

November 2003

# EMBASSY CONSTRUCTION

## State Department Has Implemented Management Reforms, but Challenges Remain



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-04-100](#), a report to the Chairman, Committee on Foreign Relations, U.S. Senate

## Why GAO Did This Study

Since the 1998 bombings of two U.S. embassies in Africa, the State Department has done much to improve physical security at overseas posts. However, most overseas diplomatic office facilities still do not meet the security standards State developed to protect these sites from terrorist attacks and other dangers. To correct this problem, State in 1999 embarked on an estimated \$21 billion embassy construction program. The program's key objective is to provide secure, safe, and functional compounds for employees overseas—in most cases by building replacement facilities. In 2001, State's Bureau of Overseas Buildings Operations (OBO)—which manages the program—began instituting reforms in its structure and operations to meet the challenges of the embassy construction program. This report discusses (1) OBO's mechanisms for more effectively managing the embassy construction program and (2) the status of and challenges facing the program.

We received comments from State, which said that the report is a fair and accurate representation overall of the Department's overseas construction process.

[www.gao.gov/cgi-bin/getrpt?GAO-04-100](http://www.gao.gov/cgi-bin/getrpt?GAO-04-100).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jess Ford at (202) 512-4128 or [fordj@gao.gov](mailto:fordj@gao.gov).

# EMBASSY CONSTRUCTION

## State Department Has Implemented Management Reforms, but Challenges Remain

### What GAO Found

OBO in 2001 began instituting organizational and management reforms designed to cut costs, put in place standard designs and review processes, and reduce the construction period for new embassies and consulates. OBO now has mechanisms to more effectively manage the embassy construction program, including

- an annual Long-Range Overseas Buildings Plan to guide the planning and execution of the program over a 6-year period;
- monthly project reviews at headquarters;
- an Industry Advisory Panel for input on current best practices in the construction industry;
- expanded outreach to contractors in an effort to increase the number of bidders;
- ongoing work to standardize and streamline the planning, design, and construction processes, including initiation of design-build contract delivery and a standard embassy design for most projects;
- additional training for OBO headquarters and field staff; and
- advance identification and acquisition of sites.

State's program to replace about 185 vulnerable embassies and consulates is in its early stages, but the pace of initiating and completing new construction projects has increased significantly over the past two fiscal years. As of September 30, 2003, State had started construction of 22 projects to replace facilities at risk of terrorist or other attacks. Overall, 16 projects have encountered challenges that have led or, if not overcome, could ultimately lead to extensions in the completion date or cost increases in the construction contract. According to OBO, project delays have occurred because of such factors as changes in project design and security requirements; difficulties hiring appropriate American and local labor with the necessary clearances and skills; differing site conditions; and unforeseen events such as civil unrest. In addition, the U.S. government has had problems coordinating funding for projects that include buildings for the U.S. Agency for International Development. None of the projects started since OBO instituted its reforms has been completed; thus GAO believes it is too early to assess the effectiveness of the reforms in ensuring that new embassy and consulate compounds are built within the approved project budget and on time.

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**Abbreviations**

OBO Bureau of Overseas Buildings Operations  
USAID U.S. Agency for International Development

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

November 4, 2003

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

Dear Mr. Chairman:

Since the 1998 bombings of two U.S. embassies in Africa,<sup>1</sup> the State Department has done much to improve physical security at overseas posts, such as constructing perimeter walls and anti-ram barriers at many facilities. Despite these security upgrades, however, most overseas diplomatic office facilities do not meet security standards that State developed to protect them from terrorist attacks and other dangers. As a result, thousands of American and Foreign Service National U.S. government employees may be vulnerable to terrorist attacks. In March 2003,<sup>2</sup> we testified on these security deficiencies at overseas diplomatic facilities, reporting that many facilities are in poor condition, do not meet fire and safety standards, and are in need of major maintenance. To correct the security shortcomings at existing embassies and consulates, the State Department in 1999 embarked on an estimated \$21 billion embassy construction program, the largest program of its kind in the department's history. The program's key objective is to provide secure, safe, and functional compounds for employees assigned to work at U.S. embassies and consulates around the world, in most cases by building replacement facilities. State's Bureau of Overseas Buildings Operations (OBO) is responsible for planning and managing the program. Recognizing the challenges of managing State's expanded overseas construction program, OBO in 2001 began to institute organizational and management reforms in its structure and operations.

At your request, this report discusses (1) OBO's mechanisms for more effectively managing State's construction program to replace vulnerable embassies and consulates and (2) the status of and challenges facing the overall construction program.

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<sup>1</sup>The 1998 terrorist bombings of the U.S. embassies in Nairobi, Kenya, and Dar Es Salaam, Tanzania, killed more than 220 people and injured 4,000.

<sup>2</sup>U.S. General Accounting Office, *Overseas Presence: Conditions of Overseas Diplomatic Facilities*, [GAO-03-557T](#) (Washington, D.C.: Mar. 20, 2003).

