



Office of Internal Oversight Services

## **INTERNAL AUDIT DIVISION**

# **AUDIT REPORT**

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### **Audit of construction of UN House in Juba**

**Overall results relating to effective construction of the UN House were initially assessed as unsatisfactory. Implementation of two critical and two important recommendations remains in progress**

**FINAL OVERALL RATING: UNSATISFACTORY**

**19 December 2012**

**Assignment No. AP2012/633/01**

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# AUDIT REPORT

## Audit of construction of UN House in Juba

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of construction of UN House in Juba by the United Nations Mission in South Sudan (UNMISS).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The UN House in Juba was built to establish an integrated headquarters and common premises for UNMISS and other United Nations agencies including the Food and Agriculture Organization, the United Nations Population Fund, the United Nations Office for Project Services and the United Nations Children's Fund.
4. The construction of the UN House was initiated by the United Nations Mission in Sudan (UNMIS) which was liquidated in December 2011, with a planned completion date of December 2015. The UNMIS initial cost estimate for the construction was \$63 million, which was subsequently revised in July 2011 to \$89.5 million to reflect the expanded requirements as a result of the establishment of UNMISS. The project is jointly funded by UNMISS and other United Nations agencies, funds and programmes, with UNMISS being responsible for the shared common services. The disbursement by UNMIS and UNMISS as at 20 April 2012 totaled \$30.2 million.
5. The project was managed by a Project Team, headed by a Project Manager at the P-4 level reporting to the Chief of the Engineering Section. The Team comprised of 17 members including nine international and eight national staff.
6. Comments provided by UNMISS are incorporated in *italics*.

### II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of UNMISS governance, risk management and control processes in providing reasonable assurance regarding the **effective management of the construction of the UN House in Juba**.
8. The audit was included in the 2012 OIOS risk-based work plan because of the importance of the construction project as well as the significant level of funds allotted to the project.
9. The key controls tested for the audit were: (a) project management; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:
  - (a) **Project management** – controls that provide reasonable assurance that there is sufficient project management capacity to achieve and manage the construction project.

(b) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures: (i) exist to guide the construction of the UN House in Juba; (ii) are implemented consistently; and (iii) ensure reliability and integrity of financial and operational information.

10. The key controls were assessed for the control objectives shown in Table 1.

11. OIOS conducted this audit from March to August 2012. The audit covered the period from 1 July 2008 to 30 June 2012.

12. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

### III. AUDIT RESULTS

13. The UNMISS governance, risk management and control processes examined were assessed as **unsatisfactory** in providing reasonable assurance regarding the **effective management of the construction of the UN House in Juba**. OIOS made six recommendations to address issues identified in the audit. The Mission completed 10 of the 13 planned offices, set up a space allocation committee that managed office allocations, and took maintenance and stakeholder requirements into consideration in the construction project. Action had also been taken to meet more regularly with contractors. However, UNMISS did not establish a project management committee to oversee and monitor the implementation of the project. As a result: (i) project management oversight was inadequate and projects were not completed in a timely manner; (ii) memoranda of understanding (MoU) with participating agencies were not finalized; (iii) procurements relating to the project were not done in compliance with the Procurement Manual; and (iv) payments were not always in compliance with the relevant terms of the contracts. UNMISS had implemented key performance indicators to ensure more timely payment of invoices and developed bills of quantities for construction costs.

14. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **unsatisfactory** as implementation of three critical and two important recommendations remains in progress.

**Table 1: Assessment of key controls**

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of the construction of the UN House in Juba	(a) Project management	Unsatisfactory	Partially satisfactory	Unsatisfactory	Partially satisfactory
	(b) Regulatory framework	Unsatisfactory	Partially satisfactory	Unsatisfactory	Unsatisfactory
<b>FINAL OVERALL RATING: UNSATISFACTORY</b>					

## A. Project Management

### There was a need to enhance project management oversight

15. The UN House project was a long-term, high value project that was planned to be completed over a period of seven years. From the outset, there was no project management committee or other forum established, comprised of officials of the Mission and beneficiary entities, with responsibilities for overseeing and monitoring the implementation of the project.

