

November 2006

# UNITED NATIONS

## Renovation Planning Follows Industry Practices, but Procurement and Oversight Could Present Challenges





Highlights of [GAO-07-31](#), a report to congressional requesters

## Why GAO Did This Study

The United Nations (UN) estimated in 2005 that renovating its headquarters will cost up to \$1.75 billion. As the UN's host country and largest contributor, the United States has a substantial interest in the project's success. In this report, we (1) determine whether the development of the Capital Master Plan (CMP) has been consistent with leading industry practices, (2) examine factors that led to changes in the cost estimate and determine whether the 2005 estimate was updated using industry practices, (3) review the status of financing of the renovation, (4) identify decisions needed for the renovation to proceed, and (5) review UN oversight and State monitoring efforts.

To address these objectives, we reviewed UN design and planning documents, including the latest cost estimate, to compare them with industry standards. To assess oversight, we reviewed OIOS and UN Board of Auditors reports and met with UN officials.

## What GAO Recommends

GAO recommends that the Secretary of State and U.S. Permanent Representative to the UN work with other member states to (1) identify a CMP procurement strategy to mitigate weaknesses in UN procurement processes and (2) ensure that OIOS receives sufficient funding for its oversight of the CMP. State and the UN agreed with our recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-07-31](http://www.gao.gov/cgi-bin/getrpt?GAO-07-31).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Thomas Melito at (202) 512-9601 or [melitot@gao.gov](mailto:melitot@gao.gov) or Terrell Dorn at (202) 512-6923.

## UNITED NATIONS

# Renovation Planning Follows Industry Practices, but Procurement and Oversight Could Present Challenges

## What GAO Found

UN officials continue to use leading industry practices in developing the UN headquarters renovation project, but reliance on existing UN procurement practices could impact the effective implementation of the renovation in the future. Since the CMP office relies on current UN procurement practices, implementation of future CMP procurements could become vulnerable to numerous UN procurement weaknesses that GAO previously reported in April 2006 (GAO-06-577), such as the lack of guidance for construction procurement in the procurement manual.

The estimated total cost of the CMP increased from about \$1.19 billion to almost \$1.75 billion between 2002 and 2005 to reflect inflation arising from a later start date, refinements to the design, and a change in the renovation approach. The UN continued to follow construction industry practices to develop the 2005 cost estimate and has included expected elements. However, the cost estimate is still preliminary and will likely change.

While the UN has passed a resolution expressing a preference for cash assessments, it has yet to decide how to finance the remaining renovation costs. In June 2006, the General Assembly passed a resolution stating that a cash payment option would be the simplest and most cost-effective approach for funding the CMP. Under this approach, the UN would assess member states for the cost of the renovation through single- or multiyear payments. The amount the UN assessed member states would be likely based on each country's rate for its annual regular budget contributions. The General Assembly plans to revisit the financing issue by the end of 2006.

Without certain General Assembly decisions by the end of 2006, the renovation's current schedule could be delayed and costs could increase. Specifically, a General Assembly decision on a financing arrangement for the total CMP budget would be needed to ensure that funds could be available by December 2007. Without these decisions, the CMP office cannot finalize a start date for the renovation.

UN oversight entities have continued to oversee the CMP while the Department of State has monitored its progress. The Office of Internal Oversight Services (OIOS) has conducted audits on CMP procurements and has issued several reports of its findings and recommendations. However, OIOS relies on funds from the CMP budget and must negotiate for those funds with the UN budget office, which may impair its ability to secure sufficient funds. The UN Board of Auditors has also conducted oversight of the CMP office by reviewing its financial records and internal controls and has found no material weaknesses in its review. Similarly, State's monitoring efforts have not identified any significant concerns, according to State officials.

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## Abbreviations

CMP	Capital Master Plan
OBO	Bureau of Overseas Buildings Operations
OIOS	Office of Internal Oversight Services
OPPBA	UN Office of Program Planning, Budget and Accounts
UN	United Nations
UNDC	United Nations Development Corporation

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United States Government Accountability Office  
Washington, DC 20548

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November 16, 2006

The Honorable Frank R. Wolf  
Chairman  
Subcommittee on Science, the Departments of State,  
Justice, and Commerce, and Related Agencies  
Committee on Appropriations  
House of Representatives

The Honorable Richard G. Lugar  
Chairman  
Committee on Foreign Relations  
United States Senate

The Honorable Cliff Stearns  
House of Representatives

The United Nations (UN) headquarters complex in New York City neither conforms to current safety, fire, and building codes nor meets UN technology or security requirements. To address these concerns, the UN has developed the Capital Master Plan (CMP)—a comprehensive renovation of the entire complex. Since we last reported on the CMP in 2003, the UN has moved forward with designing the renovation and updating the cost estimate. In 2005, the CMP office's cost estimate for the entire project was approximately \$1.75 billion. In 2006, the General Assembly appropriated an additional \$100.5 million to continue design work and obtain space to temporarily relocate UN staff and activities during the renovation.<sup>1</sup> The CMP office currently plans to begin preparations for the renovation in mid-2007 and begin the construction work associated with renovating the existing buildings in early 2008. In November 2006, the CMP office updated the cost estimate to \$1.88 billion.

We have previously reviewed UN efforts to develop the CMP and prepare a cost estimate. In June 2001 and May 2003, we reported that UN renovation planning efforts had been reasonable and conformed to leading industry

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<sup>1</sup>United Nations General Assembly, *Resolution Adopted by the General Assembly, A/RES/60/256* (New York, N.Y.: May 8, 2006), and *Resolution Adopted by the General Assembly, A/RES/60/282* (New York, N.Y.: Jun. 30, 2006).

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practices.<sup>2</sup> We also recommended that the Secretary of State encourage the UN to provide its internal and external oversight offices with the resources needed to conduct effective oversight. In June 2006, we testified that effective implementation of the CMP is vulnerable due to weaknesses in existing UN oversight and procurement practices.<sup>3</sup> For example, we found that the UN has yet to incorporate guidance for construction procurement into its procurement manual.

As the UN's host country and largest contributor, the United States continues to have a significant interest in the success of the renovation. In this report, we (1) determine whether the continued development of the CMP has been consistent with leading industry practices, (2) examine what factors contributed to the changes in the cost estimate from 2002 to 2005 and determine whether the cost estimate was updated using industry practices, (3) review the status of financing of the planned renovation, (4) identify decisions needed for the renovation to continue as planned, and (5) review the UN's efforts to oversee and the U.S. Department of State's (State) efforts to monitor the planned renovation.

To address these objectives, we reviewed pertinent UN design and planning documents, including the 2002 and 2005 cost estimates, and compared them with industry standards. We also interviewed UN officials and the CMP office's program management consultant. We did not assess the cost estimate included in the Secretary-General's 2006 progress report on the CMP.<sup>4</sup> To assess oversight and monitoring activities, we interviewed officials from the Office of Internal Oversight Services (OIOS), the UN Board of Auditors, and State. We conducted our work at the UN in New York City and at State in Washington, D.C., from August 2005 to October 2006 in accordance with generally accepted government auditing standards. Appendix I provides detailed information on our methodology.

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<sup>2</sup>GAO, *United Nations: Planning for Headquarters Renovation is Reasonable: United States Needs to Decide Whether to Support Work*, [GAO-01-788](#) (Washington, D.C.: Jun. 15, 2001); and GAO, *United Nations: Early Renovation Planning Reasonable, but Additional Management Controls and Oversight Will Be Needed*, [GAO-03-566](#) (Washington, D.C.: May 30, 2003).

<sup>3</sup>GAO, *United Nations: Weaknesses in Internal Oversight and Procurement Could Affect the Effective Implementation of the Planned Renovation*, [GAO-06-877T](#) (Washington, D.C.: Jun. 20, 2006).

<sup>4</sup>As our report was going to press, the UN released the Secretary-General's *Fourth Annual Progress Report on the Implementation of the Capital Master Plan*, A/61/549.

