

May 2003

UNITED NATIONS

Early Renovation
Planning Reasonable,
but Additional
Management Controls
and Oversight Will Be
Needed



G A O

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Highlights of [GAO-03-566](#), a report to Honorable Michael Enzi, U.S. Senate

Why GAO Did This Study

The United Nations estimates that its planned renovation of the seven buildings on the Headquarters complex could cost almost \$1.2 billion. As the host country and the largest contributor to the United Nations, the United States has a significant interest in this project. This report (1) assesses the reasonableness of the U.N. process to develop the renovation plans, (2) analyzes the potential cost to the United States, (3) identifies critical milestones before construction can begin, and (4) discusses efforts to monitor and oversee the project.

What GAO Recommends

GAO is recommending that the Secretary of State encourage the United Nations to (1) complete and implement an effective project management plan and (2) provide its oversight offices with sufficient resources to conduct oversight throughout the renovation. GAO is also recommending that the Secretary of State define the mission and program goals of the task force currently monitoring the project and ensure that it has the necessary resources for the duration of the project.

The United Nations and Department of State agreed with our findings and recommendations. The Board of Auditors provided updated information on its budget and disagreed with our recommendation calling for the United Nations to provide it with resources to conduct oversight of the renovation

www.gao.gov/cgi-bin/getrpt?GAO-03-566.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Joseph A. Christoff at 202-512-8979 or christoffj@gao.gov.

UNITED NATIONS

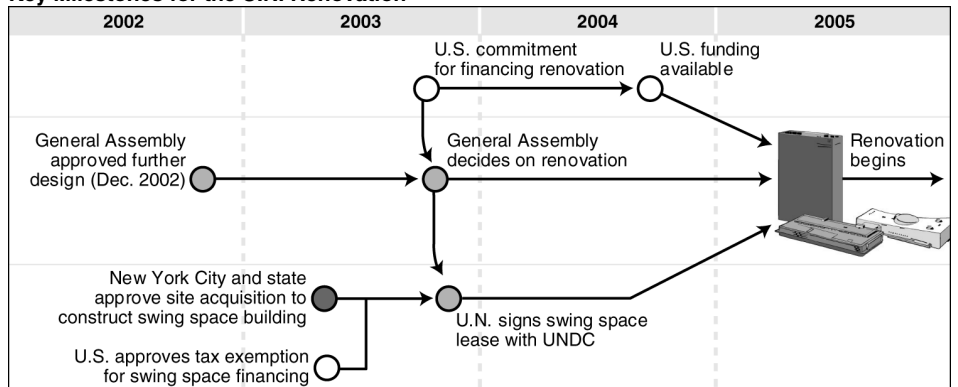
Early Renovation Planning Reasonable, but Additional Management Controls and Oversight Will Be Needed

What GAO Found

U.N. officials followed a reasonable process consistent with leading industry practices and recognized guidelines in developing the headquarters renovation plan—the first phase of a five-phase renovation process. As the project advances, changes in scope, schedule, and cost are to be expected. To finance the renovation, the Secretary-General anticipates a no-interest loan from the United States. However, U.S. and U.N. officials stated that neither the United States nor the United Nations have specified the nature of any financing commitment. GAO estimates that the financial impact of the renovation to the federal government, including providing a \$1.2 billion no-interest loan and repaying a share as a U.N. member, would be over \$700 million, depending on the loan terms and conditions.

Several critical milestones must be met for construction to begin as planned, including securing a financing commitment and signing a lease for a building where U.N. staff and delegates would relocate during the renovation (see diagram below). As the renovation project progresses, additional management, oversight, and monitoring is needed. The United Nations plans to complete a project management plan, which would help the United Nations control cost and schedule. While the United Nations has approved initial funding for the Board of Auditors to conduct oversight of the renovation and the board is preparing its audit strategy, the Office of Internal Oversight Services does not have the resources or audit strategies needed to effectively conduct oversight of the renovation. The Department of State has assembled a task force to monitor the renovation, but the department will need to define the task force’s mission and program goals. Doing so would allow the department to develop strategies for employing the appropriate skill mix needed to achieve a successful outcome for the task force.

Key Milestones for the U.N. Renovation



○ U.S. milestones ● U.N. milestones ● UNDC^a milestones

Sources: United Nations and GAO.

^aUnited Nations Development Corporation.

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United States General Accounting Office
Washington, D.C. 20548

May 30, 2003

The Honorable Michael Enzi
United States Senate

Dear Senator Enzi:

The United Nations (U.N.) Headquarters complex in New York City no longer meets current safety standards and needs major renovation, which U.N. officials estimate could cost almost \$1.2 billion. Because the United States is host country to the United Nations, the U.N. Secretary-General anticipates that the United States will provide a no-interest loan for the renovation, similar to the one the United States provided when the U.N. complex was built between 1949 and 1952. The U.N. General Assembly has not yet given its final approval for the renovation project but has authorized its continued design. In June 2001, we reported that the U.N. early planning process had been reasonable.¹ Since that report, the United Nations has further developed its plan, recommending an approach that would renovate the entire complex; lease a new office building, or “swing space,” built adjacent to the complex; and temporarily move most U.N. staff to that building.

You asked us to update our prior report by assessing the revised U.N. renovation plan. In this report, we (1) assess the reasonableness of the U.N. process to develop the renovation plan, including the cost estimate and physical security components; (2) estimate the potential financial impact to the federal government of the renovation; (3) identify critical milestones before construction can begin; and (4) discuss U.N. and Department of State efforts to manage, oversee, and monitor the project as it proceeds.

To undertake our work, we reviewed the 2002 Capital Master Plan and related reports prepared by the U.N. architect-engineering firm, cost estimating subconsultant, and security subconsultant. We also reviewed construction and security industry literature and U.N. and U.N. Development Corporation² project plans. To estimate the financial impact

¹U.S. General Accounting Office, *United Nations: Planning for Headquarters Renovation Is Reasonable; United States Needs to Decide Whether to Support Work*, [GAO-01-788](#) (Washington, D.C.: June 15, 2001).

²The U.N. Development Corporation is a New York State nonprofit public benefit corporation tasked with constructing and leasing office space to the United Nations.

of a no-interest loan, we analyzed the impact of the United States foregoing future interest payments and assuming the risk of a potential U.N. default on the loan. We discussed the Capital Master Plan with U.N. officials, the consultants who developed the designs, industry experts, and Department of State officials (see app. I for more information on our scope and methodology).

Results in Brief

U.N. officials followed a reasonable process consistent with leading practices and recognized guidelines to develop the 2002 Capital Master Plan. Thus far, the United Nations has completed the first phase—conceptual planning—of a five-phase renovation process. To develop the conceptual plan, U.N. officials and the architect-engineering firm followed leading facility acquisition practices, including obtaining detailed assessments of the complex's condition and involving U.N. managers in the planning. To develop the \$1.2 billion preliminary cost estimate, U.N. officials and the cost estimating subconsultant followed the Construction Industry Institute's best practices, including ensuring that the estimate included appropriate cost elements and hiring a firm to peer review the estimate. U.N. officials and their security subconsultant also followed recognized guidelines in developing the plan's security upgrades, including identifying threats to U.N. assets and prioritizing U.N. security needs. Although the United Nations has followed a reasonable process thus far, it is still early in the planning process and changes to the conceptual plan and cost estimate are to be expected. For example, Construction Industry Institute research indicates that the final cost of any project at this early stage may vary from plus or minus 30 to 50 percent of the preliminary estimate.

Should the United States agree to finance the renovation, we estimate the financial impact to the federal government for the renovation would be over \$700 million.³ We estimate that the potential financial impact to the federal government as a lender would be \$591 million on a no-interest loan

³We express all figures on the potential financial impact to the federal government in 2003 present value dollars.

of almost \$1.2 billion⁴—mostly in foregone interest.⁵ The Secretary-General anticipates that the United States will provide a no-interest loan to finance the renovation. However, the United States has not yet made a decision whether to provide the United Nations a no-interest loan. In addition, we estimate that the United States, as a member of the United Nations, would repay \$126 million of the loan principal. Another potential financial impact to the federal government is the loss of federal tax revenue on bonds to finance the proposed swing space building. The U.N. Development Corporation is seeking congressional approval for a federal tax exemption on the bonds it plans to issue to finance the construction. If this exemption is granted, the federal government would not realize tax receipts over a 30-year period of as much as \$108 million in 2003 present value dollars.

Several critical milestones have to be met in 2003 for the planning process to continue and construction to begin in 2005. First, and most importantly, the United Nations is seeking a financing commitment for the renovation by October 2003. However, neither the United States nor the United Nations have specified the nature of a financing commitment, according to U.S. and U.N. officials. If an acceptable commitment is secured, the General Assembly must then vote whether to proceed with the renovation, and the United Nations can sign a lease with the U.N. Development Corporation for the proposed swing space. Without a lease agreement, the corporation will not construct the swing space that the United Nations would occupy during the renovation. Second, to begin construction on the proposed swing space in 2004, the corporation must obtain New York state and city approval to acquire the site for the proposed swing space and also receive a tax exemption for borrowing. According to U.N. officials, without a tax exemption, the annual lease cost to the United Nations could increase substantially and could thereby make the lease economically unfeasible.

As the U.N. project progresses through the design phase, project management, oversight, and monitoring mechanisms will be essential to ensure cost and schedule control and accountability. In January 2002, the United Nations hired a project management consultant to help develop a broad framework for a project management plan. The United Nations does

⁴We estimate that this loan would equal approximately \$1.07 billion in 2003 present value dollars.

