

GAO

**Briefing Report to the Chairman,
Committee on the Budget, United States
Senate**

April 1987

**OVERSEAS
CONSTRUCTION**

**Design and
Construction of U.S.
Embassy Complex in
Moscow**



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

National Security and
International Affairs Division

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April 10, 1987

The Honorable Lawton Chiles
Chairman, Committee on the Budget
United States Senate

Dear Mr. Chairman:

This is an interim response to your October 7, 1986, request for a review of various aspects of the Department of State's construction of U.S. embassy facilities in Moscow, the Soviet Union. As you requested, this report provides information on (1) design and construction problems encountered, (2) actual versus planned expenditures, and (3) other matters you specifically requested. We are continuing our evaluation of construction activities in Moscow and within a few months will be issuing our final report on these matters.

Within the past week, considerable congressional, administration, and media attention has been directed toward mounting security concerns at the new embassy building in Moscow. These security problems are the focus of several investigations and are not specifically addressed in this report. We are separately providing you with information on certain classified aspects of the project.

The U.S. embassy complex in Moscow is the largest construction project ever attempted by the State Department's Office of Foreign Buildings Operations (FBO). Its origin dates back to the late 1960's. The complex includes, among other things, an eight-story office building, 123 apartments, 11 townhouses, an auditorium, a 9-classroom school, a 130-car garage, a gymnasium, and other recreation facilities. With the exception of the new office building, all other parts of the project were virtually completed as of February 1987. The office building is now approximately 65 percent complete. Work is at a standstill, pending the outcome of several security and structural reviews. Appendixes I through IV provide details about the project.

In 1976 the State Department estimated that the entire complex would be completed by July 1982 and would cost between \$75 million and \$100 million. However, as the timetable slipped, costs increased. As of December 1986, the Congress had appropriated \$192 million, of which the Department had obligated about \$142.9 million.

Among the factors contributing to the project delays and increased costs are:

- The contract with two American firms for planning and designing the project was amended 26 times and the designs were revised 130 times. The revisions were due to (1) Soviet construction techniques and the lack of adequate Soviet materials, (2) security upgrades and new State Department requirements, and (3) more detailed designs and corrections to designs.
- The Soviets were slow in completing early site preparations. For example, completion of a temporary perimeter construction security fence took seven months longer than expected, delaying the pouring of pile caps. Ground water problems, lasting well into the construction phase, caused delays and substantial waterproofing rework.
- The Soviet contractor's failure to follow the sequencing in the master construction schedule caused serious delays, according to the FBO officials and records. Construction materials were ordered and supplied at improper times, work of American contractors was impeded, and the orderly approval of various working designs was disrupted.
- According to FBO officials, construction delays were also caused by the Soviet contractor's inability to supply specified materials, provide enough specialty craftsmen to maintain progress, and meet accepted quality standards.
- Construction and material contracts with U.S. firms were modified a number of times. For example, the two largest contracts were revised a total of 49 times, increasing these contracts by a total of \$8.9 million. The primary reason given for the increases was to fund contract extensions due to delays by the Soviet contractor.

On August 17, 1985, FBO officials directed the Soviet contractor to suspend all work on the new office building. The new office building is now undergoing comprehensive security and structural inspections to determine what steps

the U.S. government may need to take to ensure that the building is secure and national security information can be adequately protected.

As of January 1987, the United States had paid the Soviet contractor about \$50.6 million. The State Department has submitted approximately \$11.9 million in damage claims against the Soviet contractor, and State Department officials plan to submit additional claims. The Soviet contractor, however, maintains that the United States is responsible for the delays and has submitted claims of about \$10.3 million against the State Department for unwillingness to carry out its contract obligations in a timely manner. The Soviet claims assert U.S. delays in providing materials and the failure to approve working drawings in accordance with the master schedule. Both the State Department and the Soviet contractor have agreed to hold a negotiating session in June 1987.

Unless you publicly announce the contents of this report or authorize its release earlier, we plan no further distribution until 30 days from its date of issuance. At that time, we will send copies to the Secretary of State, Director of the Office of Management and Budget, and other interested congressional committees. We will also make copies available to others upon request.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

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ABBREVIATIONS

FBO	Office of Foreign Buildings Operations
GAO	U.S. General Accounting Office
SOM/GP	Skidmore, Owings and Merrill, San Francisco, and Gruzen and Partners, New York
SVSI	Sojuzvneshtrojimport
USST	U.S. Support Team

DESIGN AND CONSTRUCTION CHANGES AND PROBLEMS
AT NEW U.S. EMBASSY IN MOSCOW

BACKGROUND

On May 16, 1969, the United States and the Soviet Union signed a reciprocal agreement that gave each country an 85-year lease on property in Moscow and the District of Columbia, respectively, to build embassy facilities. The new U.S. embassy complex, on approximately 10 acres of land, consists of an eight-story office building with adjacent consulate offices, library, and auditorium; an underground concourse area containing a gymnasium, swimming pool, sauna, bowling alley, squash and handball courts, commissary, cafeteria, bar and lounge, barbershop, and nursery; a warehouse; a school and Marine security guard quarters; 123 apartments and 11 townhouses for embassy personnel; and an underground garage for vehicle parking and maintenance.