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To address these objectives, we reviewed the report of the Overseas Presence Advisory Panel,<sup>3</sup> earlier GAO reports that outlined problems in State's embassy construction program, State's Long-Range Overseas Buildings Plans for the past 3 years, monthly project performance documents, contract modifications, and other OBO documents. We also interviewed key State Department officials and contractors currently working on new embassy construction projects to determine the steps OBO has taken to more effectively manage the construction program. Further, we visited two field locations—in Sofia, Bulgaria, and Yerevan, Armenia—where we observed the level of management and supervision at the new embassy construction sites and the contractor's performance on the projects. Appendix I provides more information on our scope and methodology.

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## Results in Brief

OBO in fiscal year 2001 began to institute a number of organizational and management reforms in its structure and operations designed to cut costs, put in place standard designs and review processes, and reduce the construction period for new embassies and consulates. Thus, OBO now has a number of mechanisms in place to more effectively manage the expanded construction program. These mechanisms include the annual Long-Range Overseas Buildings Plan, the first of which was developed in July 2001, which guides the planning and execution of its overseas construction program over a 6-year period, among other things. OBO in 2001 also instituted monthly project reviews at headquarters and in 2002 established a panel of industry advisors for input on current best practices in the construction industry. In addition, OBO expanded its outreach to contractors in an attempt to increase the number of contractors that bid on construction projects, has put in place standard designs, and has streamlined its project design delivery processes. Furthermore, OBO has increased its efforts to train staff in a variety of positions and to acquire sites well in advance of planned construction.

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<sup>3</sup>Secretary of State Albright established the Overseas Presence Advisory Panel following the 1998 embassy bombings in Africa. Department of State, *America's Overseas Presence in the 21<sup>st</sup> Century, The Report of the Overseas Presence Advisory Panel* (Washington, D.C.: November 1999).

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State's program to replace about 185 vulnerable embassies and consulates is in its early stages, but the pace of initiating and completing new construction projects has increased significantly over the past three fiscal years. From fiscal years 1999 through 2003, State received approximately \$2.7 billion for the construction program. As of September 30, 2003, State had started construction of 22 projects to replace embassies and consulates at risk of terrorist or other attacks.<sup>4</sup> Eight of the 22 projects were started before OBO began to institute its recent management reforms—that is, before fiscal year 2001—and the remaining 14 were started since then. Overall, 16 projects—7 that were started before OBO's reforms and 9 that were started after—have encountered challenges that have led or, if not overcome, ultimately could lead to extensions to the project completion date or cost increases in the construction contract, which represents the largest line item in project budgets. According to OBO reports, construction projects have been delayed due to such factors as changes in project design and security requirements, difficulties hiring appropriate American and local labor with the necessary clearances and skills, differing site conditions, and unforeseen events such as civil unrest. Moreover, the U.S. government has had difficulty in coordinating funding for projects that include buildings for the U.S. Agency for International Development (USAID), which can result in increased project costs and security risks to U.S. government personnel. None of the projects started since OBO's management reforms has been completed; thus, we believe it is too early to assess the effectiveness of these reforms in addressing these challenges and in ensuring that new embassy and consulate compounds are built within the approved project budget and on time.

We received written comments from the Department of State, which we have reprinted in appendix III. State said that the report is a fair and accurate representation overall of the department's overseas construction process and properly cites all of OBO's management reforms.

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## Background

OBO was instituted on May 15, 2001, replacing State's Office of Foreign Buildings Operations. OBO manages the construction of new facilities that can satisfy the State Department's stringent security standards and provide U.S. diplomatic personnel secure, safe, and functional office and residential environments. Along with the input and support of other State Department

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<sup>4</sup>OBO awarded contracts for seven additional projects toward the end of fiscal year 2003. These new projects were outside the scope of our review.

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bureaus, foreign affairs agencies, and Congress, OBO sets worldwide priorities for the design, construction, acquisition, maintenance, use, and sale of real properties and the use of sales proceeds. OBO is composed of five main offices: Planning and Development, Real Estate and Property Management, Project Execution, Operations and Maintenance, and Resource Management. The construction program is located primarily in the Project Execution Office, specifically in the Construction and Commissioning Division within that office.

In response to terrorist threats, the State Department in 1986 began an embassy construction program, known as the Inman program, to protect U.S. personnel and facilities. In 1991, we reported that State was unable to complete as many projects as originally planned due to systemic weaknesses in program management, as well as subsequent funding limitations.<sup>5</sup> This construction program suffered from delays and cost increases due to, among other things, poor program planning, difficulties acquiring sites, changes in security requirements, and inadequate contractor performance. Following the demise of the Inman program in the early 1990s, the State Department initiated very few new construction projects until the 1998 embassy bombings in Africa, which prompted additional funding for security upgrades and the construction of secure embassies and consulates.

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<sup>5</sup>U.S. General Accounting Office, *State Department: Management Weaknesses in the Security Construction Program*, [GAO/NSIAD/92-2](#) (Washington, D.C.: November 1991).