⁵The cost of a no-interest loan would depend on its terms and conditions, such as the length of time the United Nations would have to repay the loan. For our analysis, we assumed the United Nations would repay the loan over 25 years.

not currently have sufficient staff to complete the project management plan and effectively manage the project throughout the next phases, but it plans to hire approximately 40 staff and/or contractors in addition to the 12 currently managing the project. The U.N. Board of Auditors and Office of Internal Oversight Services are expected to oversee the renovation project. While the United Nations has approved initial funding for the Board of Auditors to conduct oversight of the renovation, the Office of Internal Oversight Services does not have a dedicated budget or personnel with the expertise in construction or capital projects to effectively oversee a large construction project, according to U.N. officials. The Department of State also plans to monitor the renovation process and coordinate the U.S. response to the financing request. Since our last report, the department has assigned staff on a part-time basis and a point-person at the U.S. Mission to the United Nations to a task force that monitors the Capital Master Plan. In addition, the department has tasked a senior official at the mission to represent U.S. concerns on the renovation to the United Nations and other member state representatives. However, the department has not formally determined the task force's mission or program goals or defined its resources needs, including expertise.

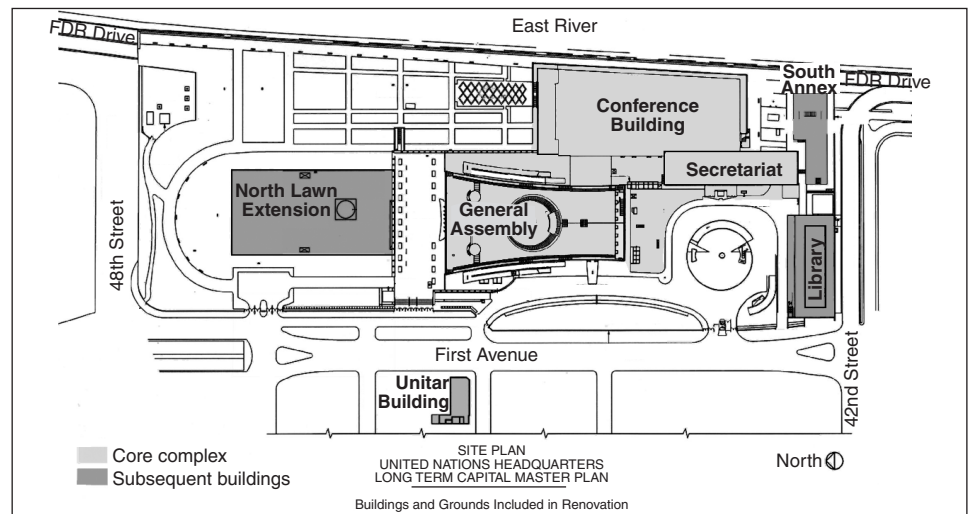
In this report, we are recommending that the Secretary of State, in consultation with the appropriate U.S. administration officials and other U.N. member states, encourage the United Nations to complete and then implement an effective project management plan and provide their internal and external oversight offices with the resources needed to conduct effective oversight throughout the renovation. In addition, we are recommending that the Secretary of State formally define the mission and program goals of its task force, determine the expertise needed, and provide the resources necessary to support these efforts.

In commenting on a draft of this report, the United Nations and the Department of State agreed with our conclusions and recommendations. The Board of Auditors did not agree with our recommendation that the United Nations provide it with the resources needed to conduct effective oversight of the renovation project. A board official stated that the United Nations recently provided the board with \$35,000 for this purpose. We modified our recommendation to acknowledge the board's initial funding, but continue to recommend funding for the board's oversight function over the course of the six-year renovation project.

Background

The original U.N. Headquarters complex, located in New York City, was considered among the most modern facilities when it was constructed between 1949 and 1952. The United States financed construction of the original complex—the General Assembly, Secretariat, and Conference Building—by providing the United Nations with a no-interest loan equivalent to about \$420 million in 2003 dollars. The rest of the complex—the Dag Hammarskjöld Library, the underground North Lawn Extension, South Annex, and Unitar Building—was built between 1960 and 1982 and was funded through the U.N. regular budget or private donations (see fig. 1). Currently, the complex accommodates the needs of 191 U.N. member countries and approximately 4,700 U.N. staff. However, the U.N. buildings do not conform to current safety, fire, and building codes and do not meet U.N. technology or security requirements. The United Nations estimates it would cost more than \$2 billion over 25 years for repairs and system replacements in the absence of a major renovation.

Figure 1: U.N. Headquarters Complex



Sources: United Nations and GAO.

In June 2001, we reported that the Secretary-General's first Capital Master Plan had defined the need for renovation, established the Secretary-General's expectations for the project, and provided options for a multiyear

effort to renovate the headquarters.⁶ The General Assembly reviewed the plan and approved \$8 million to further develop the conceptual designs and associated cost estimates for the renovation. The General Assembly agreed with the Secretary-General's assumptions, which provided the framework for the renovation planning. These assumptions included the following:

- The headquarters complex would remain at its current location in New York.
- The complex should be energy efficient, free of hazardous materials, and compliant with host city building, fire, and safety codes.
- The complex should meet all reasonable security requirements.
- Disruption to the work of the United Nations should be kept to a minimum.

In August 2002, the Secretary-General presented the General Assembly with a more detailed Capital Master Plan and endorsed a renovation approach that included the temporary relocation of most U.N. staff and delegates to “swing space” in a proposed new building (see fig. 2 for the swing space location and app. II for more information on the renovation approach).⁷

⁶GAO-01-788 and United Nations, *Capital Master Plan: Report of the Secretary-General*, A/55/117 (New York, N.Y.: United Nations, June 28, 2000).

⁷United Nations, *Capital Master Plan: Report of the Secretary-General*, A/57/285 (New York, N.Y.: United Nations, Aug. 8, 2002).

Figure 2: U.N. Headquarters Complex and Proposed Location of Swing Space under Approach 1



Source: United Nations.

In December 2002, the General Assembly adopted a resolution endorsing the renovation approach and approved \$25.5 million for detailed designs and cost estimates to be developed in 2003. The General Assembly also approved \$26 million to complete the design process in 2004–2005.⁸ The General Assembly does not plan to make a final decision on whether to proceed with the renovation until financing is secured.

⁸United Nations General Assembly, *Resolution Adopted by the General Assembly, A/RES/57/292* (New York, N.Y.: United Nations, Feb. 13, 2003).

Planning Process Is Reasonable but Still in an Early Phase

In developing the renovation conceptual plan and cost estimate, U.N. officials, their architect-engineering firm, and subconsultants followed a reasonable planning process that was consistent with leading practices. In addition, U.N. officials and their security subconsultant followed a process consistent with recognized guidelines to develop plans for improving security at the U.N. complex. The United Nations is still in the early planning stages of the project—the first phase of a five-phase process. For this reason, changes to the scope and cost of the proposed renovation are to be expected.

Process Used in Early Planning Phase Followed Leading Practices

The overall U.N. process to develop a conceptual plan followed leading facility acquisition practices.⁹

- *Competitively procured an architect-engineering firm.* U.N. renovation officials used a competitive process to procure the services of an architect-engineering firm (see app. III for the names of the firms involved). The United Nations received 15 responses to its request for proposals from firms representing six different countries. In 2001, the United Nations selected and hired an architect-engineering firm to prepare a comprehensive renovation design concept and cost analysis. The architect-engineering firm used subconsultants with recognized expertise in construction disciplines such as cost estimation, security, and structural engineering.
- *Obtained assessments of the complex's condition.* The architect-engineering firm and subconsultants reviewed condition assessments conducted in 1998 and performed additional inspections and assessments of the complex's condition as needed. For example, they completed a new assessment of the Secretariat Building's deteriorating window structure. U.N. officials subsequently concluded that it was more cost effective to replace the window structure than to renovate it, as had been previously planned.

⁹Ralph S. Spillinger, in conjunction with the Federal Facilities Council's Standing Committee on Organizational Performance and Metrics, *Adding Value to the Facility Acquisition Process: Best Practices for Reviewing Facility Designs*, Federal Facilities Council Technical Report #139 (Washington, D.C.: National Academy Press, n.d.).

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- *Retained firm to review the renovation conceptual plan.* U.N. officials retained the services of a consulting engineer to assist them in reviewing the conceptual planning reports and recommendations.
 - *Involved U.N. managers in the planning.* U.N. officials involved facility managers, such as those responsible for building and program management, security, and information technology, in the planning process to ensure that the renovation would meet their needs. The managers were asked to verify the conditions and problems identified by the architect-engineering firm and subconsultants and comment on whether the proposals would address their needs.

Process to Develop Preliminary Cost Estimate Followed Best Practices

To develop a preliminary cost estimate, U.N. officials and the cost estimating subconsultant followed industry best practices established by the Construction Industry Institute.¹⁰

- *Defined the scope of the project and work plan, including responsibilities, schedule, and project budget.* U.N. officials identified the building improvements that were to be included in the project scope: replacing heating, air conditioning, and electrical systems; refurbishing the window structure on the Secretariat Building; enhancing security measures; and modernizing communication and technology capabilities. The U.N. contract with the architect-engineering firm established the schedule for the cost estimating subconsultant to submit three cost estimates for approval. To compare the renovation approach budgets, U.N. officials also instructed the cost estimating subconsultant to develop one renovation approach within the budget parameters of the 2000 Capital Master Plan.
- *Standardized the cost estimate format.* U.N. officials used a standardized cost estimate format, including elements such as professional fees, labor and material costs, design and construction contingencies, and escalation costs to account for inflation. The standardized format enables U.N. officials to compare current and future cost estimates as the project progresses through the design process.

¹⁰The Construction Industry Institute is a research organization composed of construction contractors and owners that seeks to improve the construction and capital investment process.