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## Results in Brief

UN officials continue to follow leading industry practices in the development of the UN headquarters renovation project, but the CMP office's reliance on existing UN procurement practices could impact the effective implementation of the renovation in the future. We found that UN officials continued to follow leading construction industry practices such as involving stakeholders in the design of the project and having a team review the ongoing design work. We also found that since the CMP office relies on current UN procurement practices, implementation of future CMP procurements could become vulnerable to numerous UN procurement weaknesses that we reported on in April 2006.<sup>5</sup> For example, the UN has yet to incorporate guidance for construction procurement into its procurement manual, and the chairman of the UN procurement contract review committee has stated that his committee did not have the resources to keep up with its expanding workload. In addition, the UN had not established an independent process to consider vendor protests that could alert senior UN officials of failures by procurement staff to comply with stated procedures.

The estimated total cost of the CMP increased from about \$1.19 billion to almost \$1.75 billion—an almost \$560 million increase—between 2002 and 2005 to reflect inflation arising from a later start date, refinements to the design, and a change in the renovation approach. The UN changed its renovation approach because of difficulties in securing low-cost off-site space to temporarily relocate most UN staff and activities. The UN has continued to follow construction industry practices to develop and update the 2005 cost estimate and has included expected elements such as construction, management, and contingency costs. However, the cost estimate is still preliminary and will likely change to reflect completed design work and estimates of future market conditions.

While the General Assembly has passed a resolution expressing a preference for cash assessments, it has yet to decide how to finance the remaining renovation costs. In June 2006, the General Assembly passed a resolution stating that a cash payment option would be the simplest and most cost-effective approach for funding the CMP. Under this approach, the UN would assess member states for the cost of the renovation through single- or multiyear payments. The amount the UN assessed member states would be likely based on each country's rate for its annual regular

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<sup>5</sup>GAO, *United Nations: Procurement Internal Controls Are Weak*, GAO-06-577 (Washington, D.C.: Apr. 25, 2006).

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budget contributions. For example, if the General Assembly were to decide on multiyear payments, the U.S. would be assessed a total of \$302 million over 5 years, based on the UN's 2005 cost estimate. Since the UN likely will not have all of the funds required for the renovation before construction work begins, the UN may secure a commercial letter of credit to assure its construction contractors that it can pay them for their work. This letter of credit may also act as a source of short-term external borrowing in the event of temporary cash shortfalls. If the General Assembly decides to finance the renovation using cash assessments, the United States could explore the viability of renewing a prior loan offer to the UN to act as a line of credit, which could decrease the cost of any commercial borrowing. The General Assembly plans to revisit the issue of financing the CMP by the end of 2006.

Without certain General Assembly decisions by the end of 2006, the renovation's current schedule could be delayed and costs could increase. Specifically, a General Assembly decision would be needed on a financing arrangement and the total CMP budget to ensure that funds could be available by December 2007. Without these decisions, the CMP office cannot finalize a start date, which may complicate the process of leasing off-site space to temporarily relocate some UN staff and activities. In addition, the CMP office will be unable to proceed with renovation work on the complex. A delay in the beginning of renovation work could result in increases to the project's cost.

UN oversight entities have continued to oversee the CMP while State has monitored CMP progress. The Office of Internal Oversight Services (OIOS), an internal UN oversight entity, has conducted audits on CMP procurements and has issued several reports of its findings and recommendations. OIOS found that the standard procurement documents needed to be modified to reflect the project's complexity and size but that the process for procuring consultants for the CMP had been fair. OIOS also concluded that the CMP office had generally used its resources in accordance with UN financial rules and regulations. However, OIOS relies on funds from the CMP budget to conduct effective oversight of the CMP, which may impair its ability to secure sufficient funds. In addition, UN rules and regulations severely limit OIOS's ability to reallocate resources from different sources and apply them to high-risk areas as they arise. The UN Board of Auditors, an external oversight entity, has also conducted oversight of the CMP office by reviewing its financial records, compliance with UN regulations and rules, and internal controls and has found no material weaknesses in its review. State has continued to monitor the CMP by reviewing the UN's security enhancements and financing arrangements



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and the quality of the renovation planning and cost estimating process. State's monitoring efforts have not identified any significant concerns, according to State officials.

In this report, we make recommendations to the Secretary of State and the U.S. Permanent Representative to the United Nations to work with other member states to (1) identify a procurement strategy for the CMP to mitigate the impact of weaknesses in the UN procurement processes and (2) to ensure that OIOS receives sufficient funding for its oversight of the CMP.

The Department of State, the UN, and OIOS provided written comments on a draft of this report, which are reproduced in appendixes II through IV. They generally concurred with our findings and recommendations. State and the UN also provided us with a number of technical suggestions and clarifications that we have addressed in this report, as appropriate.

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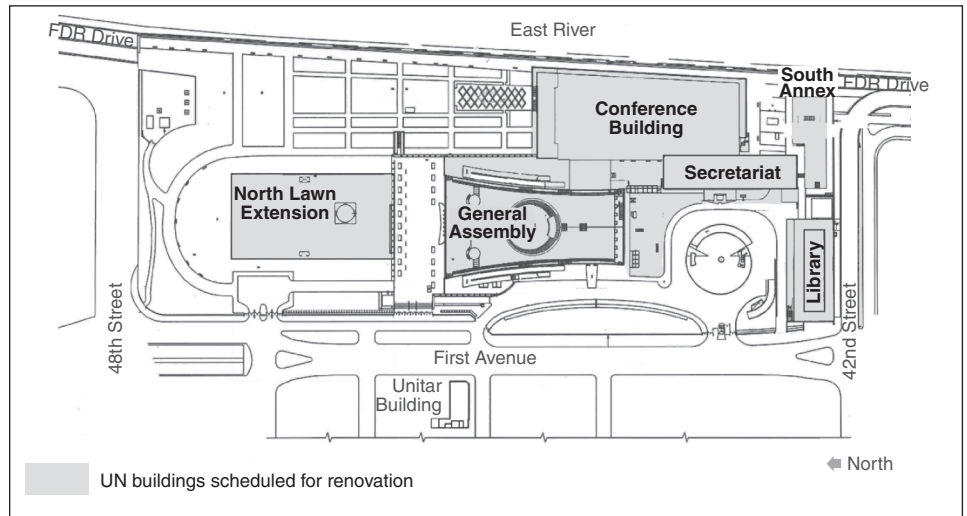
## Background

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### History of the UN Headquarters Complex

The original UN headquarters complex in New York City was considered among the most modern facilities when construction was completed in 1952; however, it no longer conforms to current safety, fire, and building codes and does not meet UN technology or security requirements. Although originally designed to hold 70 member states, the complex currently accommodates the needs of 192 member states and approximately 4,700 UN staff and also hosts nearly 1 million visitors per year from around the world. The United States financed construction of the original complex—the General Assembly, Secretariat, and Conference Building—by providing the UN with a no-interest loan. The rest of the present-day 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 UN regular budget or private donations.

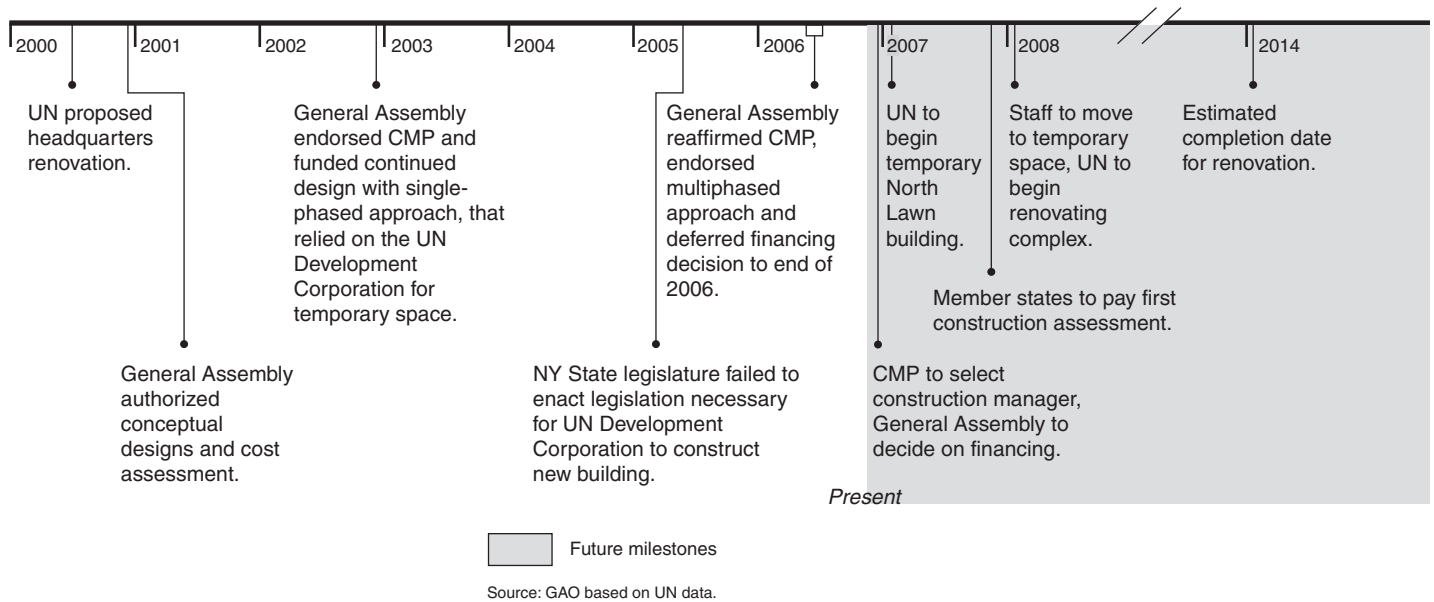
**Figure 1: Site Plan of UN Headquarters**



Sources: GAO and UN.