The Foreign Service Building Act of 1926, as amended (22 U.S.C. 292-302), authorizes the Secretary of State to acquire, construct, sell, maintain, and operate buildings abroad for U.S. diplomatic and consular establishments and representatives of U.S. government agencies. The Secretary of State has delegated the responsibility for this program to the Director, Office of Foreign Buildings Operations (FBO), within State's Bureau of Administration.

The State Department signed a contract in June 1968 with Skidmore, Owings & Merrill, San Francisco, and Gruzen and Partners, New York (SOM/GP), to provide architectural and engineering services for the embassy complex in Moscow. In December 1972, the United States and Soviet Union agreed on conditions of construction, which stipulated that specific features of design, technology, and methods of construction would be carried out by local design and construction firms, using local materials. FBO contracted with Sojuzvneshtrojimport (SVSI), a Soviet firm, in June 1979 to perform certain design work, site preparation, and structural work. In addition, the Soviet contractor provided Soviet laborers to install some U.S.-provided materials, under the supervision of U.S. contractors. U.S. contractors also provided and installed some materials.

FBO designated the Director of its Construction Management Division as the Moscow project manager and established two project teams: (1) an on-site Moscow Project Management Team and (2) the U.S. Support Team (USST), primarily responsible for procurement, materials management, and coordination of all U.S. activities in support of the Moscow project. Both teams reported to the project manager. In addition to FBO personnel, a Security Engineering

Officer was on-site to coordinate the security program related to the construction.

The on-site team was formed to supervise construction and ensure that Soviet and U.S. contractors complied with contract requirements. The team's specific duties included quality control, inspection and acceptance of completed work, and maintaining control of the project schedule and cost.

The USST is an FBO headquarters unit specifically formed to support the Moscow construction project. USST's activities included soliciting and preparing contracts for U.S. materials and installations, providing logistical management support, and approving and coordinating contractor shop drawings and design changes.

DESIGN CONTRACTS

The initial FBO contract with SOM/GP was signed for a fixed fee of \$630,000. The USST manager told us the initial contract was for the conceptual design and planning of the project but not the construction design details.

The contract has been amended 26 times, increasing the scope of the services provided by SOM/GP. For example, on October 1979, the contract was amended to require SOM/GP to provide various architectural and engineering services during construction of the project. This amendment had a \$320,000 ceiling, excluding travel and subsistence, until the total maximum cost for all services under this amendment could be established. Through October 27, 1986, FBO increased the ceiling 12 more times by a total of \$3.6 million.

Another example of a major contract modification occurred in March 1983, when SOM/GP's services during construction were expanded to include the services of a field representative in Moscow. The field representative's responsibilities included interpreting the intent of the design and approving and preparing minor revisions to the drawings, specifications, and approved shop drawings.

FBO records show that as of December 31, 1986, architectural and engineering obligations totalled \$7.99 million, with \$7.65 million expended. According to a USST official, SOM/GP's work is essentially complete. Additional design work is anticipated for security-related projects in the office building. Such work will require additional obligational authority.

Soviet Involvement in Project Design

In line with the 1972 Agreement on Conditions of Construction and the construction contract, SVSI was to be involved in the design work and architectural and technical supervision. Accordingly SOM/GP developed preliminary working drawings and outline

specifications to facilitate the Soviets' detailed structural design effort. FBO officials believe the Soviets' detailed working drawings generally complied with the SOM/GP structural and design parameters.

The Soviets proposed two major design changes, which FBO approved at no additional cost. One substantially increased the number of piles and the size of the pile caps and, according to FBO officials, resulted in an increase in the overall stability of the foundation. The other proposal concerned the addition of a wall to separate the water reservoirs under the courtyard in front of the office building from the subterranean wall of the office building. According to FBO officials, the SOM/GP design specified a common wall, which presented a risk of water seepage through the wall into the basement of the new office building.