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- *Reviewed and checked cost estimate.* U.N. officials reviewed the cost estimate to ensure that the conceptual planning estimates were within acceptable cost parameters. For the final review, U.N. officials hired a cost estimating consultant to peer review the cost estimate. While the peer reviewer's assumptions were more conservative than the subconsultant's assumptions, the peer reviewer's cost estimate was within 5 percent of the subconsultant's cost estimate. Based on the peer review, U.N. officials adjusted the cost estimate.
 - *Documented and reported the final cost estimate and range of accuracy.* The cost estimating subconsultant delivered the final cost estimate, including contingencies that are meant to reflect the accuracy of the estimate, to U.N. renovation officials for the 2002 Capital Master Plan in August 2002. Consistent with industry practices, the subconsultant added a design contingency to allow for changes that typically occur during the design process. The subconsultant also added a construction contingency to allow for unforeseen or unknown costs. For example, structural conditions hidden by current construction may conflict with planned renovations and require contract changes.

Process to Develop Preliminary Plans for Security Upgrades Followed Recognized Guidelines

After the terrorist attacks of September 11, 2001, the United Nations enhanced security at the U.N. complex and added security measures to the Capital Master Plan (see app. IV for further information). U.N. officials and the U.N. security subconsultant identified the additional security measures through a process consistent with recognized security risk management guidelines. We have previously reported on these guidelines, which members of the U.S. intelligence and defense community follow and can provide a sound foundation for effective security.¹¹

- *Identified the assets to be protected and the impact of their potential loss.* The security subconsultant identified assets at the United Nations to be protected, such as the buildings and the perimeter. The United Nations also evaluated the importance of each asset, the potential impact of its loss, and the methods to maintain operations if the assets were lost or damaged.

¹¹U.S. General Accounting Office, *National Preparedness: Technologies to Secure Federal Buildings*, [GAO-02-687T](#) (Washington, D.C.: Apr. 25, 2002).

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- *Identified threats to those assets.* U.N. security officials consulted with relevant federal and local U.S. officials to assess changing threats to the United Nations. According to U.N. officials and the security subconsultant, they designed the security initiative in the Capital Master Plan to address these threat levels.
 - *Identified vulnerabilities.* The security subconsultant reviewed five previous vulnerability assessments and conducted their own assessment of the entire complex to verify vulnerabilities and identify needed security upgrades.
 - *Assessed risks (potential for loss or damage) and determined priorities.* Following security guidelines from the U.S. Interagency Security Committee,¹² the security subconsultant developed a risk assessment that reflected its analysis of the threats to the U.N. complex and its vulnerabilities. Based on the risk assessment, U.N. officials then prioritized the security needs of the complex. According to an expert from the Interagency Security Committee, the risk assessment process used to develop the planned security upgrades was reasonable based on the consultant's report to the United Nations.
 - *Identified countermeasures that mitigate risks.* The security subconsultant used the risk assessment to identify and recommend more than 100 security measures for the Capital Master Plan. U.N. officials organized these security upgrades into two components—those in the baseline scope of the Capital Master Plan and those in a package of options.

The security risk management guidelines are not a rigid set of procedures, but rather recognized steps to ensure that critical issues are considered when designing a security program. Additionally, U.N. security officials sought peer review input from other U.N. departments and public and private sector security experts when designing the security program. According to security officials from the Departments of State, Defense, and Energy and the General Services Administration, the U.N. process for developing the security initiatives in the Capital Master Plan was reasonable.

¹²The U.S. Interagency Security Committee was created in 1995 under Executive Order 12977 to establish building security standards among federal facilities. The committee consists of a chair—the Secretary of Homeland Security—and 17 other federal agencies.

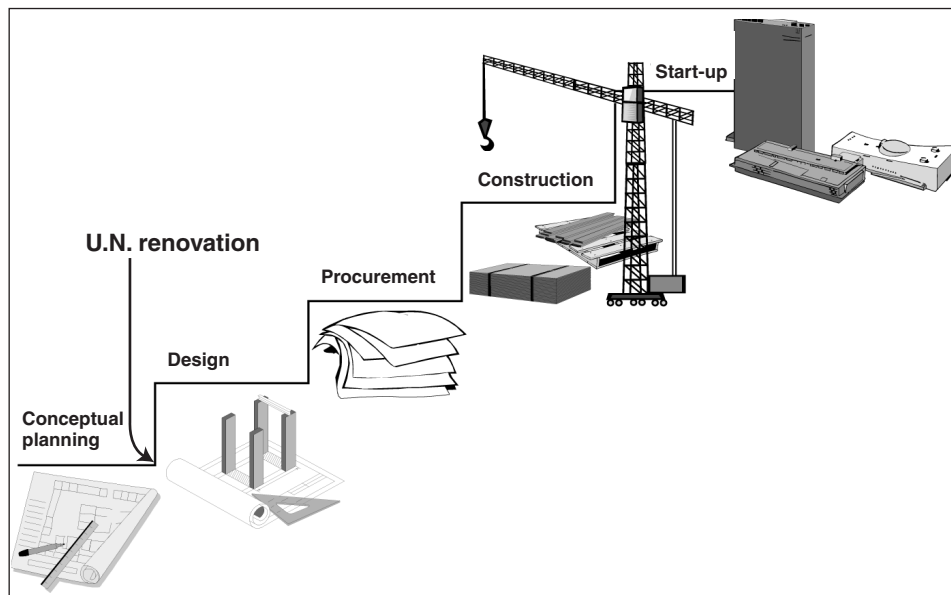
Renovation Planning Is in the Early Phases and Changes Are to Be Expected

U.N. officials have completed only the first phase of the renovation process by developing a conceptual plan for the proposed renovation. While U.N. planning efforts for the renovation have been reasonable so far, many decisions that can affect the project scope, schedule, and cost have yet to be made. For example, the General Assembly must decide whether it wants to include certain options that were proposed in the 2002 Capital Master Plan, such as installing extra back-up generators beyond those required by current building codes. Events outside U.N. officials' influence, such as the availability of construction materials and labor, may also change the scope, schedule, and cost. In addition, the preliminary cost estimate is likely to change as the design phase progresses and decisions affecting the project's scope are made. Construction Industry Institute research suggests that the final cost of a project may vary by plus or minus 30 to 50 percent of the estimated cost at this early phase of a project.¹³

While the United Nations has completed the conceptual planning phase, there are four remaining phases that renovation projects undergo, based on typical best practices in the design and construction industry (see fig. 3).

¹³This range applies to the estimated cost without design and construction contingencies.

Figure 3: Five Phases of a Renovation Project



Sources: Federal Facilities Council Technical Report #139 and GAO.

- **Conceptual Planning**—Various feasibility studies are typically conducted to define the scope of work based on owner expectations for performance, quality, cost, and schedule. The need for temporary space and the options for meeting this need are identified. Several alternative design solutions are identified, and one approach is selected.
- **Design**—The design matures into final construction documents comprising the drawings and specifications from which bids can be solicited. Estimated cost and schedule issues receive increasingly intense oversight as this phase proceeds. The project scope defined at this phase will greatly determine the cost of the project. In addition, the cost of scope changes made after the design phase are higher.
- **Procurement**—This phase refers to owner procurement of long lead-time equipment, such as unique or large electrical or mechanical equipment. Delays in the delivery of this equipment could affect the phasing and sequence of construction work and potentially cause delays.

-
- **Construction**—To execute the design, the services of a competitively procured construction contractor and specialty contractors and consultants are employed. The biggest challenge is the management of changes from the owner, design problems, or unknown conditions on the site. Construction is considered complete when the owner accepts occupancy of the building; however, work may continue for some time to identify and correct deficiencies in the construction work.
 - **Start-up**—Start-up begins with occupancy of the building and entails the testing of individual and systems components to measure and compare their performance against the original design criteria.

Estimated Financial Impact of the Renovation to the United States

The Secretary-General has indicated that the United Nations anticipates that the United States would provide a no-interest loan to finance the U.N. renovation. Should the United States agree to finance the renovation in this manner, we estimate that the financial impact of the renovation to the federal government would be over \$700 million.¹⁴ This amount would vary depending on the terms and conditions of the financing arrangement. In addition, we estimate that over a 30-year period, the federal government would not realize tax receipts of as much as \$108 million (2003 present value dollars) on the federally tax-exempt bonds that would finance construction of the proposed swing space. The U.N. Development Corporation is seeking federal tax exempt status for the bonds it plans to issue to finance the swing space building.

Financial Impact of the Renovation to the Federal Government Is over \$700 Million

We estimate the potential financial impact to the federal government as both lender to United Nations and member state would be over \$700 million for a \$1.2 billion no-interest loan. As a lender of a subsidized loan to the United Nations, the federal government would forego future interest payments and assume the risk of a potential U.N. default on the loan. The estimated financial impact to the federal government of a no-interest loan for \$1,193 million (repayable over 25 years) would be about \$563 million for the interest subsidy to cover foregone interest payments and \$28 million for the default subsidy that covers the risk of a potential U.N. default (see table

¹⁴We did not estimate the financial impact to the United States if the United Nations sought other financing for the renovation or did not undertake the renovation.

1).¹⁵ If the United States provided a subsidized loan with interest rates of 1 percent or 2 percent, the federal government would provide an interest subsidy of \$443 million and \$322 million, respectively. If the United States agrees to finance the renovation, Congress would be asked to appropriate the interest and default subsidies before the loan is made, as provided for under U.S. credit reform law.¹⁶ As a member of the United Nations, the United States may also be assessed an additional amount to repay the loan principal. We estimate that the net present value of the U.S. assessment for the principal repayments made over a 25-year period would be \$126 million.¹⁷ These repayments would need to be appropriated yearly.