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Through State's security upgrade program, the department has done much since the 1998 bombings to upgrade physical security at existing overseas posts without building new embassy or consulate compounds. These security upgrades have included constructing perimeter walls, anti-ram barriers, and access control facilities at many posts. However, even with these improvements, most office facilities do not meet security standards that State developed to protect overseas diplomatic office facilities from terrorist attacks and other dangers. As of December 2002, the primary office building at 232 posts<sup>6</sup> lacked desired security because it did not meet one or more of State's five key security standards<sup>7</sup> of (1) 100-foot setback between office buildings and uncontrolled areas, (2) perimeter walls and/or fencing, (3) anti-ram barriers, (4) blast-resistant construction techniques and materials, and (5) controlled access at the perimeter of the compound. Only 12 posts had a primary building that met all five standards. As a result, thousands of U.S. and foreign national employees may be vulnerable to terrorist attacks.<sup>8</sup>

After the 1998 attacks, State identified facilities at about 185 posts that would need to be replaced to meet security standards. OBO plans to construct the replacement facilities on embassy and consulate compounds that will contain the main office building, all support buildings and, where necessary, a building for USAID. While State continues to fund some security upgrades at embassies and consulates, it has shifted its resources toward those capital projects that would replace existing facilities with new, secure diplomatic compounds or substantially retrofit existing, newly acquired, or leased buildings. As shown in figure 1, funding for State's capital projects has significantly increased since fiscal year 1998. State received about \$2.7 billion for its new construction program from fiscal year 1999 through fiscal year 2003 and requested \$890 million for fiscal year 2004. OBO in June 2003 estimated that beginning in fiscal year 2005 it would cost about \$17.5 billion to replace the remaining vulnerable posts.

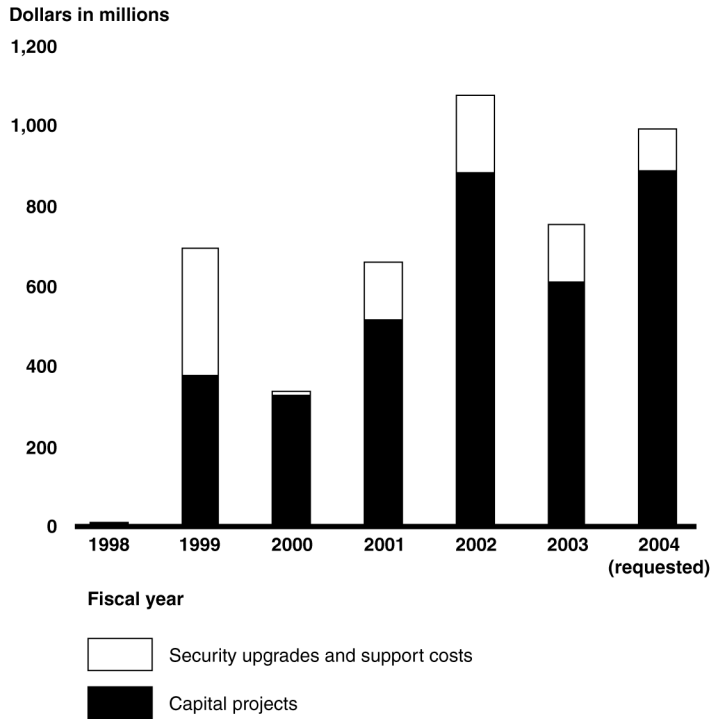
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<sup>6</sup>The United States maintains more than 250 diplomatic posts—embassies, consulates, and other diplomatic missions—around the world. More than 60,000 U.S. and Foreign Service National personnel work at these locations. About 50 government agencies and subagencies operate overseas, including the Departments of State, Defense, and Justice; and USAID.

<sup>7</sup>These standards apply to the construction of new buildings. Existing buildings are required to meet the setback standard to the "maximum extent feasible."

<sup>8</sup>[GAO-03-557T](#).

**Figure 1: Appropriations for Upgrading and Replacing Diplomatic Posts, Fiscal Years 1998-2004**



Source: OBO.

Note: Fiscal year 2002 includes \$200.5 million in emergency spending provided by the 2002 Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Attacks on the United States (Pub. L. No. 107-206).

As of September 30, 2003, State had started construction of 22 projects to replace embassies and consulates that are at risk of terrorist or other attacks. Toward the end of fiscal year 2003, State awarded contracts for an additional 7 projects. The timeline for funding and completing the remaining projects depends on the amount of funding State receives annually for the construction program. At the proposed fiscal year 2004 rate of funding, it will take more than 20 years to fully fund and build replacement facilities.<sup>9</sup>

<sup>9</sup>GAO-03-557T.

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## OBO Mechanisms to More Effectively Manage the Embassy Construction Program

Recognizing past problems managing State's overseas construction program, OBO in 2001 began to institute organizational and management reforms in its structure and operations. OBO intended that these reforms—which are designed to cut costs, put in place standard designs and review processes, and reduce the construction period for new embassies and consulates—would bring rational and efficient management to OBO by using a results-based approach to program management.