Design Changes

Bulletins are used to document revisions to the original SOM/GP design. Since November 1979, 130 bulletins have been issued, and according to the USST architect, they can be classified into three distinct areas: (1) changes due to Soviet construction techniques and the lack of adequate Soviet materials, (2) changes due to security upgrades and other new State Department requirements, and (3) more detailed designs to enable contractors to prepare bid proposals and corrections to the approved design. Some of the major design changes, according to the USST architect, related to general electrical revisions, the change from brick partitions to dry walls, roof modifications, addition of gatehouses, and the detailed design of floors 4 through 7 of the office building.

One of the design changes resulted from inadequate design by the architect, according to an FBO official. This problem involved ice and snow accumulation on the housing units' balconies during winter. FBO was concerned that when the ice and snow thaws, water would infiltrate the balcony windows and cause damage to flooring and drywall. To correct the problem, FBO contracted with a firm to provide and install balcony enclosures; however, installation on the balconies is not complete and FBO has notified the contractor that the quality of the balcony enclosures does not meet the contract requirements. FBO planned to submit a claim for extra costs incurred to correct the problem but, as of February 1987, had not developed detailed cost information on the total amount of this claim.

CONSTRUCTION AND MATERIAL CONTRACTS

Sixty-eight construction and material contracts totalling about \$111.4 million have been awarded to U.S., Soviet, and third-country

contractors. The Soviet contract is the largest at \$56.9 million; the remaining \$54.5 million was awarded primarily to U.S. contractors.¹

The Soviet contract provided that SVSI would (1) perform all initial work, including site preparation and structural work, and (2) install electrical and mechanical systems and perform architectural finishing of floors one through three of the new office building under the supervision of U.S. contractors. Soviet-manufactured precast reinforced concrete elements were used in the structural portion of the complex. Interior finishing of floors four through eight of the new office building was to be done exclusively by Americans. The contract provided that the United States could have a maximum of 50 specialists for construction, installation, and supervision.

Soviet contractor

On June 30, 1979, FBO awarded a contract to SVSI for \$54,600,000 for construction and \$3,816,450 for the design work and architectural and technical supervision discussed above (a total contract price of \$58,416,450). The Soviet contract was amended on April 15, 1982, to reflect the U.S. desire to change from brick partitions and plaster finishing of walls and ceilings to gypsum partitions and dry wall. This amendment resulted in an overall reduction of \$1,561,670 to the original contract price. As of January 1987, the United States had paid the Soviet contractor about \$50.6 million.

U.S. Contractors

We reviewed nine of the largest construction and material contracts awarded to U.S. firms, accounting for about \$47.4 million. As of December 31, 1986, \$44.3 million had been expended. These nine contracts had been modified a total of 80 times. Generally, these modifications were due to extensions of contractor performance due to Soviet construction delays, new security requirements, replacement of obsolete materials, material storage, and the addition of fire-treated materials.

The two largest contracts, Wallace O'Connor (electrical and mechanical) and Circle Industries (architectural finishing), were modified 28 and 21 times, respectively. Contract modifications increased the O'Connor contract by \$7.3 million and the Circle contract by \$1.6 million. The major contract price increase (O'Connor - \$5.1 million and Circle - \$1.4 million) was attributed

¹In addition FBO also awarded service contracts for such things as non-personal services, material transportation, housing for U.S. personnel, and other services.

to the need to extend the contract performance due to the Soviet contractor's delays. Table I.1 summarizes the Soviet contract and nine of the largest contracts awarded to U.S. firms.

Table I.1: Modifications and Payments for Ten of the Largest Construction and Material Contracts
Status as of December 31, 1986

Contractor	Description	Original Contract Amount	Total No. Mods.	Total \$ Amount of of Mods.	Current Contract Amount	Total Expenditures	Balance Remaining on Contract
SVSI	Site Preparation & Structural Work	\$58,416,450 ^a	1	(\$1,561,670)	\$56,854,780	\$50,555,609	\$6,299,171
Wallace O'Connor	Install Elec. and Mech. Systems	14,366,000	28	7,322,925	21,688,925	20,379,376	1,309,549
CIRCLE Industries	Install Architectural Finishings	7,827,000	21	1,634,429	9,461,429	9,020,759	440,669
CIRCLE Industries	Install Gypsum Material	359,791	2	244,729	604,519	569,837	34,683
CIRCLE Industries	Gypsum Material	606,293	5	89,758	696,051	690,550	5,501
AEGIS	Install Windows/ Doors	5,654,306	7	659,690	6,313,996	6,007,967	306,029
AEGIS	Install Roofing & Waterproofing	2,851,713	5	812,655	3,664,368	3,546,767	117,600
AEGIS	Architectural Finishing Materials	1,057,695	8	59,180	1,116,875	1,044,924	71,951
OTIS	Install Elevator System	1,526,305	3	69,560	1,595,865	1,095,217	500,648
COMSEARCH	Provide Secure Conference Rooms	2,236,608	1	(22,453)	2,214,155	1,959,831	254,325
Total		<u>\$94,902,161</u>	<u>81</u>	<u>\$9,308,803</u>	<u>\$104,210,963</u>	<u>\$94,870,837</u>	<u>\$9,340,126</u>

^aContract amount includes \$3,816,450 for Soviet design work and architectural and technical supervision.