Table 1: Estimated Financial Impact to the Federal Government of Financing \$1.2 Billion U.N. Renovation under Various Loan Terms

(In millions of 2003 present value dollars)

	No-interest	1 percent interest	2 percent interest
Interest subsidy	\$563	\$443	\$322
Default subsidy	28	31	34
U.S. portion of principal repayment	126	126	126
Financial impact to federal government^a	\$718	\$600	\$482
Impact as a percentage of renovation cost	60%	50%	40%

Source: GAO analysis of U.N. data.

Note: Figures estimated using the Office of Management and Budget Credit Subsidy Calculator and interest rate assumptions from the FY2004 President's Budget. Figures do not add due to rounding.

^aWe excluded any administrative costs, fees, or recoveries.

In estimating the financial impact to the federal government, we made several assumptions. We assumed that the federal government would disburse funds to the United Nations as a line of credit rather than a lump-sum payment. The federal government would disburse the funds each year

¹⁵We excluded any administrative costs, fees, or recoveries.

¹⁶Federal Credit Reform Act of 1990 (codified at 2 U.S.C. 661). If the United States provides a loan to the United Nations, the Office of Management and Budget and the Congressional Budget Office would calculate the interest and default subsidies that would need to be appropriated based on the actual terms of the loan document.

¹⁷We estimate that the yearly nominal assessment for the principal repayments would be \$10.5 million.

over a 5-year construction period. To model the size of the disbursements, we used the latest U.N. estimates of the funds it would need each year to pay its contractors during the renovation. We assumed that the United Nations would repay the loan over the subsequent 25 years in equal semiannual payments based on an additional assessment of member states. Since the United States is assessed 22 percent of U.N. operating costs, we assumed the federal government would repay 22 percent of the loan principal. However, because the United States does not currently allow its U.N. assessments to go toward interest payments on U.N. external borrowing, we assumed that the federal government would not repay any of the interest on a 1 percent or 2 percent loan.¹⁸ Finally, we used the U.N. preliminary cost estimate of \$1,193 million from the 2002 Capital Master Plan for the renovation, which includes scope options that the United Nations has yet to decide on.

Loss of Federal Revenue from Swing Space Bonds

The federal government would also not realize tax receipts if the U.N. Development Corporation is granted tax exempt status for its construction bonds. We estimate that the unrealized tax receipts over 30 years could be as high as \$108 million in 2003 present value dollars. This estimate assumes that the U.N. Development Corporation would issue bonds for \$350 million—the estimated construction cost for the swing space. We also assumed that without the tax exemption, the bonds would earn 6.4 percent interest and the average marginal tax rate would be 31 percent.

According to corporation officials, the corporation would pay a higher interest rate on the bonds if it could not secure a tax exemption. The higher interest rate would raise the cost of financing the construction, which the corporation would then pass on to the United Nations in higher lease costs. Corporation officials stated that the United Nations could not afford the lease under its current operating budget without the tax exemption.

Key Milestones in the Renovation Process

To continue the planning process, key efforts must be pursued and critical milestones met. Given the General Assembly's decision in December 2002 to proceed with design, the United Nations is seeking a financing commitment from the United States for the renovation. Neither the United

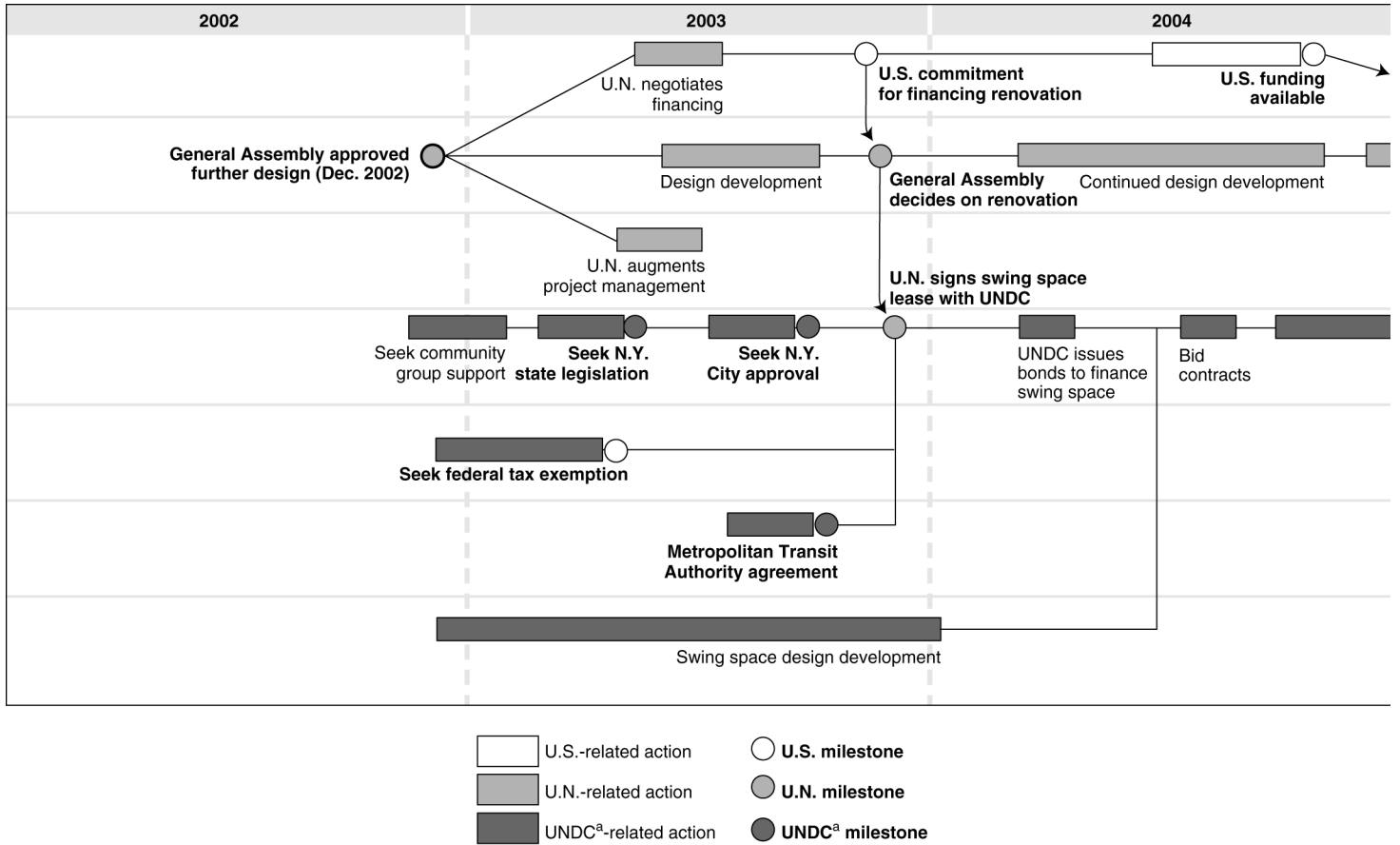
¹⁸This is an annual appropriation restriction that may not be made applicable in this situation.

States nor the United Nations have specified the nature of a financing commitment, according to U.S. and U.N. officials. Once an acceptable commitment is secured, the General Assembly will decide whether to proceed with the renovation, and the United Nations will be able to sign a lease with the U.N. Development Corporation. The corporation is also working to resolve a number of issues before it can begin construction on the swing space building in 2004.

United Nations Is Seeking a Financing Commitment

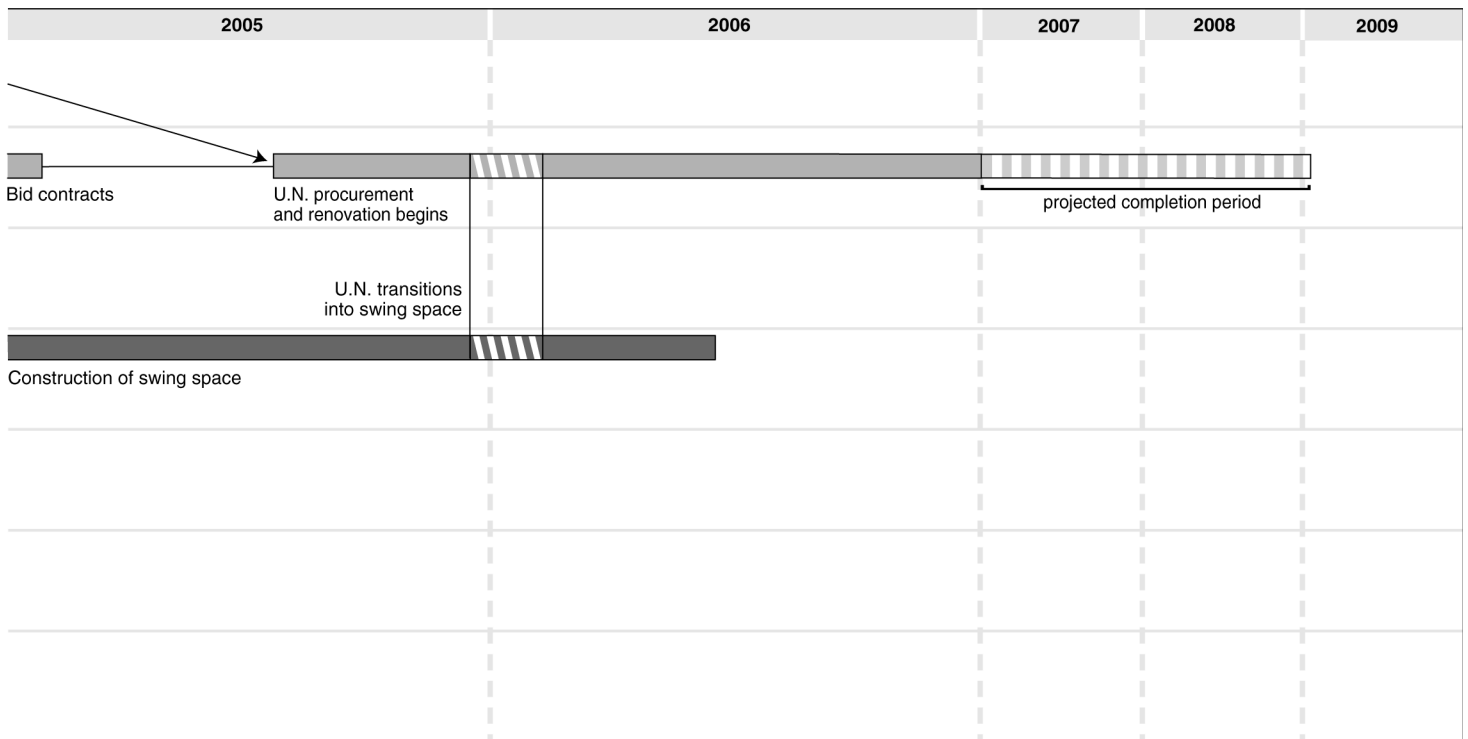
Figure 4 shows that securing a financing commitment is the next milestone in the renovation process. The Secretary-General anticipates that the United States will offer a no-interest loan to finance the renovation. For the United Nations to remain on its current renovation schedule, the United States would have to make a commitment to finance the renovation by October 2003. However, U.S. and U.N. officials stated that neither the United States nor the United Nations have specified the nature of a financing commitment. According to U.N. officials, the General Assembly will not make a decision to move forward with the renovation or sign a lease for the proposed swing space building without a financing commitment. According to U.N. Development Corporation officials, they will not begin construction on the proposed swing space building until the United Nations signs a lease. The corporation needs a signed lease before it can issue bonds to finance the construction of the swing space building. For the renovation project to stay on schedule, the proposed swing space building would have to be available for occupancy in early 2006.