Under the CMP, the UN intends to renovate the complex to make it conform to current safety, fire, and building codes and meet UN technology and security requirements (see fig. 1). This process will involve upgrading or replacing all major building systems, including electrical, plumbing, fire suppression, heating and air conditioning, as well as reinforcing structural integrity and removing asbestos from the entire complex. As shown in figure 2, the General Assembly first proposed a comprehensive renovation in June 2000. Under the current schedule, work associated with the renovation will begin in early 2007 with an estimated completion date of 2014.

**Figure 2: CMP Time-Frame**

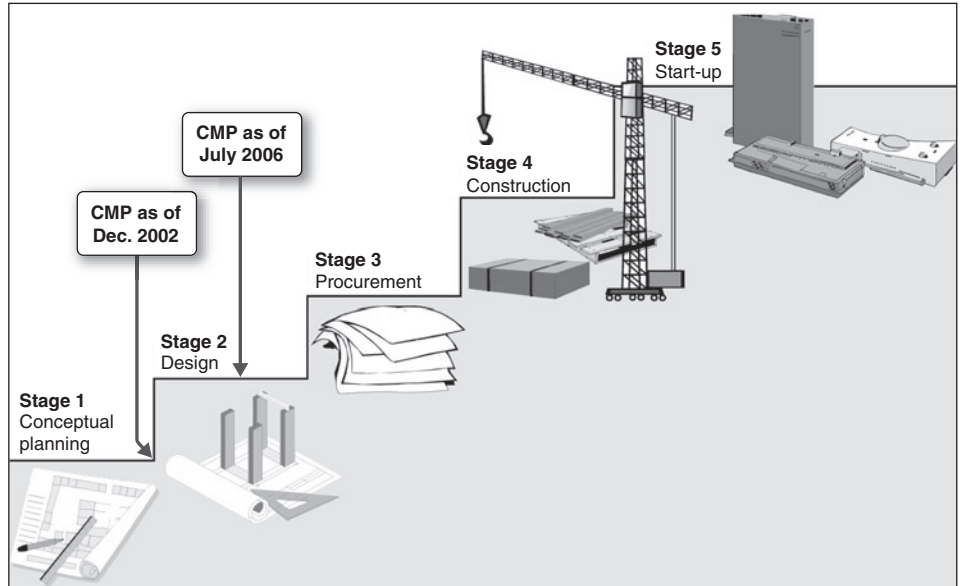


## The Renovation Process

In June 2001 and May 2003, we reported that the UN’s early renovation planning was reasonable and consistent with leading industry practices.<sup>6</sup> By 2003, the UN had completed the first stage of a five-stage renovation process—conceptual planning. In December 2002, the General Assembly authorized the Secretary-General to proceed with the second stage, design. According to CMP officials, as of July 2006, the project was about 60 percent through this stage (see fig. 3).

<sup>6</sup>GAO-01-788 and GAO-03-566.

**Figure 3: CMP Progress through the Five-Stage Renovation Project Since December 2002**



Sources: Federal Facilities Council Technical Report #139, GAO, Art Explosion and Corel (clip art).

The five stages of a renovation project are summarized as follows:

**Stage 1: Conceptual Planning**—Feasibility studies are conducted to determine scope of work and alternative design solutions incorporating requirements for performance, quality, cost, and schedule. Several alternative design solutions are identified, and one approach is generally selected.

**Stage 2: Design**—The preferred design solution is further developed, culminating in the development of final construction documents from which construction services can be solicited.

**Stage 3: Procurement**—Owner procures construction services and long lead-time equipment, such as unique or large electrical or mechanical equipment.

**Stage 4: Construction**—Contractors and consultants are employed to execute the renovation based on the construction documents.

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Stage 5: Start-up—Building is occupied and tests are conducted on individual and systems components to ensure that they are operating correctly.

In its December 2002 authorization, the General Assembly decided to implement the CMP and execute the design phase. In developing design documents for the renovation, the General Assembly instructed the CMP office to include options that the General Assembly has not yet decided whether to include in the renovation. The options were divided into three categories: security, system redundancies, and sustainability and include additional blast protection, backup equipment for building communications systems, increased coverage and reliability for emergency power, higher efficiency equipment, and on-site alternative energy sources. These options could enhance operational and working conditions but were not considered integral to the project at the time.

Because of difficulties in securing off-site space to temporarily relocate UN staff and activities, the UN has changed its renovation approach. In May 2003, we reported that the UN had decided on a single-phased approach to the renovation, in which most UN staff and activities would be temporarily relocated so that the buildings could be renovated concurrently.<sup>7</sup> The U.N. Development Corporation<sup>8</sup> would have built a new building, referred to as UNDC-5, adjacent to the UN headquarters where UN activities could continue during the renovation. However, the UN determined that this option was no longer viable when the corporation could not secure approval for the new building from the New York State legislature in time for the beginning of construction. In June 2006, the General Assembly approved proceeding with the renovation project using a multiphased approach. This approach consists of renovating the Secretariat building, 10 floors at a time, and moving UN staff and functions displaced by the renovation to rented commercial office space and a temporary building to be constructed on the North Lawn above the existing North Lawn extension. The CMP office has modified its design documents to reflect this multiphased renovation approach and moved forward with completing the required design details. This information will be used in the procurement process to solicit construction services.

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<sup>7</sup>GAO-03-566.

<sup>8</sup>The U.N. Development Corporation is a New York State nonprofit public benefit corporation tasked with constructing and leasing office space to the UN.

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## Renovation Process Continues to Follow Leading Industry Practices but Faces Challenges Going Forward

Consistent with our 2001 and 2003 reviews of the early planning for the renovations, we found that UN officials continue to follow leading industry practices in the development of the UN headquarters renovation project. These include involving those impacted by the project, using a competitive procurement process, and using a team to review the design. However, reliance on existing procurement processes and the vacancy of the leadership post could create challenges as the project proceeds.

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## Those Affected by the Project Involved in its Development

The CMP office has continued to consult with UN managers and other affected entities, such as the city of New York, in the various aspects of planning and designing the renovation to help ensure that the project meets their needs. The CMP office has solicited input from officials in various UN departments during the design review process. In addition, while not required, it is UN policy to follow city and state codes. To facilitate the implementation of the project, the CMP office continues to coordinate and meet with the city and state of New York to discuss the UN's renovation plans. The CMP office has also taken steps to ensure that information about the renovation is readily available to stakeholders and the public. It has established a Web site, [www.un.org/cmp](http://www.un.org/cmp), which explains the renovation project and provides related UN documents and opportunities to direct comments to the CMP office.

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## Competitive Procurement Used but UN Procurement Process Has Weaknesses

The CMP office has continued to use a competitive process to procure program management, planning, and design services for the renovation project. Competition among multiple firms is important for obtaining a quality product at a reasonable price. As part of the competitive process, the CMP office and UN officials issued requests for proposals, obtained proposals from multiple firms, evaluated the proposals based on established criteria, and selected firms to perform the work. OIOS reviewed the CMP procurements and reported that the process was fair and transparent. To increase visibility of the procurements related to the CMP, the procurement division has created a page on its Web site, [www.un.org/depts/ptd/](http://www.un.org/depts/ptd/), for CMP awards that lists information such as the contractor, subject of the contract, and award amount. The CMP office is also exploring the possibility of posting copies of the awarded contracts on this Web site.