**(1) UNMISS should, in consultation with participating UN agencies, funds and programmes, establish a project management committee, with responsibilities to oversee and monitor the implementation of the UN House project and as a forum to discuss and resolve issues with those involved in the project.**

*UNMISS accepted recommendation 1 and stated that they had drafted terms of reference (TORs) for a Project Management Steering Committee, which would be comprised of UNMISS and participating entities. The TORs include responsibilities for monitoring and implementing the UN House project. Recommendation 1 remains open pending receipt of a copy of the finalized TORs and evidence that the Committee has been convened, and performing its functions.*

### Memorandum of Understanding with the participating agencies had not been finalized

16. As of 31 October 2012, the financing arrangements involving UNMISS and participating entities in the UN House had not been formalized, delaying the recovery of costs for common services provided. UNMISS advised that delays in completing MoUs was due to disagreements over administrative fees of 14 per cent to be imposed for the services provided. Consequently, UNMISS was seeking guidance from the United Nations Controller, with the aim of agreeing on a reduced rate.

**(2) UNMISS should finalize the Memoranda of Understanding with participating entities and establish procedures for the recovery of associated costs.**

*UNMISS accepted recommendation 2 and stated that the Office of the Director of Mission Support had a draft MoU to be signed by participating entities. This would be finalized once the pending issue of the 14 per cent programme support costs was resolved. Recommendation 2 remains open pending receipt of evidence that MoUs with participating agencies have been finalized and signed by participating entities, and a procedure is in place to ensure common costs are recovered in a timely manner.*

### Delays in completion of projects

17. The first phase of the project included the construction of 13 office buildings and 200 staff accommodations by the end of March 2013 and December 2013, respectively. While progress was being made, delays were encountered. For example, 50 of the 200 accommodations were to be completed by June 2012; however, as of November 2012, 20 were completed and the remaining 30 were in various stages of completion (from 75 per cent complete to 30 per cent complete).

18. Delays were mainly due to inadequate planning and coordination. For instance: (a) the contractor hired and deployed to the site to construct a water tank at a cost of \$460,000 was delayed by two months until the location of the tank was determined; (b) a contractor hired for three projects only had sufficient construction equipment to carry out one project at a time; and (c) UNMISS did not source

cement in a timely manner hindering the progress of construction work. Already one contractor had been paid \$20,000 based on a claim for idle time for their staff.

**(3) UNMISS should improve project planning to avoid delays by ensuring adequate monitoring and coordinating of construction projects.**

*UNMISS accepted recommendation 3 and stated that the Chief Engineer had the responsibility to monitor and coordinate construction projects. The Project Management Steering Committee would be responsible for overseeing and monitoring the implementation of the UN House project and act as a forum to discuss issues involving the project. Recommendation 3 remains open pending receipt of evidence that a mechanism is established to ensure that project planning by the Chief Engineer has improved and there is adequate oversight of planning by the Project Management Steering Committee.*

Stakeholder requirements were taken into consideration to the extent possible

19. During the planning and implementation process, stakeholders were consulted and their requirements were taken into consideration by UNMISS when designing and constructing the office premises. While not issuing a recommendation, OIOS noted that office buildings that were three stories high did not have elevators and therefore, did not allow adequate access to physically challenged staff members and the medical clinic's ramp did not extend to the parking lot to allow persons easy access to vehicles. UNMISS advised that they would address the access to medical facilities.

## **B. Regulatory framework**

Performance evaluations of contractors were being improved

20. The Project Manager supervised contractors on a daily basis and periodically issued formal communications to contractors to address construction defects. However, there was no evidence of meetings with contractors on performance, or evidence that evaluations were done on an ongoing basis. At the time of the audit, evaluation reports were only available for five of 13 completed projects. Some of these evaluations contradicted other documents maintained in the contractors' files. For example, the performance of one contractor was rated as satisfactory, although UNMISS had communicated to the contractor in a memorandum and an e-mail that they did not use the correct equipment, used sub-standard materials and had a construction team that did not have adequate technical support skills.