Figure 4: Sequence and Estimated Time Frames for U.N. Headquarters Renovation



Sources: United Nations and GAO.

^aUnited Nations Development Corporation.



The U.N. Development Corporation Must Address Several Issues to Begin Swing Space Construction

The U.N. Development Corporation must resolve two key issues in 2003 for the swing space to be available to the United Nations in 2006. First, the U.N. Development Corporation is seeking to obtain state and city approval to secure ownership of the proposed swing space site by the end of 2003 (see fig. 5). According to corporation officials, New York state approval is necessary because the site is currently part of a city park and lies outside of the corporation’s development zone. Corporation officials also said they are currently working to obtain support within the local community, which has expressed concerns about the loss of the park space. To compensate the community, the corporation proposes to build a bike path along the East River and the U.N. complex. However, according to corporation officials, as of April 2003, no agreement had been reached. Once the issues with the community group are resolved, the corporation must seek New York state legislation by June 2003 to add the proposed construction site to its development district, according to corporation officials. The

corporation will then seek New York City approval of its plans for the site. City officials have expressed support for the swing space construction.

Figure 5: Proposed Swing Space Site



Source: GAO.

Second, the corporation is seeking a federal tax exemption for the bonds it would issue to finance the swing space construction in early 2004. According to corporation officials, without a tax exemption, the annual lease cost to the United Nations could increase substantially, thereby making the project economically unfeasible. Under the 1986 Tax Reform Act, the U.N. Development Corporation and similar organizations lost the ability to issue bonds that are exempt from federal taxes. Corporation officials stated that they are working with members of Congress to introduce legislation that would restore a tax exemption for the swing space construction.

Effective Project Management and Oversight Needed for the Renovation to Be Successful

As the project moves into the critical design phase, the United Nations has begun the process to hire a consultant who will manage and oversee the final design and eventual renovation of the U.N. complex. These initial efforts are important as they lay the foundation for the project management plan to ensure that the project's scope, schedule, and costs are effectively controlled. In addition, U.N. oversight bodies anticipate additional resources and are developing audit plans to conduct oversight of the renovation project. The Department of State and the U.S. Mission to the United Nations have also initiated efforts to monitor the project. The United States has a substantial interest in monitoring the project, particularly if the United States agrees to finance it.

Effective Project Management Needed to Control Cost and Schedule

A well-defined project management plan and adequate project management staff will be essential for the United Nations to successfully complete the renovation on time and within budget. U.N. officials recognize the need and importance of a project management plan and adequate staff to implement the plan. In January 2002, the United Nations hired a project management consultant to help develop a broad framework for a project management plan. The consultant noted that once the United Nations establishes a project management team, it will need to develop its project management plan with detailed procedures. The consultant provided best practices recommendations for creating a project management plan to control costs and effectively implement the renovation. As of January 2003, the United Nations had started the process to hire a consultant to provide project management services, including developing the project management plan and then supporting the United Nations in managing the project through the design phase.

Based on the U.N. project management consultant's report and Construction Industry Institute research,¹⁹ an effective project management plan will help the United Nations control costs and schedule. An effective project management plan includes three key elements. First, a clearly defined scope of work that remains relatively stable will provide the basis for project decisions. The scope should clearly define the project content and parameters, schedules, milestones for execution, budgets, and expected project outcomes. Second, policies and procedures that

¹⁹Construction Industry Institute, Project Change Management, Special Publication 43-1 (Austin, Tex.: November 1994).

effectively manage scope and construction changes are important. These policies and procedures should provide a means for analyzing and documenting the reasons for changes and the implications of changes on cost, schedule, and quality. Third, timely and accurate progress reports on scope, cost, and schedule are important as a means of informing all relevant parties and coordinating changes. Regular reporting would identify key project issues that require discussion and impending issues that require resolution. While the United Nations recognizes the significance of developing a project management plan, it is important that the United Nations continues to incorporate best practices to ensure the plan's effectiveness.

Project management staff are essential to controlling schedule and cost changes because they will guide decision making and coordinate resources throughout the project. Project management staff would represent the United Nations as the owner of the project and facilitate coordination and communication between the design firms and construction contractors. The United Nations does not currently have sufficient staff to manage the project effectively but, according to U.N. officials, plans to hire additional staff and/or contractors. The United Nations added seven staff to its Capital Master Plan team during the conceptual planning phase, including two security officials, and plans to augment its management capability during design. In February 2003, the United Nations appointed an Assistant Secretary-General as the full-time executive director of the Capital Master Plan management project. As of March 2003, the United Nations had 12 people on the renovation project management staff. The United Nations is evaluating options for acquiring additional expertise and anticipates having a management team of 20 staff and contractors during the design phase and a team of about 40 staff at the peak of construction.

Office of Internal Oversight Services and the Board of Auditors Plan to Conduct Oversight of the Renovation Project

In a February 2003 resolution, the General Assembly stressed the importance of oversight in implementing the Capital Master Plan and requested the Board of Auditors and all relevant oversight bodies, such as the Office of Internal Oversight Services, to initiate immediate oversight activities.²⁰ In our last report, we noted that the Office of Internal

²⁰United Nations General Assembly, *Resolution Adopted by the General Assembly, A/RES/57/292*.

Oversight Services²¹ did not have the expertise to perform an oversight role, but the office had agreed to assume such responsibility by hiring people with the necessary skills. Since then, the office has assigned one staff member to begin researching the Capital Master Plan on a part-time basis. However, the office has not developed a plan detailing the oversight functions it plans to pursue or hired additional staff. Officials from the oversight office stated that it has requested funding so that it can hire contractors to help evaluate the Capital Master Plan, the project management plan, and the security upgrades. The officials anticipate that these contractors would have architectural and construction skills and knowledge of New York City building codes.

The Board of Auditors had not yet conducted oversight of the Capital Master Plan but plans to complete an audit strategy by June 2003.²² The board has decided to review financial accounts, compliance with U.N. procurement regulations, and the effectiveness of Capital Master Plan management. After the board completes its audit strategy, it plans to determine the additional resources and expertise it needs to conduct oversight of the renovation. According to a board official, the United Nations approved initial funding of \$35,000 in April 2003 to cover the audit of Capital Master Plan activities during 2003. However, the board will require additional resources for oversight as the renovation progresses.

Department of State Has Begun Monitoring Renovation Planning

The United States has a substantial interest in the renovation project and its costs, particularly since the Secretary-General anticipates U.S. financing. As the project goes forward, the United States will decide whether to finance the renovation and will take part in other key decisions. The Department of State, the lead foreign affairs agency responsible for developing and implementing U.S. policy toward the United Nations, has assembled a task force to monitor U.N. implementation of the Capital Master Plan. While Department of State officials have consulted with other U.S. government officials concerning the renovation project, they have not yet created a formal framework that defines the task force's mission and program goals. In addition, a department official stated that they do not

²¹The U.N. Office of Internal Oversight Services conducts internal oversight of U.N. activities through monitoring, inspection, and evaluation. The office reports to the Secretary-General.

²²The U.N. Board of Auditors is an external audit agency that audits U.N. accounts, funds, and programs. The board reports to the General Assembly.

have the expertise to undertake effective monitoring of the project as it progresses.

In our June 2001 report, we recommended that the Department of State develop a comprehensive U.S. position on matters pertaining to the renovation. We further recommended that if the United States were to take a position in support of the renovation, the department should consider obtaining expertise in construction management and financing. In June 2001, the department took a position in support of renovating the U.N. headquarters complex and created an interagency task force to monitor the renovation project in August 2002. The task force consists of six officials from the department and the Office of Management and Budget who work part-time on task force activities and a point-person at the U.S. Mission to the United Nations who monitors U.N. renovation planning efforts. In addition, a senior official at the Ambassador level represents U.S. concerns on the renovation project to the United Nations and other member state representatives. To assist the task force, the department has also retained a part-time consultant with building construction and security experience.