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Although the CMP office has used a competitive process to date, we reported in April 2006 that the UN's procurement process has numerous weaknesses.<sup>9</sup> For example, the UN has yet to incorporate guidance for construction procurement into its procurement manual, and the chairman of the UN procurement contract review committee has stated that his committee did not have the resources to keep up with its expanding workload. In addition, the UN had not established an independent process to consider vendor protests that could alert senior UN officials of procurement staff's failures to comply with stated procedures. The UN is currently in the process of hiring a construction manager to oversee the day-to-day project activities and the subcontractors performing the construction work. CMP officials stated that as the project progresses, the CMP office will continue to be responsible for the daily oversight and administration of the CMP contracts. In addition, according to a UN procurement official the UN procurement division will be involved in processing contract amendments and ensuring compliance with UN procurement rules and procedures. According to CMP officials, to address resource shortfalls in the UN procurement division, funding has been made available from the CMP budget to hire three new staff with construction-related experience.

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### Experienced Team in Place to Review Renovation Design, but Vacancy in Leadership Post Exists

Within the UN, the CMP office manages the development and execution of the renovation project, including the review of the ongoing renovation design. The CMP office has supplemented its in-house staff with a consultant to assist with design review and cost estimate development. While the UN was considering different renovation approaches, the CMP office instructed its contractors to incorporate flexibility in the design so it could be tailored to work with any of the approaches being considered. This ensured that when the UN selected a multiphased approach in August 2006, there was little need for redesign.

Although the CMP office has continued moving the renovation project forward, it has often lacked an executive director. The executive director provides leadership, support, and direction to the project, and acts as the primary representative of the CMP to the General Assembly and UN stakeholders. In February 2003, the Secretary-General appointed the first executive director for the CMP, but he left after about a year. The position remained vacant until September 2005 when the UN hired a CMP

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<sup>9</sup>[GAO-06-577](#).

executive director with experience working on large construction and renovation projects in New York City. However, he left in June 2006 and the position is currently vacant. The current staff are now performing the executive director’s duties as well as their own. UN officials have stated that they recognize the importance of having a CMP executive director and are working to fill the position.

## Cost Estimate Increased; Industry Practices Followed but Estimate Likely to Change

The estimated total cost of the CMP increased from about \$1.19 billion to almost \$1.75 billion—an almost \$560 million increase—between 2002 and 2005 to reflect inflation arising from a later start date, refinements to the design, and a multiphased renovation approach. In developing the 2005 estimate, the CMP office followed industry practices such as defining the work required and reviewing the estimate. In November 2006, the Secretary-General released a progress report on the CMP that included an updated cost estimate of \$1.88 billion. This estimate was developed before the design phase was completed; therefore, it is still preliminary and likely to change.

## Cost Estimate Increased Due to Changes in Schedule, Refinements to the Design Project, and Approach

As shown in table 1, the estimated total cost of the CMP including the scope options increased from about \$1.19 billion to about \$1.75 billion between 2002 and 2005.

**Table 1: Comparison of 2002 and 2005 Estimated Total Project Costs by Cost Element**

Dollars in millions					
Cost element	2002 estimate	2005 estimate <sup>a</sup>	Increase in estimate		
			Inflation 2002-2004	Design refinement	Project phasing
Construction <sup>b</sup>	\$537.4	\$734.6	\$59.1	\$55.8	\$82.6
Professional fees and management <sup>c</sup>	97.6	144.3	10.8	9.5	26.0
Contingency <sup>d</sup>	143.0	184.4	15.7	14.8	10.9
Swing space <sup>e</sup>	96.0	164.3	N/A	N/A	68.3
Scope options <sup>f</sup>	144.0	161.0	17.0	N/A	N/A
<b>Subtotal</b>	<b>\$1,018.0</b>	<b>\$1,388.6</b>	<b>\$102.6</b>	<b>\$80.1</b>	<b>\$187.8</b>
Escalation <sup>g</sup>	175.0	360.0			
<b>Total</b>	<b>\$1,193.0</b>	<b>\$1,748.6<sup>h</sup></b>			

Source: UN CMP Office.

Note: N/A = not applicable.



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<sup>a</sup>Estimate is current as of early 2005 and thus does not include 2005 inflation.

<sup>b</sup>Construction—cost of the labor and materials for the specific renovation work.

<sup>c</sup>Professional fees and management—costs for CMP office staff and overhead, including leasing of office space; all UN staff support including procurement and legal services; project management consultant services that enhance the CMP office’s capabilities; planning and design services; and project management fees.

<sup>d</sup>Contingency—cost to account for unforeseen conditions and other changes that might arise during the renovation project.

<sup>e</sup>Swing space—cost of relocating staff and operational functions displaced by the renovation into temporary space. The swing space approach varied significantly from 2002 to 2005.

<sup>f</sup>Scope options—cost of optional work being considered by the UN for inclusion in the renovation.

<sup>g</sup>Escalation—cost to account for the effect of inflation over the life of the project, on the price of materials and labor. Escalation in the 2005 estimate covers the period 2005 to 2014.

<sup>h</sup>In the third annual progress report on the CMP, A/60/550, the Secretary-General reports the revised project cost estimate to be \$1,587.8 million. However, this estimate does not include the scope options.

The change in the scheduled start date and project duration increased estimated costs due to inflation. In August 2002, the CMP office projected that the renovation project would begin in 2005 and be completed in less than 5 years. By December 2005, the CMP office had adjusted the schedule to a 7-year multiphased approach. The CMP office’s cost estimator determined that the New York City construction industry for projects similar to the UN renovation experienced about 11 percent inflation between 2002 and 2004, which accounts for almost \$103 million of the estimated cost increase. In addition, the escalation costs in the estimate increased by \$185 million to account for the expected inflation over the duration of the project, including the additional 2 years that were added to the project schedule for the multiphased approach. Any future changes that extend the start date or duration of the renovation would be expected to further increase the cost of the project.

We have previously reported that changes in the cost estimate should be expected as the design progresses and more project details become known.<sup>10</sup> The 2002 estimate is based on a broad conceptual design, whereas the 2005 estimate was based on a more detailed project design. For example, the 2005 estimate was based on the actual number and size of the systems needed, rather than an overall cost estimate for the heating and air conditioning systems, as in the 2002 estimate. These types of design refinements increased the cost estimate by about \$80 million. The

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<sup>10</sup>[GAO-01-788](#) and [GAO-03-566](#).

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Secretary-General's third annual progress report on the CMP noted that the process of controlling the scope and cost of the CMP would continue to be part of the project management process during design development and contract document preparation. According to CMP officials, efforts are under way to reduce the construction cost through value engineering and detailed scope review.<sup>11</sup>

The change to using a multiphased renovation approach, in which parts of the buildings will be renovated while other parts remain in operation, increased the project's complexity and required the CMP office to make numerous adjustments to the estimate. For example, 20 percent was added to the expected cost of replacing the window structure on the outside of the Secretariat building because it will have to be done in more than one stage and additional waterproofing will be required. There was also a cost associated with isolating those floors being renovated from those that will be occupied by UN staff during the renovation. In addition, the source of temporary space needed for UN complex occupants during the renovation changed after the 2002 estimate was completed. In the 2002 estimate, the UN had expected to lease about 800,000 square feet of office and conference space in the new UNDC-5 building at below market rates. Since the proposed UNDC-5 building will not be built and the rental rates in New York City have increased considerably, the 2005 estimate reflects the UN's revised plan to (1) lease about 228,000 square feet of office space and 80,000 square feet of library space at market rates for displaced staff and functions and (2) construct a 100,000 square foot temporary building on the UN complex to meet the conference needs of the UN during the renovation.<sup>12</sup> While the projected amount of necessary office space has decreased since the last estimate, it will be needed for a longer period of time, and the projected rental rates have increased substantially. The CMP office estimated that the change to a multiphased renovation approach added about \$188 million to the 2005 estimated CMP cost.

In November 2006, the Secretary-General's fourth annual progress report on the CMP updated the total project cost estimate from about \$1.75

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<sup>11</sup>Value engineering is the process of identifying opportunities to remove unnecessary costs while assuring the quality, reliability, and performance of the project.