21. UNMISS had taken action to improve performance evaluation of contractors. The Contracts Management Section had been given the responsibility to conduct joint contractor performance evaluations with the Engineering Section, and document the results. Two meetings were held in late November and early December 2012 for that purpose.

The procurement process needed to improve

22. OIOS reviewed 21 out of 46 contracts valued at \$22,345,673, as shown in the Table 3 below.

**Table 3: Contracts reviewed for procurement processes**

<b>Description of contract</b>	<b>Number of contracts</b>	<b>Total amount \$</b>
Buildings including staff houses	4	12,675,893
Roads, footpaths & helipad	3	4,556,863
Boreholes and water tanks	3	858,755
Fencing, rub halls and floors	4	1,810,437
Supply of materials	6	2,107,580
Geological survey	1	336,145
<b>Total</b>	<b>21</b>	<b>\$ 22,345,673</b>

Contractor did not meet the required criteria for vendor registration

23. For the construction of 50 staff accommodations valued at \$540,504, some 25 contractors responded to an Expression of Interest. The list of 25 potential contractors were forwarded to the Project Manager (requisitioner) for review, and on the Project Manager's suggestion, two additional contractors were added. The Procurement Section added eight vendors that had the expertise to implement the project. The contractors added by the Project Manager did not meet the requirements for vendor registration, as they: (a) had no audited financial statements; (b) did not have a certificate of quality standards (ISO or equivalent); and (c) did not present three letters of reference. The Procurement Section did not disclose to the Local Committee on Contracts and the Headquarters Committee on Contracts (HCC) that in addition to the 25 vendors responding to an Expression of Interest, an additional 10 vendors were added, with two of them recommended by the Project Manager.

24. One of the contractors suggested by the Project Manager was awarded the contract, even though the contractor did not have the required number of years of construction experience, and did not provide the required documents to be registered by UNMISS. For the technical evaluation, the contractor was ranked seven out of eight, and was awarded the contract based on the commercial evaluation, which was \$181,197 cheaper than the next lowest commercial offer by a contractor that was ranked third in the technical evaluation. The HCC commented that the technical evaluation was done by a United Nations volunteer, which was contrary to the requirements of the Procurement Manual.

25. There had been delays in completing the project, with only 20 of the 50 accommodations completed as of November 2012 compared to the targeted number of 50 by July 2012. A formal performance evaluation had not been done of the contractor's work in spite of UNMISS' repeated attempts. The contractor had consistently been unavailable to attend performance evaluations meetings.

**(4) UNMISS should ensure compliance with the United Nations Procurement Manual with regard to vendor registration, invitation to bid and performance evaluation.**

*UNMISS accepted recommendation 4 and stated that to ensure non-recurrence: (a) an experienced Unit Chief has been appointed to oversee the activities of the Vendor Registration Unit; (b) the vendor database was cleansed of over 1,000 temporary registered vendors that did not meet the registration criteria, but were still active; (c) in December 2012 a Local Vendor Registration Committee (LVRC) was set up to provide oversight of vendor registration applications; and (d) standard operating procedures (SOPs) for vendor registration were being developed, and would be*

*in use by end of January 2013. Recommendation 4 remains open pending receipt of a copy of the responsibilities of the LVRC and a copy of the finalized SOPs.*

Line item for bills of quantities were not included in some contracts

26. UNMISS awarded three contracts for: (a) eight two-story buildings valued at \$7.9 million; (b) internal footpaths valued at \$0.17 million; and (c) the construction of tukuls valued at \$0.18 million, without adequate bills of quantities. It is a good practice to develop bills of quantities in order to monitor costs against initial estimates and ensure the reasonableness of change orders. OIOS noted that for the eight two-story buildings contract, there was a change order to replace central air conditioning with separate units. The contractor only provided UNMISS with a quote from their supplier, which was used by UNMISS to reduce the cost of the contract by \$0.4 million to \$7.5 million. UNMISS did not confirm the reasonableness or competitiveness of the contractor's estimate. UNMISS advised that the Mission lacked sufficient expertise and resources to prepare detailed bills of quantities, and these turnkey contracts were based on a lump sum basis. However, considering that major construction work was still to be completed, the necessary expertise would be sourced, either from DFS or externally.