CONSTRUCTION PROGRESS

In March 1977, the United States and the Soviet Union established a July 1, 1982, target date for completion of construction of their respective embassy complexes. However, about 2 years were spent in negotiating a contract for the construction of the U.S. embassy. According to a State Department official, the principal causes of the negotiation delays were the price and U.S. insistence on maintaining control at the site and ensuring control by American technicians. Because FBO did not sign a construction contract with the Soviet contractor until June 1979, the target date for project completion slipped.

According to FBO officials and documentation, the lack of timely site preparation and the Soviet contractor's failure to follow the master construction schedule caused serious problems in the completion of the complex. Prior to the start of construction, FBO and SVSI agreed to the schedule which showed the sequencing for building the different facilities. However, according to FBO, the Soviet contractor ignored the schedule from the beginning and started construction on facilities in a different sequence than was called for in the plan.

According to FBO officials, this random pattern of work caused construction materials to be ordered and staged improperly. It conflicted with and often delayed the work by the American contractors, who were trying to follow the master schedule. It also caused conflicts between FBO and the Soviet contractor over the orderly approval of various working drawings. The following examples, taken from FBO correspondence to the Soviet contractor, illustrate FBO's concern for SVSI's compliance with the approved master schedule.

- FBO advised the Soviet contractor, after the contract was signed in June 1979, that concrete pile caps could not be poured until a temporary construction fence was completed and the site secured under American supervision and control. The Soviet contractor estimated that the fence would be completed about January 1, 1980, within the established milestone dates; however, the date was revised several times. The fence was completed and accepted by FBO about 7 months late, on August 1, 1980.
- Early work was delayed by a significant ground water problem. Despite repeated warnings from FBO to the Soviet contractor, the ground water problem lasted well into the construction program, causing much rework of waterproofing and causing long delays, such as in the construction of one of the housing units.
- Because Soviet work was not performed in sequence with the approved master schedule, the American contractors could not proceed with their work until the Soviet contractor had completed the enclosed areas. For example, most of the precast

structural work in the gymnasium and swimming pool area was erected in 1981, but the roof cast-in-place concrete and floor slabs were not completed as of October 1982, which prevented the installation of mechanical and electrical work.

FBO officials stated that numerous unsuccessful attempts were made to persuade the Soviet contractor to conform to the master schedule. In December 1983, nearly 4 years after construction had begun, FBO developed a revised master plan to reflect the work completed up to that time and a critical path sequence for completion of the complex. This effort was coordinated with both sides and a copy of the revised master plan provided to the Soviet contractor. However, according to FBO officials, the Soviet contractor never formally acknowledged or agreed to the revised master plan and continued to perform work on the complex out of sequence.

According to FBO officials, construction delays were also caused by the Soviet contractor's failure to provide the number and the type of specialty craftsmen to maintain progress; failure to meet accepted quality standards; and the inability to supply specified materials. (Table I.2 illustrates the milestone time frame slippages, based on data supplied by FBO project officials.)

Table I.2 History of the Soviet Contractor's Construction Progress for U.S. Embassy, Moscow

Unit	Master Schedule		Actual Start Date	Actual/Estimated Completion	Total Months From Planned to Actual Completion
	Original Start Date	Original Completion Date			
Housing 1	4/1/80	10/31/83	1/1/80	6/6/86	31
Housing 2	1/1/80	12/31/83	1/1/80	6/23/86	30
Housing 3	12/15/79	10/30/83	7/15/80	8/13/86	33
Housing 4	11/15/79	3/31/83	2/1/80	10/28/86	43
School & Marine Quarters	1/15/80	3/31/83	2/1/80	12/86	45
Concourse	11/15/79	3/31/83	2/15/80	2/87 ^a	47
Consulate	1/1/80	8/31/83	5/15/80	2/87 ^b	42
New Office Bldg.	10/1/79	4/30/83	12/1/79	Unknown ^c	Unknown
General Site	2/1/80	10/31/83	12/79	5/87 ^d	43

^aThe post verbally accepted the concourse area in December 1986.

^bThe consulate will not be occupied until the new office building is completed.

^cConstruction was suspended on August 17, 1985. The Project Director estimates that it will take at least 18 months to complete the office building once all applicable construction firms are cleared and ready to begin construction. Completion of new office building is projected for late 1989, but that is pending the outcome of several studies.