<sup>12</sup>At the completion of the renovation, this temporary building is expected to be removed.

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billion to about \$1.88 billion, an increase of approximately \$128 million.<sup>13</sup> According to the report, this increase is due primarily to increases in the cost of swing space (\$50 million) and further development of the scope options (\$69 million). The report also identifies some areas where the project cost is at risk of increasing further. For example, the UN would need to add a visitor screening area to the renovation project, if the proposed visitors' center, which includes a visitor screening area, is not constructed.<sup>14</sup>

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### Cost Estimate Updated Following Industry Practices

The CMP office continues to follow leading industry practices in updating the project cost estimate. In 2003, we reported that the UN had defined the work to be done, developed a standardized format for the cost estimate, had the estimate reviewed, and reported the estimate including its range of accuracy. Using the same leading industry practices, the CMP office updated the previous cost estimate to reflect the multiphased approach. The 2005 cost estimate includes relevant cost elements such as design, construction, overhead, management, contingency and escalation.

Although the cost of new furniture and equipment is not included in the cost estimate for the CMP, the UN plans to purchase them for the renovated space through its regular budget. The CMP office is working with the various UN departments to estimate these costs for inclusion in the departments' future budget submittals.

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### Cost Estimate Still Preliminary and Likely to Change

Following leading industry practices, the CMP office is continuing to update the total project cost estimate at major milestones in the project. According to the Construction Industry Institute, the final cost of any project at this stage of design may vary from plus or minus 20 to 30 percent of the estimate. The CMP office recently updated the project cost estimate on the basis of the ongoing design work. In accordance with industry practice, the CMP office will again update the cost estimate after the completion of the construction documents. This estimate will be based on actual quantities of materials that have been identified and the range of

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<sup>13</sup>The UN provided us with a copy of this detailed report as our report was going to press; therefore, we did not have sufficient time to analyze the new information. See UN Doc. A/61/549.

<sup>14</sup>The proposed new visitors' center was offered as a donation to the UN and is separate from the proposed renovation.

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accuracy of this estimate is expected to increase to plus or minus 15 to 20 percent. In addition, CMP officials stated that they are planning to have this estimate independently reviewed.

Several uncertainties outside the UN or CMP office's control could also have a significant impact on the final cost of the project. The decreased availability of office space in mid-town Manhattan has driven up rental rates, which could make it difficult to procure the space necessary to relocate staff during the renovation at the 2005 estimated cost. In addition, construction costs could increase if the impending redevelopment of the World Trade Center site limits construction resources.

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## The General Assembly Has Not Decided How to Finance Remaining Renovation Project Costs

While the General Assembly has passed a resolution expressing a preference for cash assessments, it has yet to decide how to finance the bulk of the renovation. Under the cash assessment approach, each member state would likely be assessed the cost of the renovation based on the rate of its annual regular budget contributions to the UN. In addition, to assure the UN's contractors that it can pay them for their work, the UN may obtain a commercial letter of credit. If the General Assembly decides to finance the renovation using direct assessments, the United States could explore the viability of renewing a prior loan offer to the UN to act as a line of credit, which could decrease the cost of any commercial borrowing. The General Assembly plans to revisit the issue of financing the CMP by the end of 2006.

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## The General Assembly Has Not Decided on a Financing Arrangement for Its Remaining Renovation Project Costs

While the General Assembly has passed a resolution stating that cash assessments would be the simplest and most cost-effective approach for funding the CMP, it has yet to decide how to finance the remaining \$1.43 billion, which excludes scope options. The UN has already assessed member states for \$152 million of the estimated renovation cost and obtained \$8 million from the UN regular budget. In June 2006, the General Assembly decided to defer the issue of funding the CMP to the 61<sup>st</sup> General Assembly session, which began in September 2006.

The UN appropriated a total of \$160 million between 2000 and 2006 for various prerenovation activities (see table 2).<sup>15</sup>

**Table 2: UN Appropriations for Headquarters Renovation, 2000-2006**

Dollars in millions

Year	Purpose	Appropriation amount
2000	Design concepts and cost analysis	\$8 <sup>a</sup>
2003	Continued design, project management and preconstruction services	25.5 <sup>b</sup>
2005	Continued design, project management and preconstruction services	17.8 <sup>b</sup>
2005	Continued design, project management and preconstruction services	8.2 <sup>b</sup>
2006	Design, preconstruction and swing space	23.5 <sup>b</sup>
2006	Construction and fit-out of North Lawn building; lease, design and fit-out of off-site library and office space	77 <sup>b</sup>
<b>Total</b>		<b>\$160</b>

Source: UN.

<sup>a</sup>Funded through an allotment from the regular UN budget.

<sup>b</sup>Funded through cash assessments on member states specifically for the CMP.

## Member States Considering Cash Assessments to Finance Renovation

In June 2006, the General Assembly passed a resolution stating that a cash payment option, based on single- or multiyear assessments, would be the simplest and most cost-effective approach to funding the CMP. Under this approach, member states would pay their portion of the renovation in single- or multiyear payments. According to the CMP office, this could lower member states' total assessments because the UN could invest these funds and earn interest on them, if received in advance of use.<sup>16</sup> For example, member states would need to pay the UN \$1.24 billion in 2007 to fund the remaining \$1.43 billion renovation cost if the project was funded

<sup>15</sup>These assessments were based on the rate of their annual dues to the UN. The United States currently contributes 22 percent of the UN's annual operating budget. The President's fiscal year 2007 budget allocated \$22 million to fund the U.S. portion of the \$100.5 million that the UN appropriated in calendar year 2006; however, the fiscal year 2007 budget has not yet been approved.

<sup>16</sup>To calculate the payment rate, the UN assumed annual interest income of 3.5 percent on invested contributions.

with one lump-sum assessment. As table 3 shows, the total amount member states would be assessed increases as the number of assessment periods increases, since there is less time for interest to accrue and offset costs.

**Table 3: Approximate Yearly Cost to Member States of Cash Assessments**

Dollars in millions

Years of assessments	2007	2008	2009	2010	2011	Total assessed	Estimated interest income	Total available
1 year	\$1,243	0	0	0	0	<b>\$1,243</b>	\$184	<b>\$1,428</b>
4 years	357	357	357	279	0	<b>1,350</b>	78	<b>1,428</b>
5 years	286	286	286	286	231	<b>1,373</b>	55	<b>1,428</b>

Source: GAO analysis and United Nations A/60/550, Third Annual Progress Report on the Implementation of the Capital Master Plan, November 11, 2005.

Note: Numbers do not include cost of scope options and may not add up due to rounding.

If the United States paid for its portion of the renovation in one lump sum, Table 4 shows that it would owe the UN approximately \$274 million in 2007 under the 2005 cost estimate. If the United States paid over five years, it would pay a total of \$302 million.

**Table 4: Approximate Yearly Cost to the United States of Cash Assessments**

Dollars in millions

Years of assessments	2007	2008	2009	2010	2011	Total assessed
1 year	\$274	0	0	0	0	<b>\$274</b>
4 year	79	79	79	61	0	<b>297</b>
5 year	63	63	63	63	51	<b>302</b>

Source: GAO analysis of United Nations A/60/550, Third Annual Progress Report on the Implementation of the Capital Master Plan, November 11, 2005.

Note: Calculations are based on the United States paying 22 percent of the renovation's cost. Numbers may not add up due to rounding.

If the General Assembly decides to finance the renovation through multiyear assessments, the UN may use a commercial letter of credit to demonstrate to its construction contractors that it has funding available for the project before construction begins and to meet short-term

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financing needs.<sup>17</sup> Consistent with U.S. industry practice, construction contractors are not expected to agree to begin work without proof that the UN can pay the entire cost of the renovation work. To purchase a letter of credit, the UN would pay a fee based on the total amount of the letter of credit and the degree of risk the lender estimates the UN represents as a borrower. According to UN officials, the transaction fee associated with a letter of credit could range from \$3 to \$21 million, depending on whether or not a member state loan is available to back up the letter of credit. The cost of these fees has not been included in the UN's cost estimate for the renovation. If the UN decides to purchase a letter of credit, these fees would represent an additional yearly cost to the member states. According to the CMP office, the fees would decrease over time as the UN pays for portions of the project, thus decreasing the amount it would need to have covered by a letter of credit.