**(5) UNMISS, for subsequent phases of the UN House project, should prepare bills of quantities to monitor costs against initial estimates and ensure the reasonableness of change orders.**

*UNMISS accepted recommendation 5, and provided copies of the bill of quantities for the 200 accommodation units. UNMISS would ensure that bill of quantities were prepared for all construction projects and changes reflected by change orders. Based on the action taken by UNMISS, recommendation 5 has been closed.*

Payments were not always in compliance with the relevant contracts

27. A review of 30 payments totaling \$16.2 million from 15 contracts identified the following:

- For seven contracts, progress payments made did not agree with the terms of the relevant contracts. For example: (a) for the construction of buildings valued at \$540,504, 80 per cent of the contract price was paid, although the project was only 61 per cent complete; and (b) for four contracts, the responsible officer certified payments at 70 per cent completion instead of 80 per cent. These certified amounts were subsequently paid by the Finance Section.
- Sixteen payments totaling \$7 million were made between 35 to 152 days after receipt of invoices, instead of within 30 days as required by the contracts. On average, UNMISS took 26 days to approve payments, and a further 38 days to make the payment. UNMISS advised that delays occurred because invoices were mailed to Khartoum and had to be forwarded to Juba. This did not explain the delay between the certification of the payment and the disbursement, which were performed in Juba.

**(6) UNMISS should improve the time taken to pay invoices and ensure that invoices are paid in accordance with the contract's terms and conditions. Prior to making changes to the payment schedule, the contract should be formally amended and signed by UNMISS and the contractor.**

*UNMISS accepted recommendation 6 and stated that it had introduced Key Performance Indicators to monitor and track payments, and would ensure that only contractual payment terms are used to*

*pay contractors. A copy of the KPIs for one month was provided to OIOS. Based on a review of the action taken by UNMISS, recommendation 6 has been closed.*

#### IV. ACKNOWLEDGEMENT

28. OIOS wishes to express its appreciation to the Management and staff of UNMISS for the assistance and cooperation extended to the auditors during this assignment.



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## STATUS OF AUDIT RECOMMENDATIONS

## Audit of construction of UN House in Juba

Recom. no.	Recommendation	Critical/ Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	UNMISS should, in consultation with participating UN agencies, funds and programmes, establish a project management committee, with responsibilities to oversee and monitor the implementation of the UN House project and as a forum to discuss and resolve issues with those involved in the project	Important	O	Receipt of a copy of the finalized TORs and evidence that the Committee has been convened	February 2013
2	UNMISS should finalize the Memoranda of Understanding with participating entities and establish procedures for the recovery of associated costs	Important	O	Receipt of evidence that MoUs with participating agencies have been finalized and signed by participating entities, and a procedure is in place to ensure common costs are recovered in a timely manner	February 2013
3	UNMISS should improve project planning to avoid delays by ensuring adequate monitoring and coordinating of construction projects	Critical	O	Receipt of evidence that a mechanism is established to ensure that project planning by the Chief Engineer has improved and there is adequate oversight of planning by the Project Management Steering Committee	February 2013
4	UNMISS should ensure compliance with the United Nations Procurement Manual with regard to vendor registration, invitation to bid and performance evaluation	Critical	O	Receipt of a copy of the responsibilities of the LVRC and a copy of the finalized SOPs that ensures compliance with the Procurement Manual	January 2013
5	UNMISS, for subsequent phases of the UN	Important	C	Action taken	Implemented

<sup>1</sup> Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>3</sup> C = closed, O = open

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

Recom. no.	Recommendation	Critical/ Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
	House project, should prepare bills of quantities to monitor costs against initial estimates and ensure the reasonableness of change orders				
6	UNMISS should improve the time taken to pay invoices and ensure that invoices are paid in accordance with the contract's terms and conditions. Prior to making changes to the payment schedule, the contract should be formally amended and signed by UNMISS and the contractor	Important	C	Action taken	Implemented