^dGeneral site includes complex underground utilities, road, brick fence, concrete piles and landscaping. Only landscaping remains to be completed.

FBO experienced problems related to the quality of Soviet construction, and Soviet construction intolerances hindered architectural finishing. For example, in December 1984, FBO notified the Soviets that U.S. contractors had reported that certain Soviet-laid masonry walls were out of alignment, not in the design locations, and were out of plumb beyond specified design tolerances. The results were that finish material's design dimensions could not be maintained with the present finish wall design or normal forming procedures. FBO officials stated that they often required the Soviet contractor to redo construction in order to meet the desired quality standards.

FBO officials cited radiator covers as one problem faced during finishing. The original design required six different radiator cover sizes; however, due to construction intolerances, 26 different sizes had to be used. According to an FBO official, the situation improved when a SOM/GP field representative arrived in Moscow to make day-to-day construction interpretations of design intent and help resolve these kinds of fit problems.

On August 17, 1985, the FBO on-site acting project director directed the Soviet contractor to suspend all work on the new office building. The Soviet construction contract for all work in the interior of the office building was subsequently terminated on March 3, 1986. This termination notice, however, did not preclude the Soviet contractor from completing its contractual obligations on the other parts of the project.

QUALITY ASSURANCE

FBO representatives stated that the project engineers and construction personnel inspected all phases of construction. The inspectors prepared daily reports that highlighted problems, work progress, field tests, and other matters for the on-site project director. Each inspector prepared a weekly summary inspection/progress report, which was made available to all inspectors and the project director.

FBO representatives stated that quality assurance practices were carried out by experienced engineers and construction personnel. A State Department official told us that quality assurance practices were implemented to the extent feasible, given the limited number of U.S. inspectors permitted in relation to the large number of Soviet personnel on-site. In accordance with a contractual provision, the number of on-site FBO project personnel was limited to nine.

FBO's on-site team initially consisted of the project director and a structural engineer plus U.S. contractor mechanical, architectural, and electrical engineers; a structural engineer/coordinator; and a logistic scheduler. In early 1981, Army Corps of Engineers construction specialists--mechanical,

architectural, and civil engineers and a logistic scheduler--joined the on-site team under a 1980 memorandum of understanding between the Departments of State and Army. The Corps of Engineers personnel replaced the U.S. contractor personnel. In early 1982, a construction field representative was added to monitor overall construction progress.

From March 1978 to November 1985, except for a 14-month lapse, the project director furnished the FBO contracting officer monthly progress reports on construction performance. From July 1980 through October 1981, no monthly progress reports were prepared since, according to an FBO document, no planner, scheduler, and logistics manager was on site to prepare them because of the transition from contractor personnel to Corps of Engineer personnel. No monthly progress reports have been prepared since November 1985, because the work at the new office building was suspended in August.

Other means were also used to alert key people to construction problems:

- A contractor compliance notice system was implemented in 1981 as a method to formally notify the Soviet contractor of problems and to obtain the contractor's written acknowledgment. According to the July 1985 monthly progress report, the Soviet contractor had ignored the majority of the 121 compliance notices and had not been providing labor for corrective work.
- FBO officials said that during construction, the project director was in daily contact with FBO Washington through a direct telephone line and a telecopier.
- According to the USST manager, video tapes were made to document the project status and FBO management periodically conducted on-site visits to review the project.

Several studies have been initiated on the quality of construction in the new office building. The National Bureau of Standards is conducting an independent analysis of the embassy construction and is to submit a report to the Congress, with recommendations and cost estimates for correcting any structural flaws or construction defects. In addition, a special commission, headed by former Secretary of Defense James Schlesinger, is studying various issues related to the project for the Secretary of State, including structural integrity and security concerns. Furthermore, the Secretary of State and the Director of Central Intelligence are conducting a technical security assessment of the new office building and will jointly report the results of the study to the Congress. The completion of the new office building is pending the outcome of these studies.

U.S. AND SOVIET CONTRACT DAMAGE CLAIMS

On February 1, 1984, FBO submitted its first claim against the Soviet contractor for compensation of damages, costs, and expenses accruing to FBO as the result of the Soviet contractor's delays in construction. The notice indicated that additional statements of claims would be made when such information became apparent. In 1985 and 1986, FBO increased its claim related to SVSI construction delays. In March 1987, FBO submitted its first claim for damages related to defective work at the new office building.

Since there was no contractual relationship between the Soviet contractor and U.S. contractors, the U.S. contractors submitted claims to FBO. FBO then settled the claims with the U.S. contractors, and the settlements became the basis for FBO's claim against the Soviet contractor. FBO has also submitted claims to cover its operating expenses in Moscow and Washington for supervising the project beyond the original date of project completion.

