

**Report of the Office of Internal Oversight Services on the audit of
capital master plan procurement and
contract management, including change orders**

(A/66/179)

**Statement to the Fifth Committee by the
Under-Secretary-General for Internal Oversight Services
Carman L. Lapointe
9 December 2011**

Mr. Chairman, distinguished Members of the Fifth Committee,

I am pleased to introduce the report on the audit of capital master plan procurement and contract management, including change orders.

The capital master plan was established with a budget of \$1,876.7 million as established in resolution 61/251, and has been proceeding in accordance with an accelerated strategy referred to in resolution 62/87. Given the magnitude of the plan, resources were also provided for the conduct of regular audits by OIOS, the results of which are reported annually.

The overall objective of the audit was to assess the adequacy and effectiveness of the key controls over the capital master plan's activities relating to procurement and contract management, covering activities between 2008 and 2010.¹ Specifically selected for this audit were guaranteed maximum price contracts for the Secretariat building and the curtain wall, together valued at \$335 million, and change orders relating

¹ In resolution 63/270, the General Assembly requested the Office of Internal Oversight Services to report to the Assembly on all aspects of the procurement process related to the capital master plan.

thereto resulting in significant increase or decrease in guaranteed maximum price.

OIOS examined the contractual framework; the guaranteed maximum price review process; the procurement of trade contracts by Skanska; efforts to promote procurement from countries with developing economies and economies in transition; the processing of change orders and contract amendment; allowances and contingencies; and contract risk management, monitoring and related controls.

In the opinion of OIOS:

- the contractual framework is adequately designed and has been operating effectively;
- an appropriate internal control structure has been established to attain best value in reviewing guaranteed maximum price contracts;
- while trade contracts had been subject to competition by pre-qualified bidders, the application of controls could be improved in some areas;
- concerted efforts, within practical constraints, are being made to bring in international vendors for bulk purchases;
- controls related to change orders and contract amendments needed strengthening in several areas;
- allowances were correctly processed, and contingency usage complied with established procedures; and,
- risk management, monitoring and quality control processes are generally adequate.

OIOS issued eight recommendations, including two critical (high risk) recommendations, to the Office of the Capital Master Plan and to the Office of Central Support Services to strengthen procedures pertaining to the procurement and contract management of trade contracts. All eight recommendations were accepted and have been, or are in progress of being, implemented.

The first high risk recommendation was addressed to the Procurement Division, to improve oversight of the procurement process for trade contracts by the construction manager, Skanska, to ensure a transparent and fair procurement process. Following a recent follow-up, OIOS closed the recommendation as appropriate action has now been taken.

The second high risk recommendation was addressed to the Office of the Capital Master Plan, which needs to ensure that change orders are justified and their origins identified clearly before approval. In addition, delays in establishing the Post-Award Review Committee, and the Committee's slow review process, have contributed to a large backlog of cases indicating a need to reconsider the Committee's current working arrangements. In addition, reasons for initiating change orders were not adequately explained by the Committee. A recent follow-up confirmed that the implementation of this recommendation remains in progress, with further follow-up scheduled in connection with the 2012 CMP audit workplan.

In conclusion, I wish to commend the professionalism of the Internal Audit Division's team assigned to this important project, and acknowledge the cooperation of management and all parties involved in enabling our work.

Thank you, Mr. Chairman.