

**Report of the Office of Internal Oversight Services on the in-depth
technical construction audit of the Capital Master Plan**

(A/67/330)

**Statement to the Fifth Committee by the
Assistant-Secretary-General for Internal Oversight Services
David Kanja**

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Mr. Chairman, distinguished Members of the Fifth Committee,

I am pleased to introduce OIOS' report on the in-depth technical construction audit of the Capital Master Plan.

The audit was conducted pursuant to General Assembly resolution 66/258, with an emphasis on the circumstances that led to the projected cost overrun of \$433 million. It was conducted with the assistance of a professional services firm.

The primary objectives of the audit included identifying root causes of the projected cost overrun of \$433 million, potential cost savings measures, and ways to keep projected costs within budget. The projected cost overrun was comprised of constructions costs, swing space costs and other costs.

The CMP was significantly changed by the switch from Strategy IV to Accelerated Strategy IV. Although the Accelerated Strategy IV was approved by the General Assembly, the corresponding approved budget was not adjusted to reflect this change.

Approximately 90 percent of the budgeted contingency had been consumed, while the CMP spend was only 50 percent complete. Given this situation, the \$59 million of remaining contingency may not be sufficient for the remainder of the CMP.

The primary drivers of the current cost overrun were considered justifiable given the change in execution strategy, increased security requirements, and unbudgeted associated costs. Additionally, the costs were considered reasonable from the perspective of securing market prices and efficiently procuring the scope of services through competitive processes or through negotiation of unit rates established in the various contracts. 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.

In addition, the Office of CMP has undertaken various efforts to mitigate cost growth, including several value engineering exercises as well as ongoing change order cost control.

The Office of CMP was also managing and controlling the CMP appropriately given the size, complexity, and duration of the programme.

Mr. Chairman,

while the Office of the CMP and the Project Manager have been diligent in reviewing payment applications and change orders, the audit identified several potential areas for exploring cost recovery, including:

- Some change order labour rates and mark-ups;
- Cross checking of contract labor time between subprojects; and
- State and Federal Unemployment Insurance charges.

The audit also identified a number of lessons learned from the implementation of the CMP that should be applied to future capital projects. These included budgeting for associated costs, adjusting a project's budget in the event of strategy changes or significant impacts, and establishing a formal project oversight committee with a charter that clearly defines its roles and responsibilities.

The audit made 26 recommendations for strengthening internal controls, all of which were accepted by the Office of the CMP and the Department of Management.

The audit's overall conclusion was that the governance, risk management and control processes used by the Office of CMP were partially satisfactory in providing reasonable assurance regarding the effective planning and implementation of the project.

I welcome any questions you may have on the report.

Thank you, Mr. Chairman.