OBO has instituted the following seven key mechanisms over the past 3 years to better manage its expanded embassy construction program:

- the Long-Range Overseas Buildings Plan,<sup>10</sup> which prioritizes and summarizes capital projects over 6 years;
- monthly project reviews at headquarters, where senior management officials review ongoing projects to identify and resolve current or potential issues at all stages of the project;
- an Industry Advisory Panel, which advises OBO on industry best practices in the construction sector;
- efforts to broaden the contractor pool through events such as Industry Day, where interested contractors are invited to learn about OBO's construction program;
- ongoing work to standardize and streamline the planning, design, and construction processes, including the initiation of design-build contract delivery and a standard embassy design for most projects;
- additional training for OBO headquarters and field staff; and
- advance identification and acquisition of sites.

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<sup>10</sup>See Bureau of Overseas Buildings Operations, U.S. Department of State, *Long-Range Overseas Buildings Plan: FY 2003-FY 2008* (Washington, D.C.: March 2003) for the latest version of the plan.

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## Development of the Long-Range Overseas Buildings Plan

To help manage State's expanding large-scale construction program, OBO developed the Long-Range Overseas Buildings Plan, first published in July 2001 and most recently updated in March 2003. The latest version of the plan prioritizes proposed capital projects over 6 years, from fiscal years 2003 through 2008, based on input from State's Bureau of Diplomatic Security, regional bureaus, and agencies with overseas presence. It describes and provides a justification for the foreign affairs community's global and regional capital project requirements. According to OBO, it also provides the basis for proceeding in a logical and focused fashion to improve the security, safety, and functionality of facilities overseas. Each year the plan is updated to capture changes resulting from budget actions and requirements of posts overseas. According to the latest version of the plan, State plans to start replacing facilities at 75 vulnerable posts from fiscal year 2003 to fiscal year 2008 at an estimated cost of \$7.4 billion.

As described in the March 2003 plan and by OBO officials, State followed a multistep process in developing its phased site acquisition, design, and construction schedule for its security capital projects:

- The Bureau of Diplomatic Security completed its annual security evaluation of all the U.S. overseas posts, taking into account many factors affecting a post's overall security level. The evaluation listed vulnerable posts and ranked them in terms of security issues. Because the terrorist threat is global and because the buildings have fundamental security problems, Diplomatic Security and OBO officials believe that there are a great many posts that are very vulnerable and in need of replacement, and that the differences in vulnerability do not make posts at the lower end of the list substantially safer than those at the top of the list. By congressional mandate,<sup>11</sup> these posts are listed and ranked in bands of 20, through a process discussed in the following paragraphs.<sup>12</sup>

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<sup>11</sup>Pub. L. No. 106-113, div. B, Sec. 1000(a)(7) (div. A, title VI, Sec. 605) codified as a note to 22 U.S.C. 4865.

<sup>12</sup>This replacement list is updated annually. According to OBO officials, posts that have received full funding and have begun construction on their new facilities are removed from the list each year and moved to a "funded/under construction/completed" column for record purposes. Senior State Department management, considering the Diplomatic Security vulnerability list and such factors as the number of U.S. government employees at a post, nominates new posts to move into the top 80 replacement list. These nominations are forwarded to the Under Secretary for Management and the Secretary for their approval and inclusion in the replacement list. This list is then provided to Congress.

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Congress directed that State spend its security capital funds, which are funded within the Embassy Security, Construction and Maintenance account, on the top 80 posts only.

- Working with the security-prioritized list, each regional bureau annually ranked all posts within its region that were in the top 80 replacement list based on such factors as threat, survivability, staffing trends, regional interests, and functionality. OBO officials told us this effort resulted in a prioritized list for State's security capital projects for each of the six regional bureaus, which responds to the global nature of the transnational terrorism threat. Each year, as new posts are added, these posts usually go to the end of a bureau's priority list.
- Finally, OBO combined the prioritized lists from the different regions into one master list, which, as mentioned above, OBO updates annually. The first six posts on the list were the top ranked post from each region. Posts 7 through 12 on the list were the second-ranked posts from each region, and so on. With the help of its Planning and Real Estate Offices, OBO then determined if a site already existed to build a new facility and, if not, when new sites could actually be acquired. When necessary, OBO rescheduled the list based on the likely available capital security funding in each year covered in the Long-Range Overseas Buildings Plan, opportunities or problems in acquiring a site, and constraints on the ability of construction companies to work in a particular country at the planned time. This prioritized and scheduled listing of projects then becomes the security capital portion of the Long-Range Overseas Buildings Plan.

State also requests funds for regular capital projects to replace posts not in the top 80 that have compelling operational or other requirements that must be addressed. The Long-Range Overseas Buildings Plan includes descriptions of these regular capital projects.

OBO's development of the plan was a major advancement in ensuring the embassy construction program would be better managed.<sup>13</sup> According to the OBO director, while the current plan is not a budget document, it is an

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<sup>13</sup>In January 2001, we recommended that OBO develop such a plan because it was an industry best practice that has helped leading organizations establish project priorities, plan for resource use, control costs, and provide decision makers a rationale for allocating funding. Several months later, OBO's new management accepted this recommendation and agreed that it is an important tool for the budget process.