Congress appropriated an additional \$20.1 million in a 1985 Supplemental to cover the expected claims due to the Soviet delays in construction. At that time, the Department of State estimated that approximately \$13 million would be needed to settle U.S. contractor claims caused primarily by Soviet delay and malperformance and about \$7 million for additional FBO operating expenses. As of March 4, 1987, FBO had submitted approximately \$11.9 million worth of claims to the Soviets (\$8.6 million for delay claims and \$3.3 million for damages related to the problems at the new office building). State Department officials indicated that they plan to submit additional claims in the near future.

The Soviet contractor, on the other hand, maintains that FBO is responsible for the delays. On August 10, 1984, the Soviet contractor submitted a claim against FBO for unwillingness to carry out the contract obligations in a timely manner. The claim asserted U.S. delays in providing materials and the failure to approve working drawings in accordance with the master schedule.

On September 12, 1985, FBO demanded that the dispute be referred to arbitration in accordance with the provisions in the construction contract. On April 22, 1986, the Soviet contractor also demanded that the dispute be referred to arbitration and updated its claim against FBO. This matter has not yet been resolved.

AUTHORIZED APPROPRIATIONS FOR THE U.S. EMBASSY PROJECT
IN MOSCOW

The Department of State testified before Congress in 1976 that the U.S. Embassy complex would cost between \$75 million and \$100 million. However as of December 1986, \$192 million had been appropriated of which \$142.9 million had been obligated. According to FBO officials, the cost of the project has increased due to a number of factors including inflation, new security requirements, and project delays.

Table II.1 provides a history of appropriations for the complex by fiscal year.

Table II.1: Annual Appropriations for Moscow Embassy Project

Fiscal year	AMOUNT APPROPRIATED		Department of State Budget Justification
	Amount ---(millions)---	Cumulative amount	
1977	\$30,000	\$30,000	Initial phase of construction to include foundations and skeleton frames and American supervision.
1978	45,000	75,000	The second phase of construction to complete construction, including funds for interior finishing.
1979	16,500	91,500	Completion of work in the second and final phase of the project. Estimate includes funds for the exterior facade, American supervision, and the material, equipment, and labor for the interior finishings.
1980	-----	91,500	-----
1981	12,000	103,500	To continue construction and initiate procurement of U.S. supplied labor and materials and furnishings for the complex.

<u>AMOUNT APPROPRIATED</u>			<u>Department of State Budget Justification</u>
<u>Fiscal</u> <u>year</u>	<u>Amount</u> ---(millions)---	<u>Cumulative</u> <u>amount</u>	
1982	\$31,700	\$135,200	To continue construction and initiate procurement of U.S. supplied labor and materials and furnishings for the complex. The estimate of project cost has risen to about \$135 million because of inflation and increased project requirements.
1983	4,625	139,825	Due to unforeseen and unbudgeted expenses relating directly to providing protection from electromagnetic radiation and installing advanced security countermeasures. Includes authority to use \$825,000 acquired from the sales of State property.
1984	7,140	146,965	Additional costs for revised security systems and services.
1985	20,068	167,033	Actual anticipated U.S. contractors' delay claims as well as additional recurring costs due to Soviet contractor delays.
1986	25,000	192,033	Estimated cost of the ongoing comprehensive security inspection and additional security measures in the office building.

The Department of State's fiscal years 1977 through 1979 budget justifications indicated that \$91.5 million would complete the project. However, earlier internal State Department estimates show that this amount was not intended to be the total funds required. As early as October 1975, internal FBO records show the total costs for the Moscow project to be about \$100 million or more. Internal State documents dated November 1978 and July 1979 indicated the total estimated project costs at \$129 million with a 1983 project completion date.

FBO officials stated that if the project had been completed in December 1983, total project costs, including inflation and new requirements, would have been about \$135.2 million, which reflects the approved appropriations through fiscal year 1982. An FBO project official attributed an additional \$36.8 million to security enhancements and a cost overrun of about \$20 million due to Soviet delays.