In addition, the Secretary-General has noted that the UN would need a working capital reserve if the General Assembly agreed to multiyear assessments. In the event of delays in member state payments, the UN periodically may not have sufficient funds to pay contractors. A working capital reserve of \$45 million could be used to cover temporary cash flow shortages. Subsequently, the letter of credit could also supplement short-term cash flow needs in the event of delays in member state payments. Under such circumstances, the UN could rely on the commercial letter of credit as a source of short-term borrowing to pay its contractors and then repay the lender with interest when member states pay their assessments.

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## A Renewed U.S. Loan Offer Could Reduce Cost of UN Commercial Borrowing

If the UN decides to finance the renovation using cash assessments, the United States could explore the viability of renewing a prior loan offer to the UN, which could decrease the cost of a commercial letter of credit or short-term borrowing. In March 2005, the U.S. offered the UN a \$1.2 billion loan at 5.54 percent interest that could act as a line of credit or a loan guarantee.<sup>18</sup> The UN had anticipated receiving a noninterest-bearing loan

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<sup>17</sup>Construction contractors would be able to draw on the letter of credit if the UN is unable to pay them on time and in full.

<sup>18</sup>While the original U.S. loan offer to the UN was authorized for \$1.2 billion, subsequent legislation stipulated that the Secretary of State must notify Congress of the 2005 cost of the renovation and any cost containment measures if a U.S. loan to the UN exceeds \$600 million for the renovation. The Senate also passed a nonbinding "sense of the Senate" resolution stating that the amount of any loan for the UN renovation should not exceed \$600 million. Sec. 412, Pub. L. 109-108, *Science, State, Justice, Commerce and Related Agencies Appropriations Act, 2006*.

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from the United States, and the General Assembly did not accept the U.S. offer. Although member states are no longer considering a U.S. loan to finance the renovation, if the UN were to accept a renewed loan offer, the UN could use it to reduce the cost of commercial borrowing needed under a multiyear cash assessment plan. The UN would represent a lower credit risk, and commercial lenders would likely charge the UN less to purchase a letter of credit. In addition, the UN would likely pay less to arrange short-term borrowing if it needed to borrow funds to pay its construction contractors.

The United States could explore renewing its loan offer because Congress appropriated \$6 million to cover the cost of the loan and directed that the funds remain available until spent.<sup>19</sup> However, under current U.S. law, U.S. assessments cannot go toward interest payments on UN external borrowing, including a loan from the United States. While Congress passed a statute for fiscal year 2005 specifically exempting U.S. assessments for the renovation from this provision, State Department officials stated that this is an annual provision that was not renewed for fiscal year 2006.

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## Decisions Needed by December 2006 to Maintain the Current Start Date and Avoid Increased Costs

The CMP's current schedule could be delayed and costs could increase if the General Assembly does not make certain decisions by the end of 2006. Specifically, the UN would need a decision by the General Assembly on a financing arrangement and a total CMP budget to ensure that funds could be available by December 2007 so that the UN can procure construction services.<sup>20</sup>

Without a General Assembly decision on a financing arrangement and approval of a total CMP budget by the end of 2006, the CMP office may not be able to determine a start date for renovation work. The CMP office plans to temporarily move UN staff and activities to off-site office space during the renovation. However, without a start date, it may be more

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<sup>19</sup>This amount was appropriated to cover the cost of a U.S. loan to the UN, including the risk of the borrower defaulting. To offer a loan guarantee to the UN, the State Department and the Office of Management and Budget would need to (1) establish the terms of the loan guarantee, including the amount guaranteed, interest rate, maturity, repayment schedule, and default risk profile of the borrower and (2) compute the net present value cost of the offer in accordance with the Federal Credit Reform Act of 1990.

<sup>20</sup>The CMP office is also awaiting the General Assembly's decision on whether to include the scope options in the renovation. Inclusion of these options would increase the total cost of the renovation.



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difficult for the CMP office to lease and prepare this space in an efficient and timely manner, which could delay the start date and increase project costs. According to the current CMP schedule, the UN would sign leases for temporary space by the end of 2006, begin preparing that space in early 2007, and relocate no later than early 2008.

The start of renovation work could also be delayed if the General Assembly does not decide on a financing arrangement that ensures funds are available for the CMP by December 2007. To remain on the current schedule, the CMP office would need the first assessment paid by the end of 2007. A delay in the beginning of renovation work is likely to increase the project's cost due to future inflation and overhead costs. As previously discussed, a significant portion of the increase in the 2005 cost estimate was due to moving the start date of the renovation from 2005 to 2008. The UN's most 2005 cost estimate applies an inflation rate of 4 percent for 2007.

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## UN Entities Have Continued Oversight of the CMP and State Has Monitored CMP Progress

OIOS and the UN Board of Auditors have continued their oversight of the CMP since 2003. However, the extent to which OIOS must negotiate with the UN Office of Program Planning, Budget, and Accounts (OPPBA) for future funding could affect OIOS's ability to conduct effective oversight of the CMP. In addition, State has continued to monitor the CMP and inform U.S. policy on the renovation.

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## OIOS Has Conducted Oversight of the CMP Office

OIOS has been conducting oversight of the CMP office since 2003 and has not found any material weaknesses in its work.<sup>21</sup> Specifically, OIOS has reviewed draft procurement documents and participated in regular meetings with CMP, UN Procurement Services, and Office of Legal Affairs officials concerning the contracting of design and consulting services. OIOS found that the draft procurement documents needed to be modified to reflect the project's complexity and size. OIOS also found that the CMP office's process for procuring consulting services, such as a real estate broker to find temporary space for UN activities, was fair. Further, OIOS concluded that the CMP office had generally used its resources in

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<sup>21</sup>OIOS conducts oversight of UN activities that are under the authority of the Secretary-General through monitoring, inspection, and evaluation. OIOS submits its reports to the Secretary-General; they are also available to member states upon request.

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accordance with UN financial rules. Currently, OIOS is developing an audit plan to guide its oversight during the construction phase, according to OIOS officials. OIOS will need additional staff with expertise in construction oversight as the work becomes more technical and complex and is considering hiring an outside consulting firm to assist with its oversight responsibilities as the renovation proceeds.

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## OIOS's Oversight Impaired by Its Funding Arrangement

OIOS relies on funds from the CMP budget to conduct effective oversight of the CMP, which may impair its ability to secure sufficient funds. Generally, OIOS derives its funding through its regular budget and through extrabudgetary resources that come from the budgets for a variety of specific projects and activities, including the CMP office. To oversee the CMP, OIOS submitted work plans to the OPPBA and requested extrabudgetary funds from the CMP budget. OIOS noted in October 2004<sup>22</sup> and August 2005<sup>23</sup> that it required two full-time auditors to provide adequate audit coverage of the CMP. However, OPPBA determined that only one auditor was needed to complete the oversight activities that OIOS proposed, given the early stage of the CMP, according to an OPPBA official.

We previously reported that OIOS's reliance on extrabudgetary funds and limitations on how OIOS may spend its funds constrains its ability to conduct effective oversight.<sup>24</sup> When relying on extrabudgetary funds, OIOS must obtain permission to perform audits or investigations from the managers of funds and programs, and negotiate the terms and funds for its oversight work. In addition, UN rules and regulations severely limit OIOS's ability to reallocate resources from different sources. Therefore, OIOS cannot always direct resources to oversight of high-risk areas as they arise. The extent to which OIOS must negotiate for future funding during the construction phase of the renovation will affect OIOS's ability to conduct effective oversight. Indeed, in a June 2006 resolution, the General

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<sup>22</sup>United Nations General Assembly, *Report of the Office of Internal Oversight Services on the United Nations Capital Master Plan for the Period from August 2003 to July 2004*, A/59/420.

<sup>23</sup>United Nations General Assembly, *Report of the Office of Internal Oversight Services on the Capital Master Plan for the Period from August 2004 to July 2005*, A/60/288.

<sup>24</sup>GAO, *United Nations: Funding Arrangements Impede Independence of Internal Auditors*, [GAO-06-575](#) (Washington, D.C.: Apr. 25, 2006).