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important tool that provides information for the budget decision-making process. It presents OBO's best understanding of the U.S. government's most urgent diplomatic and consular facility requirements through 2008 and provides all stakeholders, especially other U.S. government agencies that rely on State for their overseas facilities, a road map of where the department is headed.

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## Monthly Project Reviews at Headquarters

As part of OBO's ongoing efforts to improve accountability and performance, OBO in June 2001 began holding monthly project performance reviews at headquarters for senior OBO officials and project executives. At these meetings, senior managers convene to discuss developments in their areas of responsibility and their plan of action to address current or potential issues. According to OBO documents and our observations of five monthly meetings, the monthly project performance reviews covered the following topics:

- real estate and property management, including acquisitions and disposals and evaluations;
- project planning and development, including project evaluation and analysis;
- project execution, including the status of both construction projects by region and security upgrade projects; interiors and furnishings; design and engineering issues, such as design management, standard embassy designs, value engineering, and energy and seismic concerns; and security management of ongoing projects;
- information management, including issues related to information technology; and
- other management concerns, including management support, human resources and financial management, and operations and maintenance.

At these monthly meetings, senior OBO staff present information on internal and external operations. For instance, in reviewing internal operations, the Project Execution Office presents information about personnel vacancies, number of training events attended per month, performance indicators, and travel budget. The Project Execution Office's Construction and Commissioning Division reports on construction-related issues, including the number of outstanding claims, contract modifications,

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and the status of each construction project. For each construction project, the division notes the completion of major milestones, such as congressional notification, site acquisition, contract award, and notice to proceed. It also assigns a color-coded rating—green, yellow, or red—to each project. This rating reflects the project executives' assessment of current or future issues that could affect either the project's cost or scheduled completion date, with green indicating the project is generally on track and red indicating a major issue.

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## Establishment of the Industry Advisory Panel

In February 2002, OBO held the first quarterly meeting of the Industry Advisory Panel, whose function is to keep OBO apprised of the private sector's best practices in the construction and maintenance of facilities. The panel consists of volunteer industry representatives who meet quarterly to discuss issues related to OBO's construction program and advise OBO management on the industry's views on the most efficient processes, optimal solutions, and best new technologies. OBO prepares new topics of discussion for each meeting, and the experts respond based on their experience dealing with similar issues.

At the meeting held on May 20, 2003, we observed that the panel and senior OBO officials discussed the following:

- how to more effectively apply Value Engineering—a method that looks for the best value to the government at each phase of the design process,
- to what extent private U.S. companies build to U.S. standards overseas and how much they rely on local materials and equipment,
- the best approach for estimating project costs and budgets, and
- criteria used to determine if direct-hire staff should fill an organization's gap in required skills or specialized contractors.

OBO takes minutes of each Industry Advisory Panel meeting and posts them on its Web site where they are available to the public. According to OBO officials, the panel has been very active in providing invaluable strategic industry insights into a variety of issues. They touch upon the latest innovations in the commercial world combining best practices, streamlined processes, and proven cost-effective methods. According to a recent General Services Administration survey of about 470 federal

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advisory groups, OBO's Industry Advisory Panel demonstrated superior results on the “people,” “process,” and “outcome” indices of the survey.

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### Efforts to Broaden Contractor Pool

OBO has expanded its efforts to increase competition for bids on its new embassy and consulate compound projects through outreach to potential contractors. For example, OBO has held two annual Industry Days where interested parties can attend presentations and information sessions about doing business with OBO. According to OBO, Industry Day 2002 attracted more than 350 representatives, with slightly more than half from small firms. Industry Day 2003 had about 450 participants. As a result of these efforts, OBO has increased the number of contractors prequalified to bid on OBO contracts from 5 to 14.<sup>14</sup> OBO believes that increasing the number of prequalified contractors will likely increase the number of bids on a project—thus allowing OBO to select the best value for its money—and will be important to the expanding construction program.