Although the Department of State has organized the task force, it has yet to develop an interagency framework that sets forth the task force's mission or program goals. To monitor the project and coordinate the U.S. decision on whether to finance the renovation, the department will undertake diplomatic, federal financing and budgeting, and construction activities that will require participation from numerous government officials and organizations with the necessary expertise. A framework that describes the task force's mission, program goals, and coordinating mechanisms will help ensure that each organization has a clear understanding of its role, responsibilities, and expectations. The development of this framework is important because the task force's monitoring role is likely to continue through the four remaining phases of the renovation project.

Furthermore, with established mission and program goals, the department could specify resource needs, including appropriate skills needed to achieve a successful outcome of the project. As the renovation proceeds and the management of the project increases in magnitude and complexity, the department can identify and obtain the critical skills that will be needed to monitor the project. Department officials have stated that they lacked the needed expertise to monitor a renovation project of this magnitude.

It is also important that the task force is staffed appropriately because the Department of State will have a number of key questions and issues to

address over the life of the project, particularly if the United States agrees to finance the renovation. Some key questions and issues to be addressed include the following:

- If the United States offers to finance the renovation, how would it structure a loan to the United Nations? What should be the loan's terms and conditions? Would the United States provide a loan that fully funds the renovation project? If there are cost increases during the renovation, would the United States provide additional financing and, if so, under what terms and conditions?
- Does the United Nations have internal controls in place to effectively manage changes in costs, scope, and schedule throughout the design and construction of the project?
- To what extent are U.N. officials coordinating the renovation design and construction with that of the proposed new visitors center?
- What types of incentives will the United Nations include in its contracts with design and construction firms to ensure that their work meets U.N. expectations?
- Since the design phase provides the greatest opportunity to make decisions that could minimize future building maintenance and operating costs, to what extent are these future costs being considered during the design phase?
- How will U.N. officials ensure that value-engineering principles—a formal technique used by contractors or independent teams to identify methods of constructing projects more economically—are applied during the design and construction phases?

The department's position on each of these issues and the level of monitoring it will undertake will drive its resource and expertise needs.

Conclusions

The United Nations has used a reasonable process thus far to develop its renovation plans, but it is still early in the project and changes in the schedule and cost estimates are to be expected. While the General Assembly has funded the project's design, a commitment to finance the renovation will be needed by October 2003 for the United Nations to remain on its current schedule and sign a lease for the swing space. If the

planned swing space is not available, the United Nations will have to reconsider its renovation approach, potentially leading to delays in the renovation process. The United States, however, has not yet taken a position on whether or how to finance the renovation. In addition, careful management and oversight of a project of this magnitude and complexity will be necessary to minimize schedule and scope changes. The renovation's completion, final cost, and quality could be adversely affected if the United Nations does not provide adequate staff to manage the renovation and establish careful controls to limit scope changes. Continued monitoring by the Department of State will be critical as the project progresses and various issues arise, particularly if the United States finances the renovation.

Recommendations for Executive Action

We recommend that the Secretary of State, in consultation with appropriate administration officials and other U.N. members, direct the U.S. representative to the United Nations to

- encourage the United Nations to complete and implement an effective project management plan that will guide decision making and coordination throughout the renovation project, and
- encourage the United Nations to provide the Office of Internal Oversight and the Board of Auditors with the resources needed to conduct effective oversight of the Capital Master Plan as the project progresses.

In addition, to ensure that U.S. interests are effectively represented as the United Nations proceeds through the design phase, we recommend that the Secretary of State define the mission and program goals of the task force currently monitoring U.S. participation in the Capital Master Plan. We further recommend that the Secretary determine the expertise the task force needs to fulfill its role and ensure that it has the resources necessary to monitor the project over its duration.

Agency Comments and Our Evaluation

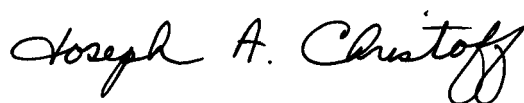
In commenting on a draft of this report, the United Nations and Department of State agreed with our findings and recommendations. However, the Board of Auditors disagreed with our recommendation calling for resources for the board to conduct oversight. A board official stated in April 2003 that the United Nations approved \$35,000 for the board to conduct oversight of the \$1.2 billion renovation project. We modified our

recommendation to acknowledge the board's initial funding, but we continue to recommend funding for the board's oversight function over the course of the 6-year renovation project. Ensuring that the board has the necessary resources to conduct oversight will be important throughout the renovation. The board also provided technical comments to our report, which we incorporated as appropriate. Written comments from the United Nations, Department of State, Office of Internal Oversight Services, and Board of Auditors, along with our response, are in appendixes V through VIII. We provided the Office of Management and Budget with a draft of our report, but the office did not provide any comments.

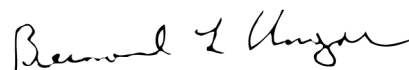
As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the Secretary of State; the U.S. Ambassador to the United Nations; the Director, U.S. Office of Management and Budget; the U.N. Secretary-General; and interested congressional committees. We also will make copies available to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8979. Additional GAO contacts and staff acknowledgments are listed in Appendix IX.

Sincerely yours,



Joseph A. Christoff, Director
International Affairs and Trade



Bernard L. Ungar, Director
Physical Infrastructure Issues

Scope and Methodology

To assess the reasonableness of the process used by the Secretariat for project planning and development, including the cost estimate and security plans, we reviewed U.N. records, including reports developed by the architect-engineering firm and security assessments prepared for the United Nations. We also researched industry practices related to construction project planning and development, cost estimating, and security plan development. We compared the Secretariat's efforts in project planning and cost estimating with industry practices as identified by the Federal Facilities Council and the Construction Industry Institute. We also reviewed the assumptions supporting the cost estimates, including contingencies and swing space costs. In assessing the process the Secretariat used to develop its security plan, we used industry-recognized guidelines as criteria. We also obtained input from U.S. federal agency security experts on the process used to develop the United Nations' security plan. In addition, we reviewed other recently implemented or planned security initiatives and their interface with the security components of the Capital Master Plan. We discussed various aspects of the project, including the process by which the Capital Master Plan was developed, with U.N. renovation project staff and consultants.

To assess the potential financial impact to the federal government of the renovation, we modeled the financial impact of a no-interest, 1 percent, and 2 percent loan to the United Nations. We did not assess the financial impact to the federal government of the renovation if the United Nations sought other financing options, or if the United Nations did not undertake the renovation and repaired or replaced major building systems as they failed. We reviewed the most current renovation cost estimates, the renovation cash flow statement, the U.N. Development Corporation cost estimate for swing space, interest rates for corporate and tax-exempt bonds, interest rate assumptions in the President's budget for fiscal year 2004¹ and the *Economic Report of the President* (1999), and the 1948 loan agreement between the United Nations and the United States. We used the Office of Management and Budget's Credit Subsidy Calculator to estimate the interest and default subsidies for interest-subsidized loans under various terms. In doing so, we made several key assumptions including the interest rate, the U.S. disbursement of funds, and a repayment plan. We then discussed

¹Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2004* (Washington, D.C.: U.S. Government Printing Office, March 6, 2003).

our assumptions with Department of State, Congressional Budget Office, and Office of Management Budget officials.

To analyze the critical milestones remaining in the renovation project, we reviewed the critical paths and the estimated schedules for the U.N. renovation and the U.N. Development Corporation's proposed swing space building. We compared these critical paths and linked them to illustrate the necessary milestones and their sequence. We then clarified the sequence and duration of these milestones in interviews with Capital Master Plan staff at the United Nations, officials at the U.N. Development Corporation, and officials at the Department of State. In addition, we consulted with construction industry experts and legal counsel within GAO to evaluate and comment on the validity of the milestones' sequence.

To assess U.N. and Department of State efforts to monitor and oversee the renovation, we reviewed U.N. documents such as the Capital Master Plan, the U.N. renovation project management plan, the U.N. resolution pertaining to oversight of the Capital Master Plan, and the mission statements of the Office of Internal Oversight Services and the Board of Auditors. We subsequently spoke with U.N. and Department of State officials to determine their past and anticipated oversight roles and responsibilities in the U.N. renovation. In addition, we discussed the personnel required to adequately oversee the renovation, the funding received and requested for renovation monitoring, and the procedures in place for decision making and oversight.

In conducting our review, we received the full cooperation of the United Nations, U.N. Development Corporation, U.S. Mission to the United Nations, and the Department of State. We conducted our review between June 2002 and April 2003, in accordance with generally accepted government auditing standards.

Two Approaches to Renovating the U.N. Headquarters Complex

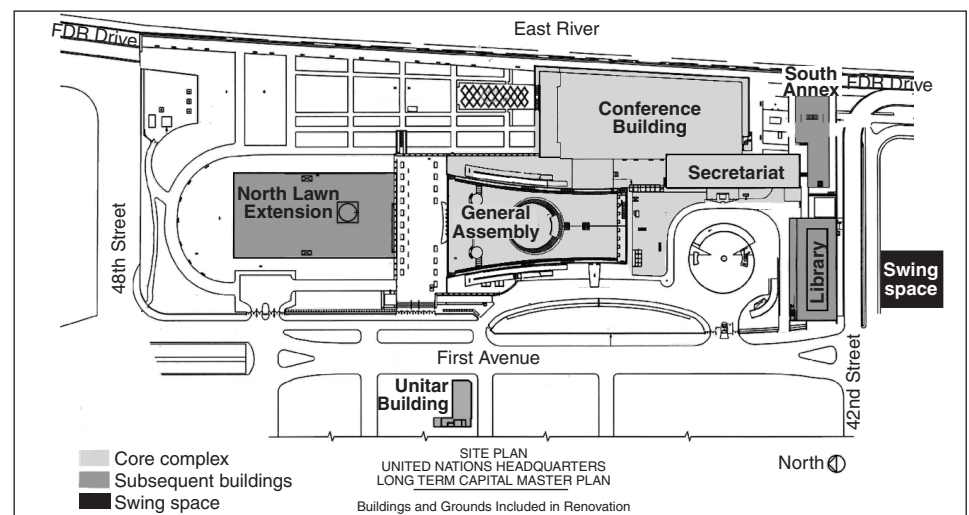
U.N. Secretary-General Offered Two Renovation Approaches

In the August 2002 Capital Master Plan, the U.N. Secretary-General presented two approaches to renovating the U.N. headquarters complex. According to the Capital Master Plan, the unique conference room needs of the United Nations were a driving factor in the Secretary-General's development of these approaches. The two approaches include

- temporarily relocating most U.N. activities during much of the construction work to swing space in a proposed new building near the U.N. complex (see fig. 6), or
- rotating U.N. staff through more limited swing space in a new four-story building constructed on the U.N. headquarters complex where the South Annex is currently located.

