have identified and communicated a number of lessons learned so far from this project. It is likely that there will be further issues that arise during the construction and post-construction periods that will be important to record to help manage future projects more efficiently.

Recommendation 15

(15) The UNON Project Manager should create registers to record current issues and lessons learned. These could be maintained on a common computer drive to enable access, recording and review by all members of the project team.

64. *OCSS and UNON accepted recommendation 15 and stated that all lessons learned to date, and any new lessons learned during the remainder of the new office facilities construction project will be recorded in a central register, which will be maintained by the Project Manager and will be available to the project team. Recommendation 15 remains open pending confirmation that it has been implemented.*

Recommendation 16

(16) After the completion of the project, the UNON Chief, Facilities Management and Transportation Section should convene a meeting of participants in all stages of the project management including pre-contract, construction and post-construction phases. Attendees should discuss lessons learned and produce a record for the Under-Secretary-General for Management and senior managers. This record should be used for the benefit of future projects.

65. *OCSS and UNON accepted recommendation 16 and stated that UNON would convene the meeting of all participants in all stages of the project once the construction is completed to discuss lessons learned and to produce a report to*

the Under-Secretary-General for Management and other senior managers. Recommendation 16 remains open pending confirmation of its implementation which is planned for June 2011 (or the completion of the construction phase).

K. Project handover

66. The new office facilities and the recent commissioning of the modernized conference facilities will have implications for future maintenance requirements. The incorporation of technologically sophisticated equipment will require a different level of staff resources and a new range of skills. The construction contract includes the requirement for a maintenance plan and this may contribute to assessing the new requirements.

Recommendation 17

(17) Prior to the end of the construction of the new office facilities, the UNON Chief, Facilities Management and Transportation Section should propose the staff resources and training required to maintain the conference and office facilities for the Director of Administration to include in the next UNON budget request.

67. *OCSS and UNON accepted recommendation 17 and stated with regard to the modernization of conference facilities that UNON has implemented the recommendation. It further stated that very clear input has been provided by UNON to the draft GA report regarding the ongoing resources required to adequately cover the maintenance and operations requirements of the newly installed digital interpretation equipment. With regard to the new office facilities, the required resources for the ongoing maintenance of the newly constructed office facilities will be formulated within the timeframe for the 2012-2013 biennium budget. Recommendation 17 remains open pending confirmation of its implementation which is planned for June 2010.*

L. Improvements to conference facilities

68. At the time of the OIOS visit to UNON (March 2009), the improvements to the conference facilities were substantially completed. The main emphasis of the audit was the forthcoming construction of the new offices, but the opportunity was also taken to make a less detailed examination and site visit of the conference facilities. It is evident that the conference project had some common themes with the new office facilities project including:

- (a) Delays;
- (b) Staff vacancies at UNON;
- (c) Scope changes;
- (d) Inaccuracy of the preliminary cost estimate which was not checked by a qualified quantity surveyor or architect.

(e) Initial problems with the standard of work delivered by the architectural firm.

(f) The higher level of technology used in the conference facilities will require a different level of staff resources and skills.

69. In OIOS' opinion, some of the recommendations that are made above in relation to the new office facilities equally could have applied to the conference facilities.

70. Much of the improvement work involved equipment and electrical installations. The existing air-conditioning system has been retained, but the aim has been to minimize the use of forced air. OIOS was told that it will be possible to continue maintaining the retained system.

71. Some new furniture was sourced internationally, but a large amount of existing furniture was refurbished to a high standard locally. The design allows for different configurations of desks. The UNON Chief, Conference Services stated that the refurbishment of furniture would help to lessen the United Nations' carbon footprint, and also contributed to the local economy. In addition, cost savings were achieved. (It is unlikely that refurbishment of furniture could be justified at every location on economic grounds alone).

72. The Chief, Conference Services and Chief, Facilities Management and Transportation Section both expressed satisfaction with the outcome of the project. They further commented that the processes related to the project had been complex and better support could have been offered by headquarters. They also considered that it may have been possible to secure a greater level of technical cooperation for this technologically complex project and supported OIOS' view that there may be scope for a greater role for FMS through its OPMIEN network.

Recommendation 18

(18) The option of refurbishing furniture should be recorded by the UNON Facilities Management and Transportation Section during the lessons learned process proposed in recommendations 16 and 17 above.

73. *OCSS accepted recommendation 18 and stated that the option of refurbishing furniture will be recorded during the lessons learned process as outlined in the comments to recommendation 16 above. Recommendation 18 remains open pending confirmation of its implementation which is planned for June 2010.*

V. ACKNOWLEDGEMENT

74. We wish to express our appreciation to the Management and staff of the Department of Management and UNON for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The Assistant Secretary-General, Office of Central Support Services should ensure that annual progress reports on future major construction works are submitted to the General Assembly as called for by the Advisory Committee on Administrative and Budgetary Questions.	Governance	Medium	C		Implemented
2	The UNON Project Manager should determine when new staff appointments should take effect, and consult the Director of Administration and the Chief, Human Resources Services Section to ensure that staff are recruited in a timely manner.	Human Resources	High	C		Implemented
3	The UNON Project Manager should draft job descriptions for the project staff, and clear terms of reference and reporting lines for the independent technical adviser. These should be approved by the Director of Administration and the Director-General and included in a project manual.	Human Resources	Medium	C		Implemented
4	In future, if an international architect is engaged for a major construction	Operational	High	C		Implemented