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Assembly noted that the CMP office will provide OIOS with resources to conduct an appropriate construction audit of the CMP.<sup>25</sup>

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## UN Board of Auditors has Conducted Oversight of CMP

The UN Board of Auditors, an external oversight entity that reports to the General Assembly, has conducted yearly audits of the CMP financial statements since 2003.<sup>26</sup> The board's four objectives have been to

- evaluate the CMP office's project accounting, payment and reporting systems;
- ascertain the CMP office's compliance with UN regulations and rules on procurement and contracting;
- determine whether CMP contractors have adhered to the terms of contract, such as deliverables, time, and materials provisions; and
- review the CMP office's controls and processes established to properly manage the project.

In reports on the CMP office released in September 2004 and August 2005,<sup>27</sup> the board found that delays in the planning process had impacted the schedule for the completion of design development. The board also found that an advisory board for the Secretary-General had not been formed. The board did not note any instances of fraud or presumptive fraud within the CMP office.

As the renovation proceeds with construction, the UN Board of Auditors will develop a new audit plan. The board will likely consider the CMP office's new cost system for tracking funds and expenditures an important issue to address when the construction phase begins, according to board officials. The board will conduct a risk assessment of the CMP office's general controls and accounting system in fall 2006. Based on the audit

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<sup>25</sup>United Nations General Assembly, *Resolution Adopted by the General Assembly A/RES/60/282*, June 30, 2006.

<sup>26</sup>The UN Board of Auditors audits the financial statements of the UN Secretariat and UN funds and programs.

<sup>27</sup>United Nations General Assembly, *Report of the Board of Auditors on the Capital Master Plan for the Biennium Ended 31 December 2003*, A/59/161 and *Report of the Board of Auditors for the Year Ended 31 December 2004*, A/60/5 (Vol. V).

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plan and risk assessment, the board will determine the financial resources it will need to conduct future audits of the CMP office.

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## State Has Continued Its Monitoring Activities

Since 2003, State has maintained a working group to monitor the CMP planning process and inform U.S. policy on the CMP. This task force is composed of officials from multiple departments within State and the Office of Management and Budget that meet at least once every 3 months. State has also engaged a part-time consultant with building construction and security experience to review security enhancements and advise the task force. The task force mission includes coordinating all U.S. government participation in the CMP process, evaluating the feasibility of the renovation project, and performing technical reviews. For example, officials from State's Bureau of Overseas Buildings Operations (OBO) reviewed design documents and the 2005 cost estimate and found that they were developed in a manner consistent with industry practices. OBO's assessment was included in a decision memorandum encouraging U.S. support for a decision to go forward with the renovation in June 2006. Based on its monitoring work, State has not identified any significant concerns with the renovation planning process, according to State officials.

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## Conclusion

Since 2000, the UN has been developing its CMP, a comprehensive renovation of its headquarters complex. Because the complex does not meet current fire, life safety, and other building codes and does not meet UN technology or security requirements, it is a potentially hazardous environment for UN employees and visitors. Much of the design work has been done and the UN has funded completion of design and leasing of temporary space to relocate UN staff and activities for the duration of the renovation. The UN has also begun the process of procuring a construction management firm to undertake the renovation work. The UN could spend more than an additional \$1.4 billion to complete the renovation. These funds could be at risk if the UN does not ensure that CMP procurements are protected from weaknesses in the current procurement system. In addition, OIOS will need sufficient funds to oversee compliance with UN financial rules and regulations, as applied to the CMP project.

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## Recommendations

We recommend that the Secretary of State and the U.S. Permanent Representative to the United Nations work with other member states to

- ensure that the Secretariat identifies a procurement strategy for the CMP to mitigate the impact of weaknesses in UN procurement processes and
- ensure that OIOS receives sufficient funding for its oversight of the CMP.

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## Agency Comments

The Department of State, the UN, and OIOS provided written comments on a draft of this report, which are reproduced in appendixes II through IV. State agreed with our conclusions and endorsed our recommendations, stating that they were consistent with State's policy goals for CMP procurement and OIOS funding. The UN found our report to be a valuable and accurate assessment of the current state of planning for the UN renovation project and generally concurred with our findings and recommendations. Furthermore, in response to our recommendation concerning CMP procurement, the UN noted that an independent bid protest mechanism has been designed for a major CMP procurement. The UN also noted that the Secretary-General's fourth annual progress report on the CMP has been prepared and contains updated information on the CMP.<sup>28</sup> OIOS also agreed with our conclusions and recommendations and noted that OIOS's current resources do not allow it to provide adequate audit coverage. State and the UN also provided us with a number of technical suggestions and clarifications that we have addressed in this report, as appropriate.

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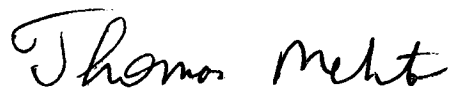
As agreed with your offices, we will make copies of this report available to interested members of Congress, the Secretary of State, and the U.S. Permanent Representative to the United Nations. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

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<sup>28</sup>Secretary-General's *Fourth Annual Progress Report on the Implementation of the Capital Master Plan*, A/61/549.

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If you or your staff have any questions about this report, please contact Thomas Melito at (202) 512-9601 or [melitot@gao.gov](mailto:melitot@gao.gov) or Terrell Dorn at (202) 512-6923 or [dornt@gao.gov](mailto:dornt@gao.gov). Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix V.



Thomas Melito  
Director, International Affairs and Trade



Terrell Dorn  
Director, Physical Infrastructure Issues

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# Appendix I: Scope and Methodology

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To determine whether the continued development of the UN's renovation project was consistent with leading industry practices, we reviewed UN records, including reports and designs developed by the architect-engineering firms. We also researched industry practices related to construction project planning, development, and design. We compared the Secretariat's efforts in project planning and design with industry practices, as identified by the Federal Facilities Council and the Construction Industry Institute. We discussed various aspects of the project, including management and the design process for the Capital Master Plan (CMP) with UN renovation project staff and consultants.

To examine the factors that contributed to the increase in the 2005 cost estimate and determine whether the cost estimate was updated using industry practices, we researched industry practices related to construction project cost estimating. We compared the Secretariat's efforts in cost estimating with industry practices, as identified by the Construction Industry Institute. We also reviewed the 2005 cost estimate and identified the factors that were used to update the cost estimate. To assess the reliability of the UN's cost estimate data, we interviewed UN officials responsible for compiling the estimate and reviewed how the cost estimate was compiled but we did not verify the accuracy of the figures. We determined that the data were sufficiently reliable for the purposes of our report. We received the Secretary-General's fourth annual progress report on the CMP with an updated cost estimate as our report was going to press. Although we did not have sufficient time to analyze the cost estimate, we included information from the Secretary-General's report to the extent possible.<sup>1</sup>

To describe the financing options being discussed, we reviewed UN data concerning the yearly cash assessments under consideration. To report on the total amount of a 1-year assessment, we calculated the net present value of the total funds needed for the renovation. To calculate the estimated interest income, we subtracted the total assessments from the total amount of funds needed for the renovation. To determine the U.S. share of cash assessments, we calculated 22 percent of the total cash assessments. To assess the reliability of the UN data, we interviewed UN officials to determine how the data was derived and determined that the data were sufficiently reliable for the purposes of our report.

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<sup>1</sup>General Assembly, *Fourth Annual Progress Report on the Implementation of the Capital Master Plan*, A/61/549.

To identify key decisions to be made and their impact, we reviewed the CMP office's estimated schedules for leasing swing space, hiring a construction management firm, and the beginning of renovation work. We identified remaining decisions that require General Assembly approval and that are needed for the renovation to proceed. We then reviewed the schedules to determine if the timing of these decisions could substantially impact the beginning of the renovation.

To review UN oversight efforts and State monitoring activities, we reviewed UN documents such as the Office of Internal Oversight Services (OIOS) and Board of Auditor reports submitted to the General Assembly, OIOS management letters to the CMP office, UN resolutions pertaining to the oversight of the CMP, and the mission statements of OIOS, the Board of Auditors, and State's working group on the CMP. We also interviewed officials from OIOS, the Board of Auditors, and the Department of State to clarify information in these documents.

In conducting our review, we received full cooperation from the UN and the Department of State. We conducted our work at the UN in New York City and at State in Washington, D.C., from August 2005 to September 2006 in accordance with generally accepted government auditing standards.