### Standardizing and Streamlining the Design Process

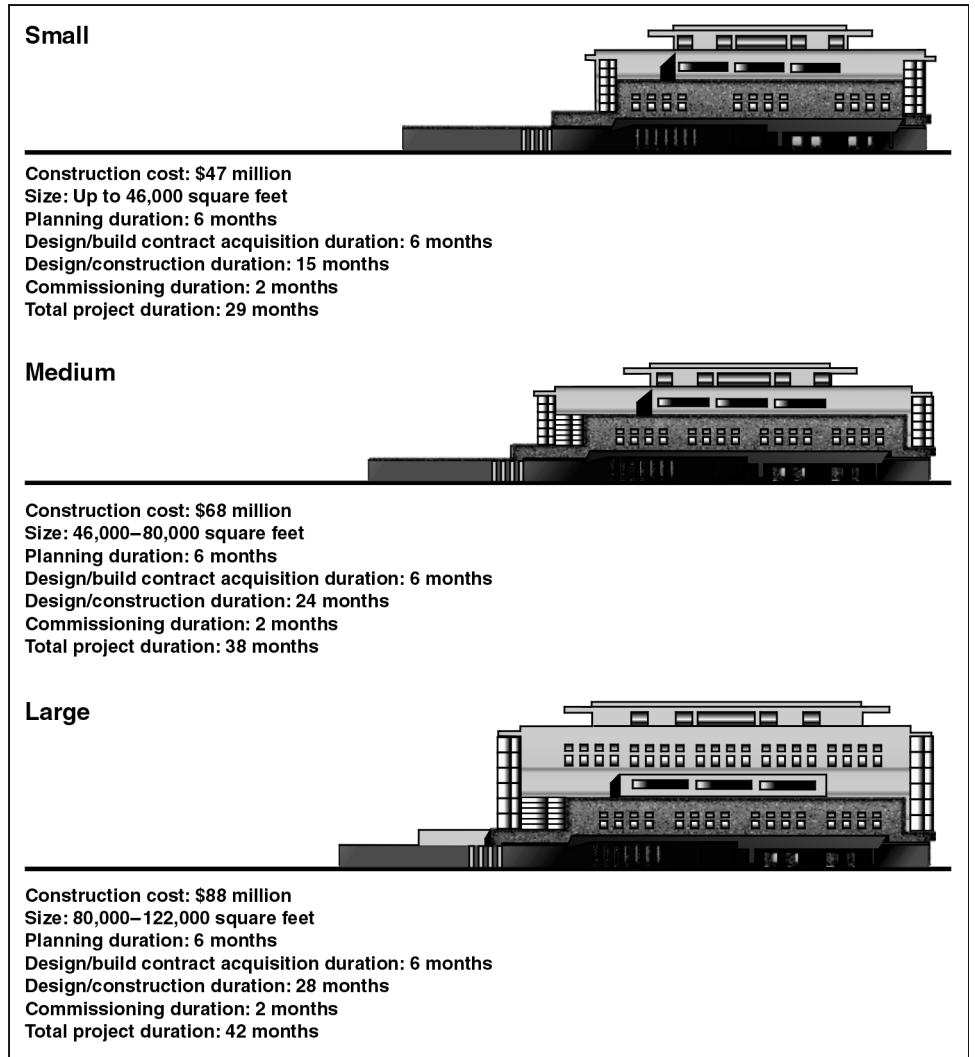
OBO has initiated two major efforts to standardize and streamline the design process for new embassy and consulate compounds. First, it developed a standard embassy design for three different sizes of compounds, with a standard design for a small, medium, or large main office building (see fig. 2). For each project, the contractor adapts the standard design to meet site- and post-specific requirements. OBO believes that standard designs will give it the ability to contract for shortened design and construction periods, control costs through standardization, and assist with State's initiative to rightsize its overseas posts.

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<sup>14</sup>On September 25, 2003, the contractor for 7 of the 22 ongoing embassy and consulate construction projects declared bankruptcy. OBO and contractor officials told us that the bankruptcy has had and will have no effect on the contractor's ability to complete the projects.



**Figure 2: Standard Embassy Design**



Source: OBO.

Second, OBO uses design-build as a contract delivery method, instead of design-bid-build, for most of its new projects. According to the latest Long-Range Overseas Buildings Plan, OBO plans to award design-build contracts for 56 compound projects between fiscal years 2003 and 2008. State’s design-build process saves time by (1) avoiding the time needed to award separate design and construction contracts and (2) allowing construction to proceed before design is completed. Under this process, a compound

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could be one-third of the way through construction before the final design is completed. In Sofia, Bulgaria, for instance, the project was 30 percent complete before the contractor delivered the final design package. To minimize any cost and schedule risks associated with design-build contracts, building requirements must be fully and precisely identified early in the process.

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## Training

According to OBO officials, OBO has instituted additional training requirements for all OBO staff involved in the contracting process and for all field staff. To enhance their knowledge of contracting, headquarters and field staff take courses in areas such as acquisition procedures, principles of contract pricing, and government contract law. Staff can take classes offered by the Defense Acquisition University and other private institutions to meet their training requirements. Staff in the Construction and Commissioning Division enroll in additional courses that enhance their skills in such areas as computerized project planning, leadership and management, cost control, language training, and security and safety. These courses are designed to increase their effectiveness as project supervisors.

During our visits to two new embassy construction sites in Sofia, Bulgaria, and Yerevan, Armenia, we observed that the OBO project directors and the contract project managers closely managed and supervised the projects. Project directors maintained oversight with the help of experienced and knowledgeable American and Foreign Service National staff. Project directors made daily visits to the construction site to observe worker performance and held weekly progress meetings with OBO and contractor staff. During the weekly meetings, OBO staff asked about the activity schedule, identified potential problems, and came to a consensus on solutions.

We observed the OBO project management team in Sofia, which consists of seven engineers and assistants, interacting closely with the contractor staff to identify possible delays and oversee construction. For instance, the project director questioned the pace at which the contractor was laying concrete slab on one of the floors. The project director was able to convince the contractor to pour concrete slab on one of the floors a day or two ahead of schedule.