Recom. no.	Recommendation	Risk category	Risk rating	C/O	Actions needed to close recommendation	Implementation date ²
	project, it should have a local sub-consultant as a part of its team to advise from an early stage. This should be included by the Procurement Division and Facilities Management Service, Office of Central Support Services as a clause in the request for proposal.					
5	The Procurement Division in consultation with the Office of Legal Affairs should examine whether it would be acceptable to use international forms of construction contracts that are familiar to local technical staff and contractors for future construction works.	Operational	Medium	O	OIOS to be informed of the outcome of the consultations with the Office of Legal Affairs.	March 2010
6	The UNON Project Manager, in collaboration with other members of the project team, should conduct a risk assessment for the construction of the new office facility and prepare a risk register. The risks identified should be kept under continuous review by the project team and decisions should be taken on mitigating actions, as appropriate, and responsibilities assigned.	Operational	Medium	O	OIOS to receive a copy of the risk register, or examine it on site.	December 2009
7	The UNON Project Manager should prepare an 'administration and coordination arrangements' document to be incorporated in a project manual.	Operational	Medium	O	OIOS to receive a copy of the project manual incorporating the administration and coordination arrangements.	October 2009

Recom. no.	Recommendation	Risk category	Risk rating	C/O	Actions needed to close recommendation	Implementation date ²
	This document should be approved by the UNON Director of Administration.					
8	The Facilities Management Service, OCSS should ensure that preliminary estimates used to support decisions as to whether to proceed with construction projects should be prepared (or at least checked) by local firms of quantity surveyors or architects who are familiar with the local market.	Financial	Medium	C		Implemented
9	The Assistant Secretary-General, Office of Central Support Services should ensure that future reports seeking approval for major projects make it clear that preliminary estimates may need adjustment after the preparation of drawings and bill of quantities.	Financial	High	C		Implemented
10	The Controller should ensure that rent levels for accommodation at UNON offices are set at a reasonable level and that adequate budgetary provisions are made for future recurrent costs. Rent levels should be an early agenda item for the 'Stakeholders' Interest Group' proposed in Recommendation 15 below.	Financial	Medium	O	The establishment of the Stakeholders Interest Group.	January 2010
11	The UNON Chief of Support Services should prepare a guidance note on	Operational	Medium	O	OIOS to receive a copy of the guidance note(s) or Project Manual including	January 2010

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	claiming back VAT and arranging duty-free imports. This note should be included in the Project Manual and used by members of the project team to give guidance to the contractor (and sub-contractors, if applicable).				them.	
12	The UNON Project Manager should apply robust financial controls and prepare a written procedure for the issuance of change orders. The written procedure should be submitted to the UNON Director of Administration for approval.	Operational	Medium	C		Implemented
13	The UNON Chief, Facilities Management and Transportation Section should consult with the Director of Administration and other UNON offices to prepare a stakeholder management plan to identify the project stakeholders, define an approach to communications and provide key project information. Furthermore, they should closely manage local community and Host Government expectations and concerns that could affect project progress.	Operational	High	O	OIOS to receive a copy of the stakeholder management plan.	January 2010
14	A 'Stakeholders' Interest Group' should be convened by the Chief, Facilities Management and Transportation Section at UNON each month to discuss progress and obtain	Operational	High	O	Stakeholder Interest Group to be convened and attended by all UN agencies represented in the Common Services framework in Kenya.	January 2010

Recom. no.	Recommendation	Risk category	Risk rating	C/O	Actions needed to close recommendation	Implementation date ²
	feedback from stakeholders, including stakeholders who are outside the immediate construction arena.					
15	The UNON Project Manager should create registers to record current issues and lessons learned. These could be maintained on a common computer drive to enable access, recording and review by all members of the project team.	Operational	High	O	Establishment of a central register, maintained by the Project Manager and available to the project team.	December 2009
16	After the completion of the project, the UNON Chief, Facilities Management and Transportation Section should convene a meeting of participants in all stages of the project management including pre-contract, construction and post-construction phases. Attendees should discuss lessons learned and produce a record for the Under-Secretary-General for Management and senior managers. This record should be used for the benefit of future projects.	Information Resources	High	O	UNON to convene the meeting to discuss lessons learned and produce a report to the Under-Secretary-General for Management and other senior managers.	June 2011
17	Prior to the end of the construction of the new office facilities, the UNON Chief, Facilities Management and Transportation Section should propose the staff resources and training required to maintain the conference and office facilities for the Director of Administration to include in the next	Human Resources	Medium	O	Required resources for the ongoing maintenance of the newly constructed office facilities to be formulated in time for the 2012-2013 biennium budget.	June 2010

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	UNON budget request.					
18	The option of refurbishing furniture should be recorded by the UNON Facilities Management and Transportation Section during the lessons learned process proposed in recommendations 16 and 17 above.	Information Resources	Medium	O	The option of refurbishing furniture to be recorded during the lessons learned process.	June 2010

1. C = closed, O = open

2. Date provided by OCSS, OPPBA or UNON in response to recommendations.

ANNEX 2

*Use this page if the orientation of Annex 2 is portrait. If the orientation is landscape, insert a section break at the end of Annex 1 and continue on the new page. (On the **Insert** menu, point to **Break**, select **Next page** under **Section break types**.) Leave the page blank if not required; do not delete it.*