CHRONOLOGY OF KEY EVENTS IN THE CONSTRUCTION
OF THE NEW EMBASSY COMPLEX IN MOSCOW

- June 28, 1968 Department of State entered into an agreement with Skidmore, Owings & Merrill, San Francisco, and Gruzen and Partners, New York, to provide architectural and engineering services for the new U.S. embassy complex in Moscow.
- May 16, 1969 Agreement for exchange of sites between the United States and the Soviet Union was signed in Moscow.
- December 4, 1972 Agreement on Conditions of Construction between the United States and the Soviet Union was signed.
- March 26, 1977 Protocol between the United States and Soviet Union was signed. The protocol documented U.S. approval to allow the Soviets to begin construction of its embassy complex in Washington at any time after the exchange of sites.
- March 30, 1977 Nearly 8 years after the May 16, 1969, agreement for the exchange of sites, the United States and Soviet Union concurrently accepted their respective project sites by exchange of notes. The exchange of notes provided that construction could begin on the Soviet Embassy complex in Washington on March 30, 1977, and the construction of the U.S. complex would commence by May 15, 1978, with site preparation to begin no later than October 1, 1977. A July 1, 1982, target date was established for the completion of construction of U.S. and Soviet embassy complexes.
- May 15, 1978 Scheduled start of the U.S. embassy construction project in Moscow was delayed. Contract negotiations between the United States and the Soviet Union continued.
- June 30, 1979 FBO entered into a contract with Sojuzvneshstrojimport, a Soviet firm.
- September 14, 1979 U.S. Embassy, Moscow, cornerstone was laid.
- November 22, 1979 Pile driving commenced at the U.S. Embassy construction site.
- December 26, 1979 FBO and the Soviet contractor signed a master

schedule determining the coordination dates of construction activities.

- October 9, 1980 FBO and the Department of Army signed a memorandum of understanding on the detailing of the Corps of Engineers construction management personnel to Moscow.
- February 1, 1982 FBO notified the Soviet contractor that the contractual limitation of 9 persons for the on-site FBO project team severely constrained its ability to manage the project given the construction workload. As a result, FBO requested that the Soviet contractor agree to increase the on-site FBO staff to a number not to exceed 12. This request was not approved.
- March 31, 1983 United States issued a stop work order to the Soviet contractor to cease masonry work on the fifth floor of the office building to facilitate U.S. inspection of structural columns. The order also instructed the Soviets to take all appropriate steps to minimize any loss or delay that might ensue by performing work in other areas of the project. The stop work order was lifted on June 3, 1983.
- May 23, 1983 Soviet contractor personnel did not report to work due to health concerns about U.S. radiographic inspection of structural columns in the new office building. The Soviet work stoppage lasted until June 6, 1983.
- December 31, 1983 Project completion date as specified in the approved master schedule was not met.
- February 1, 1984 FBO submitted a claim for \$1,044,838 against the Soviet contractor for compensation of damages, costs, and expenses accruing to FBO as the result of the Soviet contractor's construction delays.
- August 10, 1984 The Soviet contractor submitted a claim against FBO for its unwillingness to carry out its contract obligations in a timely manner. The claim asserted U.S. delays in providing materials and the failure to approve working drawings in accordance with the master schedule. The amount of the claim was \$2.75 million rubles (about \$4.3 million at the current exchange rate).

February 28, 1985 FBO increased its claim against the Soviet contractor by \$3,493,570 for compensation of damages, costs, and expenses accruing to FBO as the result of the Soviet contractor's delays.

August 17, 1985 Soviet construction work at the new office building was halted when the Soviet contractor was locked out. (This situation remains as of April 1987 pending the completion of several security and structural inspections.)

September 12, 1985 The United States demanded that the dispute with the Soviet contractor be referred to arbitration in accordance with the provisions of the construction contract.

February 28, 1986 FBO increased its claim against the Soviet contractor by \$4,044,820 for compensation of damages, costs, and expenses accruing to FBO as the result of the Soviet contractor's delays.

March 3, 1986 United States terminated the Soviet contractor's obligations for all work on the interior of new office building.

April 22, 1986 The Soviet contractor demanded that the dispute with the United States be referred to arbitration in accordance with the provisions of the construction contract. The Soviet contractor increased its claim to \$6.55 million rubles (about \$10.3 million at the current exchange rate).

June 13, 1986 U.S. Embassy, Moscow, accepted the second and third floors of the school/Marine security guard quarters building.

June 23, 1986 U.S. Embassy, Moscow, accepted the interior of housing unit 1 as substantially complete.

September 15, 1986 U.S. Embassy, Moscow, accepted the interior of housing unit 2 as substantially complete.

October 14, 1986 U.S. Embassy, Moscow, accepted the interior of housing unit 3 as substantially complete.

October 30, 1986 Public Law 99-591 provided that up to \$1 million shall be available for transfer under the Economy Act to the Director of the National Bureau of Standards for the purpose of conducting an independent analysis of the new U.S. embassy office building being constructed

in Moscow. A report including this analysis, an assessment of the current structure, and recommendations and cost estimates for correcting any structural flaws or construction defects is to be submitted to Congress no later than April 15, 1987.

- November 20, 1986 U.S. Embassy, Moscow, accepted selected apartments of housing unit 4 as substantially complete.
- February 14, 1987 The concourse was substantially complete and in use.
- March 4, 1987 FBO submitted an additional claim of \$3.3 million against the Soviet contractor for damages related to problems with the new office building.