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## Site Acquisition

To address potential issues in site acquisition, OBO has used its Long-Range Overseas Buildings Plan to guide its contingency planning and give it the flexibility to continue the overall program if an individual site is not available in the planned year. Rather than hold up the appropriated funds for a given project, State will, with congressional support, shift funding to another project where a site is available. For example, OBO deferred the planned compound in Asmara, Eritrea, from fiscal year 2004 to fiscal year 2005 due to difficulties obtaining a site. The new embassy compound in Lome, Togo, which had been planned for fiscal year 2004, took the place of Asmara. For projects planned for construction from fiscal years 2005 through 2007, State has a supply of seven U.S. government-owned sites and five sites under contract in its regular and security capital programs. These 12 sites will offer some flexibility to State as it moves forward with its Long-Range Overseas Buildings Plan. OBO officials told us that they plan to continue acquiring sites ahead of time to provide the program with this type of scheduling flexibility over the foreseeable future.

These management initiatives show promise for improving the cost and schedule performance of embassy and consulate construction projects. However, as discussed in the following section, it is still too early in the new program's implementation to assess their effectiveness in achieving these goals.

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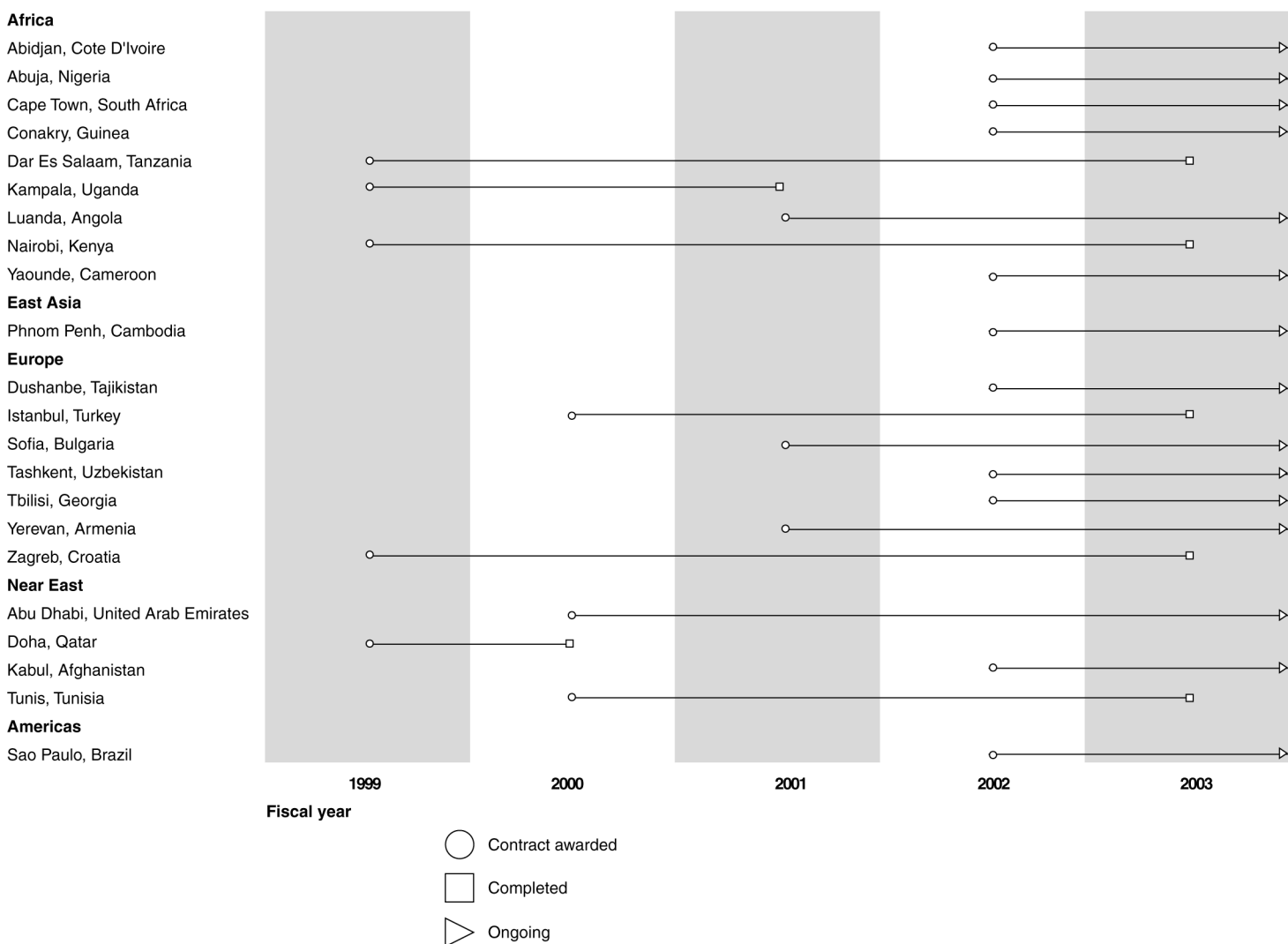
## Status of and Challenges Facing the Construction Program

As of September 30, 2003, State had started construction of 22 projects to replace embassies and consulates at risk of terrorist or other attacks. Eight of the 22 projects were started before OBO began to institute its recent management reforms, and the remaining 14 were started since then. None of the projects started after the reforms were implemented has yet been completed; only one is more than 50 percent complete. Over half of the 22 projects have faced challenges that have led or, if not overcome, could lead to extensions to or cost increases in the construction contract. OBO reports attribute project delays to such factors as changes in project design and security requirements, difficulties hiring appropriate labor, differing site conditions, and civil unrest. The U.S. government also has had difficulty coordinating funding for projects that include buildings for USAID, which could lead to increased costs and security risks.