# Appendix II: Comments from the Department of State



**United States Department of State**

*Assistant Secretary for Resource Management  
and Chief Financial Officer*

*Washington, D.C. 20520*

**NOV 3 2005**

Ms. Jacquelyn Williams-Bridgers  
Managing Director  
International Affairs and Trade  
Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "UNITED NATIONS: Renovation Planning Follows Industry Practices, but Procurement and Oversight Could Present Challenges," GAO Job Code 320378.

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 Lisa Spratt, Program Analyst, Bureau of International Organizational Affairs at (202) 647-6395.

Sincerely,

A handwritten signature in black ink, appearing to read "Bradford R. Higgins".

Bradford R. Higgins

cc: GAO – Phyllis Anderson  
IO – Kristen Silverberg  
State/OIG – Mark Duda

**Department of State Comments on GAO Draft Report  
United Nations: Renovation Planning Follows Industry Practices, but  
Procurement and Oversight Could Present Challenges  
(GAO-07-31, GAO Code--320378)**

Thank you for the opportunity to comment on your draft report entitled *United Nations: Renovation Planning Follows Industry Practices, but Procurement and Oversight Could Present Challenges*. The Department of State welcomes the GAO report and endorses its recommendations. In fact, these recommendations are fully consistent with Departmental policy goals, which we have already been advocating, and continue to do so, in our dealings with the United Nations (UN) and its membership.

The Department has strongly supported steps being taken to ensure the integrity of Capital Master Plan (CMP) procurement processes and has promoted adequate oversight throughout all phases of the project. Our efforts have been reflected, among other places, in relevant UN General Assembly (UNGA) resolutions, such as A/RES/60/282. In this resolution, we joined other Members in requesting that the Secretary-General ensure that procurement processes related to the Capital Master Plan are conducted in a transparent manner and in compliance with all UNGA resolutions. In addition, Member States noted that the Office of the Capital Master Plan will provide resources to the Office of Internal Oversight Services (OIOS) to help ensure an appropriate construction audit, and requested that the Secretary-General report on findings in relevant reports, including the annual report of the OIOS throughout the phases of the project.

The Department has actively supported UN procurement reform, and has highlighted the need to address management weaknesses in the UN procurement system. Even more specifically, we are committed to ensuring that the UN takes tangible steps to strengthen CMP procurement processes. The GAO report finds that to the extent the CMP Office relies on current UN practices, the implementation of CMP procurements could become vulnerable to weaknesses. While we agree that weaknesses persist within the overall UN procurement system, the UN has advised us that they are taking steps expressly to enhance the integrity and transparency of CMP procurements.

Several measures are being put in place for the Construction Management contract, which is the key contract as the project proceeds toward construction. The evaluation process for the Construction Manager will include two review panels:

the initial technical review panel, and a secondary review by the Headquarters Committee on Contracts (HCC), which will examine the process used and the recommendation made. The evaluation panel is being chaired by the Assistant Secretary-General/Controller, representing a higher level of oversight and review than on typical UN review panels. In addition, external consultants are providing technical advice to voting members of the panel, and external legal counsel and insurance experts are advising the panel. The CMP Project Office has initiated a probity review of the CMP procurement process by a third party, which will be provided to the UN Under-Secretary General for Management, offering an additional level of oversight. The UN has also indicated an independent bid protest process will be put in place.

The Department has been a strong supporter of the Office of Internal Oversight Services, and has set an independent OIOS as one of the highest priorities for UN management reform. This includes ensuring OIOS is sufficiently resourced, and that it has flexibility in employing its resources in areas of greatest risk. These issues are being negotiated at the UNGA this fall, and we are working hard to achieve our desired outcome. More specifically in relation to the CMP, the U.S. is concerned about the importance of adequate oversight on this large and complex project. We are, therefore, strongly committed to having the necessary resources allocated for OIOS to review the CMP as the project progresses.

# Appendix III: Comments from the United Nations

United Nations  Nations Unies

HEADQUARTERS • SIEGE NEW YORK, NY 10017  
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REFERENCE:

6 November 2006

Dear Mr. Melito:

Thank you very much for your letter dated 13 October 2006 in which you requested my comments on behalf of the United Nations regarding your draft report on the Capital Master Plan. My comments will focus matters pertaining to the Secretariat and specifically the Department of Management. I will not be speaking for OIOS.

In summary, I find the draft GAO report to be a valuable and accurate assessment of the current state of planning for the United Nations renovation project, and in general concur with your findings and recommendations.

Upon receipt of your draft report, staff members from the concerned offices within the Department of Management were in contact with members of your team and provided several suggestions regarding the report. I understand your team will be taking these suggestions into account as you finalize your report.

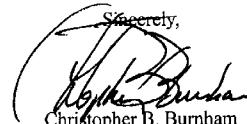
Among those suggestions were clarifications on recent progress in improving the internal control environment within the United Nations Procurement Service. As the procurement requirements for the CMP will involve the direct support of the Procurement Service, I would like to take this opportunity to further clarify that indeed, additional resources have been made available to the Headquarters Committee on Contracts over the course of the past year, in order to better equip that body with adequate personnel to review and approve procurement transactions. Also, the Procurement Service is in the process of recruiting additional personnel with experience in construction management. These individuals will bolster the capacity of the Procurement Service as it assists the CMP in the award of key procurement contracts in the near term. As a further measure, the procurement process for the construction management team will be reviewed by an external independent third party to ensure the process follows all applicable policies, rules, and regulations and is transparent. Finally, we have taken into account a previous GAO recommendation concerning the need for an independent bid protest system, and if required, will involve the independent third party in the management of such a system for the major contracts to be awarded in support of the CMP.

Mr. Thomas Melito  
Director, International Affairs and Trade  
United State Government Accountability Office  
Washington, DC

As you are aware, the fourth annual progress report of the Secretary-General on the Capital Master Plan (A/61/549) has been prepared for consideration by the General Assembly. This report contains updated information on the Capital Master Plan.

I wish to extend my appreciation to your team for their continued courtesy and professionalism.

Sincerely,



Christopher B. Burnham  
Under-Secretary-General  
for Management

# Appendix IV: Comments from OIOS

UNITED NATIONS  NATIONS UNIES

Inga-Britt Ahlenius  
Under-Secretary-General  
for Internal Oversight Services

OUSG-06-848

30 October 2006

Dear Mr. Melito,

Thank you for giving me the opportunity to comment on the GAO draft report entitled *United Nations: Renovation Planning Follows Industry Practices, but Procurement and Oversight Could Present Challenges* (GAO-7-31).

The Internal Audit Division of my Office has read your report with great interest and communicated to me their general agreement with your conclusions. I appreciate that the GAO underscored the funding issues faced by OIOS in its attempts to provide adequate audit coverage for the United Nations Capital Master Plan (CMP). With only one P-5 auditor funded by the CMP, my Office is not in a position to provide adequate audit coverage.

I also fully agree with the GAO recommendation that the Secretariat should identify a procurement strategy for the CMP to mitigate the impact of weaknesses in the United Nations procurement process. As you may know, my Office devotes a significant part of its resources to addressing procurement risks in the United Nations, principally through audits and

Mr. Thomas Melito  
Director, International Affairs and Trade  
United States Government Accountability Office  
Washington, DC 20548

(by mail and by email: [Melitot@GAO.gov](mailto:Melitot@GAO.gov))

Copy to:  
Ms. Khushali Parikh Shah (by email: [ShahKP@state.gov](mailto:ShahKP@state.gov))  
Mr. Dagfinn Knutsen, Acting Director, IAD, OIOS

investigations. In respect of the CMP, I have reported the current and potential negative effects on the Plan's contracts of inadequacies in some of the United Nations procurement processes. The Internal Audit Division will continue to focus its audits in that area.

Should you have any questions, please do not hesitate to let me know.

Sincerely yours,



Inga-Britt Ahlenius  
Under-Secretary-General  
for Internal Oversight Services

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# Appendix V: GAO Contact and Staff Acknowledgments

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## GAO Contact

Thomas Melito, (202) 512-9601 or melitot@gao.gov

Terrell Dorn, (202) 512-6923 or dornt@gao.gov

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## Staff Acknowledgments

In addition to the persons named above, Phyllis Anderson and Maria Edelstein, Assistant Directors; Michaela Brown; Debbie J. Chung; Bruce Kutnick; Valérie L. Nowak; and J.J. Marzullo made key contributions to this report. Mark Dowling provided technical assistance.



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