The Secretary-General endorsed the first approach, and the General Assembly approved the development of renovation designs based on that approach.

Figure 6: U.N. Headquarters Complex and Proposed Location of Swing Space under Approach 1



Sources: United Nations and GAO.

Approach 1

Under the first approach, most U.N. staff and activities would temporarily relocate to swing space in a proposed new office building near the U.N. complex during much of the renovation. U.N. consultants estimated that the renovation would take less than 5 years to complete and cost about \$1.2 billion. As shown in table 2, the cost estimate includes a baseline scope—removing asbestos; replacing the electrical, plumbing, and climate control systems; and installing an upgraded fire suppression system. The cost estimate also includes leasing swing space for 4 years from the U.N. Development Corporation, a New York State nonprofit public benefit corporation tasked with constructing and leasing office space to the United Nations. Additional cost factors include the replacement of the Secretariat Building’s window structure and additional scope options that the General Assembly has not yet decided to include in the renovation. These options include additional safety and security measures, emergency backup provisions, and sustainability measures to address environmental goals. The cost estimate excludes construction of an additional conference room on the complex¹ and security upgrades that the United Nations will complete before the renovation begins.

Table 2: Preliminary Cost Estimate of Approach 1

Renovation component	Estimated cost (in millions)
Baseline scope	\$991
Swing space leasing	96
Secretariat building window structure	36
Exclusion of conference room	-57
Completed security upgrades	-17
Subtotal	\$1,049
Scope options	144
Total	\$1,193

Source: GAO analysis of U.N. data.

The U.N. Development Corporation has offered to construct the swing space building. The new office building would be built on a park next to the U.N. Headquarters complex and connected to the existing complex by a

¹Under this approach, the United Nations would have the additional conference room within the swing space building.

Appendix II
Two Approaches to Renovating the U.N.
Headquarters Complex

tunnel. The United Nations currently plans to sign a long-term lease for the building with the U.N. Development Corporation. The building would be used as swing space during the 4 years of the renovation. Afterwards, the United Nations would relocate most of its New York City staff that currently work in office space outside the Headquarters complex to the swing space building. This would include relocating staff out of office space in two buildings currently leased from the U.N. Development Corporation. According to corporation officials, the corporation could then be able sell these two buildings and provide the proceeds to New York City.

Approach 2

Under the second approach, the United Nations would replace the South Annex, a two-story building on the U.N. Headquarters complex, with a four-story building to use as swing space. The United Nations would lease additional office space as needed for swing space. The renovation work would occur in stages with five to ten floors of the U.N. Headquarters renovated while staff rotate through the swing space. To avoid excessive disruption, the meeting rooms would be renovated at night and on weekends. Under this approach, the renovation would take 6 years and cost more than \$1.3 billion (see table 3).

Table 3: Preliminary Cost Estimate of Approach 2

Renovation component	Estimated cost (in millions)
Baseline scope	\$1,094
Swing space construction and leasing	66
Secretariat building window structure	36
Completed security upgrades	-17
Subtotal	\$1,179
Scope options	144
Total	\$1,323

Source: GAO analysis of U.N. data.

The total cost estimate is higher under Approach 2 because the renovation work would occur in stages since the limited swing space could not house all U.N. headquarters staff. Also, the United Nations would construct an additional conference room on the Headquarters complex. Under this approach, the swing space cost—replacing the South Annex and additional commercial leasing—would be less than leasing a swing space building from the U.N. Development Corporation. As with Approach 1, this cost

Appendix II
Two Approaches to Renovating the U.N.
Headquarters Complex

estimate includes replacement of the Secretariat Building's window structure and various scope options that the General Assembly has not yet decided to include. This cost estimate also excludes the security upgrades that the United Nations will complete before renovation begins. Although Approach 2 would cause the least disruption because meeting chambers would be renovated when the rooms were not in use, the risk of cost overruns, delays, and disturbance, and the perceived risk of exposure to asbestos is higher.

U.N. Consultants and Subconsultants

Table 4 presents the firms that were involved in the conceptual planning process and noted in this report as consultants to the United Nations or subconsultants to the U.N. architect-engineering firm.

Table 4: Firms Involved in the Conceptual Planning Process

Type of consultant/subconsultant	Name of firm
Architect-engineering firm	Renato Sarno Group
Consulting engineer	Ove Arup & Partners/Hanscomb ^a
Cost estimating subconsultant	Turner Construction
Cost estimating consultant	Hill International
Security subconsultant	Ducibella Venter & Santore
Project management consultant	Atkins, Hanscomb, Faithful, and Gould

Source: United Nations.

^aThis consultant was the architect-engineering firm involved in developing the 2000 Capital Master Plan.

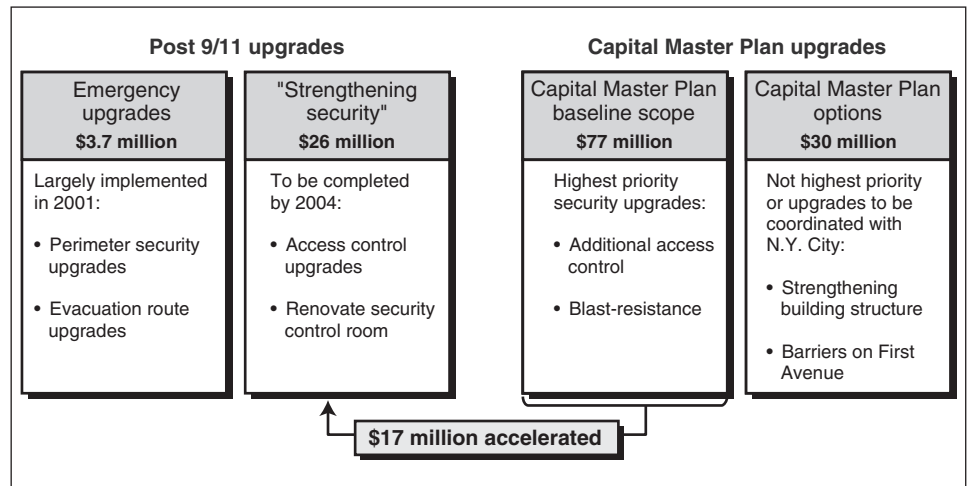
Security Upgrades at the United Nations

Completed and Planned Security Initiatives

In response to the terrorist attacks of September 11, 2001, the United Nations implemented emergency security measures and also accelerated its plans to implement some of the security measures that had been originally planned for the renovation. The United Nations also worked with its consultants to enhance the security component of the revised Capital Master Plan. According to U.N. officials, to more effectively coordinate the interface between the upgrades made after September 11, 2001, and the security measures in the Capital Master Plan, the United Nations has hired the same consultant to work on both packages, assigned some internal staff to oversee both projects, and calculated the cost of any overlap in security upgrade initiatives.

As shown in figure 7, the recent and planned security measures for the U.N. Headquarters complex comprise four initiatives.

Figure 7: United Nations Security Initiatives



Sources: GAO analysis of Capital Master Plan and related U.N. documents.

Emergency Upgrades

This emergency initiative was introduced in December 2001 in response to the September 11, 2001 terrorist attacks. In late 2001, the United Nations organized a Senior Emergency Management Group to deal with major emergency situations at the U.N. Headquarters. The Secretary-General identified the most immediate, short-term security needs and requested

additional funding. These measures, estimated to cost \$3.7 million, included enhancements to the perimeter security and upgrades to the emergency response system on the complex and were largely implemented by March 2002.

Strengthening Security

The strengthening security initiative also came as a result of the assessments the United Nations conducted after September 11, 2001. This initiative includes more long-term upgrades relative to the urgent measures implemented under the previous initiative. Some of the upgrades in this initiative (worth approximately \$17 million) were part of the Capital Master Plan and their implementation was accelerated because of heightened security concerns. This initiative includes an upgraded access control system for the entire complex and renovations to the existing security control room. As of April 2003, the United Nations is designing these upgrades; U.N. officials expect them to be in place in 2004 at a total cost of \$26 million.

Security Upgrades in the
Capital Master Plan Baseline
Scope

The U.N. security design consultant made 114 recommendations for the 2002 Capital Master Plan. The U.N. security staff, along with the consultant, prioritized those recommendations, creating a list of "highest priority" upgrades. These upgrades, totaling \$77 million, were included as part of the baseline scope for the 2002 Capital Master Plan. The upgrades encompass additional visitor access control and blast resistance materials in certain areas on the complex.

Capital Master Plan Security
Scope Option

This initiative includes the U.N. security consultant's remaining recommendations that were either (1) not the highest priority or (2) required coordination with New York City. Totaling \$30 million, these upgrades include strengthening the building structure and installing vehicle barriers on some roads adjacent to the complex.