KEY DEPARTMENT OF STATE PERSONNEL
ASSOCIATED WITH THE MOSCOW EMBASSY PROJECT

In response to your request, the following table provides the names of State Department personnel who have served as Assistant Secretary of State for Administration, FBO Director, Moscow Project Architect, Moscow Project Manager, FBO Moscow Project Director, U.S. Support Team Manager, and Security Engineering Officer. The listing indicates whether these individuals are still employed by the Department of State. Information presented below was obtained from various Department of State sources. Some of the personnel that have separated from the Foreign Service may be currently employed with the Department of State as a contractor.

OFFICE OF THE ASSISTANT SECRETARY OF STATE FOR ADMINISTRATION

12/85 - Present	Donald J. Bouchard	--
12/83 - 07/85	Robert E. Lamb	Department of State Acting Assistant Secretary of State, Bureau of Diplomatic Security
09/79 - 08/83	Thomas M. Tracy	Separated
11/73 - 06/79	John M. Thomas	Separated
06/71 - 03/73	Joseph F. Donelan Jr.	Separated
09/69 - 05/71	Francis G. Meyer	Separated
02/67 - 09/69	Idar Rimestad ¹	Separated

FBO DIRECTOR

08/85 - Present	Richard N. Dertadian	--
07/85 - 08/85	Marvin Smith (Acting)	Separated
07/83 - 06/85	Harvey A. Buffalo	Department of State Inspector, Office of Policy and Program Review
01/78 - 07/83	William L. Slayton	Separated
07/77 - 01/78	Paul R. Serey (Acting)	Department of State Acting Director, East Asian and Pacific Affairs/Executive Office

¹Held position title of Deputy Under Secretary of State for Administration.

09/73 - 07/77	Orlan C. Ralston	Separated
01/67 - 08/73	Earnest J. Warlow	Separated
10/65 - 01/67	Ralph Scarritt	Separated

MOSCOW PROJECT ARCHITECT

05/67 - 08/77	C. Rex Hellmann	Department of State Office of Foreign Buildings Operations, Building, Design, and Engineering Division
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MOSCOW PROJECT MANAGER

09/86 - Present	Joseph W. Toussaint	--
11/83 - 08/86	James A. Lovell	Department of State Administrative Officer, Bureau of Management, Management Operations, Planning Staff
09/78 - 10/83	James B. Lackey	Department of State Bureau of Administration, Operations, Director of Supply, Transportation, and Procurement.

FBO-MOSCOW PROJECT DIRECTOR

11/86 - Present	William Penney	--
07/86 - 04/87	C. Bernard Durden ²	--
10/83 - 07/86	Oleg Skidan	Department of State Office of Foreign Buildings Operations, Area Branch Chief for Europe.
05/79 - 10/83	Victor Vespertino	Department of State Office of Foreign Missions, Construction Project Manager
03/78 - 05/79	E. E. Ballard	Separated

U.S. SUPPORT TEAM MANAGER

02/84 - Present	Frederick B. Bunke	--
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²Acting Project Director on site in Moscow.

11/83 - 01/84	James A. Lovell	Department of State Administrative Officer, Bureau of Management, Management Operations, Planning Staff
07/80 - 10/83	James B. Lackey	Department of State Bureau of Administration, Operations, Director of Supply, Transportation, and Procurement
11/79 - 06/80	Victor D. Russillo	Separated
09/78 - 10/79	James B. Lackey	Department of State Bureau of Administration, Operations, Director of Supply, Transportation, and Procurement

SECURITY ENGINEERING OFFICER³

08/86 - Present	Thomas Jendrysik	Department of State Officer in Charge, Engineering Services Officer, Moscow, U.S.S.R.
07/84 - 08/86	Thomas Bruguier	Department of State Bureau of Diplomatic Security, Office of Security Technology, Washington, D.C.
08/82 - 07/84	Maclyn Musser	Department of State Bureau of Diplomatic Security, Counter Measures Program Technical Collection and Analysis, Washington, D.C.
03/80 - 08/82	Frederick Crosher	Department of State Officer in Charge, Engineering Services Center, Athens, Greece
06/77 - 03/80	Jon Lechevet	Department of State Bureau of Diplomatic Security, Counter Measures Program, Washington, D.C.

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³Prior to 1979, the Security Engineering Officer was assigned to the old embassy complex. During the period January 1979 to mid-1984, a Security Engineering Officer was assigned full-time to the new embassy construction project. Beyond the mid-1984 timeframe, there was one Security Engineering Officer assigned to the old and new embassy complexes.

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