Comments from the United Nations

United Nations  Nations Unies

HEADQUARTERS • SIEGE NEW YORK, NY 10017
TEL.: 1 (212) 963.1234 • FAX: 1 (212) 963.4879

REFERENCE:

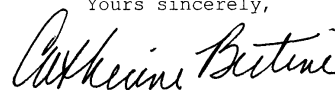
12 May 2003

Dear Mr. Christoff,

Thank you for sharing with us the draft GAO Report entitled "United Nations: Early Renovation Planning Reasonable, but Additional Management Controls and Oversight Will Be Needed." We have reviewed the draft Report, and are in agreement with the findings, recommendations and conclusions contained therein.

We appreciate the professionalism and thoroughness with which this second review was conducted. The report provides a comprehensive, insightful and constructive assessment of the planning and work undertaken thus far. We will take GAO's observations into account as we move forward with the capital master plan.

Yours sincerely,



Catherine Bertini
Under-Secretary-General
for Management

Mr. Joseph A. Christoff
Director
International Affairs and Trade
U.S. General Accounting Office
441 G St. N.W.
Washington, D.C. 20548

Comments from the Department of State



United States Department of State

Washington, D.C. 20520

MAY 19 2003


Dear Ms. Westin:

We appreciate the opportunity to review your draft report, "UNITED NATIONS: Early Renovation Planning Reasonable, but Additional Management Controls and Oversight Will Be Needed," GAO-03-566, GAO Job Code 320133.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact George Abrahams, Bureau of International Organizations, at (202) 647-8270.

Sincerely,


Christopher B. Burnham
Assistant Secretary and
Chief Financial Officer

Enclosure:

As stated.

cc: GAO/IAT - Phyllis Anderson
State/OIG - Luther Atkins
State/IO - Jackie Sanders

Ms. Susan S. Westin,
Managing Director,
International Affairs and Trade,
U.S. General Accounting Office.

Appendix VI
Comments from the Department of State

Department of State Comments
on GAO Draft Report

UNITED NATIONS:
Early Renovation Planning Reasonable,
but Additional Management Controls and Oversight Will Be Needed
(GAO-03-566, Job Code 320133)

The Department greatly appreciates GAO efforts in reviewing again the UN headquarters renovation plans. Officials within the Department (including our mission in New York) and in the United Nations secretariat once more worked closely with the GAO team, and we continue to feel strongly that GAO's analysis has been of significant benefit to the U.S. Government and also to the UN.

The Department concurs with GAO's recommendation on the need for the establishment of an effective project management plan and to encourage the UN to provide sufficient resources to its oversight bodies to effectively oversee the Capital Master Plan (CMP). In fact, in our ongoing discussions with UN officials, they have already expressed their support for these measures. We feel that it is critical to build upon the solid foundation already established by the UN's CMP team—which, as you have noted, is built on the adherence to a number of “best practices”—in order to maximize the confidence placed in this major project by officials throughout the U.S. government, other UN members, and the U.S. taxpayer.

We also concur with the recommendation that the Department's CMP task force should have well-defined mission and program goals. Since last year, the task force has been coordinating USG policy and oversight of the CMP. This includes not only coordination among various officials and other experts in Washington, but active engagement by the U.S. Ambassador for Management and Reform at our mission in New York, who has on board a full-time staff member to serve as the mission's UN CMP liaison. Regarding the expertise and resources needed by the task force, we will be constantly assessing these requirements and will adjust them as appropriate over the life of the project.

We would look forward to and welcome GAO's continued participation as the UN moves into the critical design phase of this project and as we continue to address the challenging decisions which still lie ahead.

Comments from the Office of Internal Oversight Services

United Nations  Nations Unies

DILEEP NAIR
UNDER-SECRETARY-GENERAL
FOR INTERNAL OVERSIGHT SERVICES

Reference: 21088/03

30 April 2003

Dear Mr. Christoff,

Thank you for your e-letter dated 25 April 2003, enclosing an e-copy of the General Accounting Office's draft report entitled "United Nations: Early Renovation Planning Reasonable, but Additional Management Controls and Oversight Will be Needed (GAO-03-566)." We have reviewed the draft report and, in particular, the report sections concerning the role of the United Nations Office of Internal Oversight Services (OIOS) and Board of Auditors in overseeing the project.

We are in agreement with the report's findings and recommendations and wish to reiterate that we have already taken all necessary actions to comply with General Assembly resolution 57/292 which, *inter alia*, "stresses the importance of oversight with respect to the development and implementation of the capital master plan, and requests all other relevant oversight bodies to initiate immediate oversight activities and to report annually thereon to the General Assembly." We are currently in the process of identifying and interviewing candidates possessing suitable architectural and construction project oversight expertise, within the constraints on the level and duration of funding that has so far been allocated to us. A comprehensive audit plan will be developed for each phase of the capital master plan, as well as for each step of the implementation process, as soon as the necessary funding decisions have been made by the General Assembly.

Mr. Joseph A. Christoff
Director
International Affairs and Trade
United States General Accounting Office
Washington, D.C. 20548

Appendix VII
Comments from the Office of Internal
Oversight Services

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We very much appreciate the constructive assessment of the current situation and the recognition of the need for effective oversight in the implementation of the capital master plan, and wish to thank the United States General Accounting Office for the spirit of cooperation demonstrated in providing an opportunity to comment on the draft report.

Yours sincerely,



Dileep Nair
Under-Secretary-General
for Internal Oversight Services

Comments from the U.N. Board of Auditors

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



BOARD OF AUDITORS
NEW YORK

9 May 2003

**COMMENTS FROM THE DIRECTORS OF EXTERNAL AUDIT,
BOARD OF AUDITORS, UNITED NATIONS**

ON THE DRAFT GAO 03 566 REPORT ON THE UN CAPITAL MASTER PLAN (CMP)

We appreciate the high professionalism of the GAO-03 566 draft report kindly provided to us, and the opportunity to contribute a few - minor - comments:

See comment 1.

See comment 2.

See comment 3.

See comment 4.

Reference	Quote	Comments
1. Page after cover (Highlights)	<i>"...UN oversight bodies do not have the resources or audit strategies needed to effectively oversee the renovation."</i>	<p>a) "Resources": In April 2003, the United Nations Secretariat approved the Board of Auditors' request for funds to cover the audit of the 2003 CMP accounts and activities, including outsourced expertise when needed.</p> <p>The Board of Auditors therefore considers it has the resources to report on the Capital Master Plan.</p> <p>b) External auditors do not "<i>oversee a renovation</i>". The Board of Auditors has an "<i>oversight</i>" function to the extent that it conducts an a posteriori External Audit of the financial statements, and a performance audit.</p> <p>c) "<i>Not have the (...) audit strategies</i>": This does not reflect the GAO's more accurate statement of page 20 (see below), and should be amended. The Board systematically designs and implements audit strategies, based on its audit mandate and terms of reference. It is preparing a CMP audit strategy in time for the audit, as the GAO's detailed discussion later makes clear.</p>
2. Page 3, Last paragraph	<i>"...neither office has a dedicated budget or personnel with the expertise in construction or capital projects to effectively oversee a large construction project."</i>	This should be amended: the Board of Auditors calls on experts when relevant. It has decided to do so in this case. Adequate budget resources have been authorized in principle by the General Assembly, as well as confirmed for 2003 and planned for future years by the UN Secretariat.

Appendix VIII
Comments from the U.N. Board of Auditors

Board of Auditors – CMP GAO draft – 9 May 2003

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See comment 5.

3. Page 20 First paragraph	“...UN oversight bodies anticipate additional resources and are developing audit plans to conduct oversight of the renovation project.”	Correct. This should be reflected in the “highlights” sentence quoted above.
4. Page 22 Second paragraph	“...A Board official anticipates that the Board will review...and the effectiveness of Capital Master Plan management.”	<p>a) “A Board official anticipates that the Board will review...”. The correct presentation is that “Following up on the General Assembly’s request, the Board has decided to review...”</p> <p>b) On the audit of effectiveness, the Board provides, in general and in this case, a performance evaluation of economy, efficiency and effectiveness of project implementation but without compromising its independence: the Board delivers a <i>posteriori</i> audit reports, without being party to the decision-making process it will audit later.</p> <p>This could be reflected by adding after “...effectiveness of Capital Master Plan management”: within the limits of its mandate.</p>
5. Page 26 Second bullet	“...encourage the United Nations to provide the...Board of Auditors with the resources needed...”	We appreciate this concern, but this would imply that the UN would have been reluctant to provide resources for external audit. This is not the case: needed resources are provided.

See comment 6.

See comment 7.

See comment 8.



Marieta S.F. ACORDA
 Director, External Audit, Philippines

For: Alain GILLETTE
 Director of external audit (France),
 Chairman of the Audit Operations Committee
 Board of Auditors, United Nations
 gillette@un.org

The following are GAO's comments on the letter from the U. N. Board of Auditors dated May 9, 2003.

GAO Comments

1. The board stated that the United Nations had approved funds for the audit of the Capital Master Plan. A board official stated that approximately \$35,000 was approved in April 2003 to conduct oversight of the renovation. We have included this information in the report. We modified our recommendation to acknowledge the board's initial funding, but continue to recommend funding for the board's oversight function over the course of the six-year renovation project.
2. We modified the report to reflect the board's comment.
3. We modified the report to reflect the board's comment.
4. See comment 1.
5. We modified the report to reflect the board's comment.
6. We modified the report to reflect the board's comment.
7. No change made. The comment does not provide additional clarity to the report.
8. See comment 1. Since the renovation is likely to continue for a number of years, ensuring that the board has the necessary resources to conduct oversight throughout the project will be critical. Accordingly, we have modified our recommendation to clarify our position.

GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

In addition to the individuals named above, Bruce Kutnick, Ronald King, Valérie L. Nowak, Maria Edelstein, Jeffrey T. Larson, Julia A. Roberts, Lynn Cothorn, Jonathan Rose, and Barbara Shields made significant contributions to this report.

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