From fiscal years 1999 through 2003, State received approximately \$2.7 billion for its new embassy construction program. As of September 30, 2003, State was still in the initial phase of the overall program, having

awarded the contracts for 11 of its 22 projects in fiscal year 2002. In addition, the contracts for another 7 projects were awarded in late fiscal year 2003 (see figs. 3 and 4). Of the seven completed projects, six were new embassy compounds and one was a newly acquired building that was retrofitted to meet the required security standards.

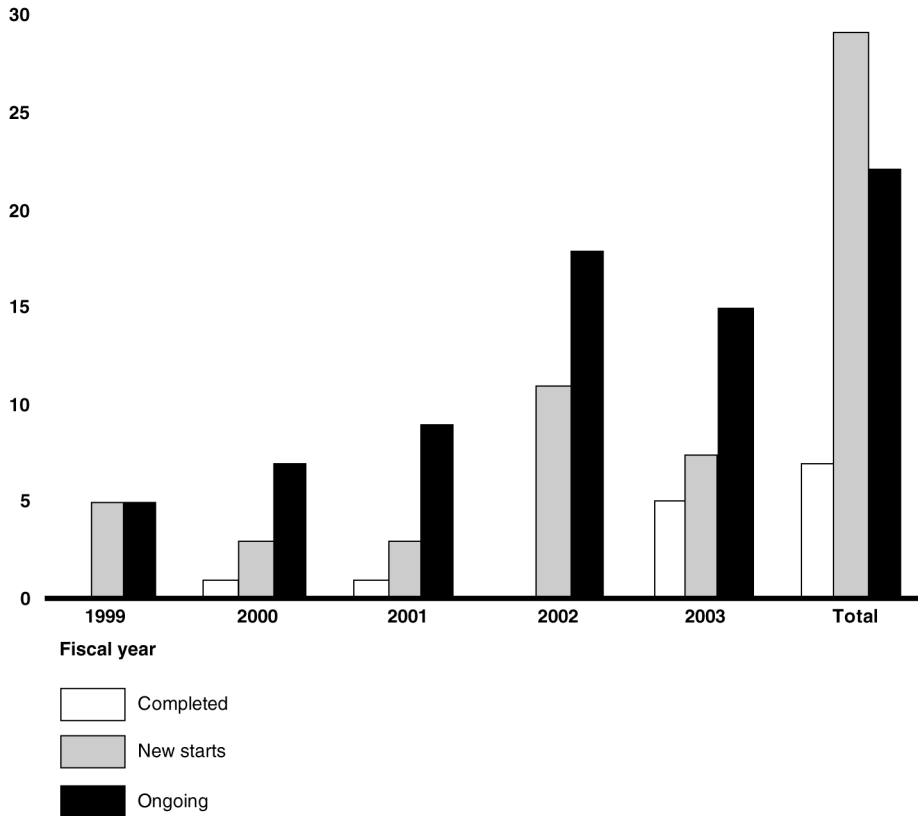
**Figure 3: Initiated and Completed Projects, Fiscal Years 1999-2003**



Source: OBO (data); GAO (analysis).

Note: The contracts for seven new projects were awarded in the last quarter of fiscal year 2003.

**Figure 4: Status of State's Program to Replace Embassies and Consulates, Fiscal Years 1999-2003**



Source: OBO (data); GAO (analysis).

Note: For each fiscal year, ongoing projects equals ongoing projects from the prior fiscal year plus new starts minus completed projects.

### Status of Projects Awarded before OBO Instituted Management Reforms

As shown in table 1, seven of the eight projects that started before OBO's management reforms were implemented have been completed. All eight projects experienced cost increases in the construction contract, which typically accounts for 60 to 70 percent of the total project budget; however, none of the seven completed projects exceeded its approved budget, and the budget for one was lower than originally planned.

In addition, six projects were extended 30 days or more beyond the project completion date. The primary reasons for the delays included contract modifications and security-related disruptions.

**Table 1: Cost and Schedule Performance of Projects Awarded before OBO's Management Reforms (as of late July 2003)**

Region/location	Number of days over original end date	Primary reason for delay	Percentage over original contract value	Change from original project budget
<b>Africa</b>				
Dar Es Salaam, Tanzania <sup>a</sup>	2	Delay not significant	9	8% under budget
Kampala, Uganda <sup>a</sup>	90	Contractor dispute	29	On budget
Nairobi, Kenya <sup>a</sup>	80	Contract modifications	12	On budget
<b>Europe</b>				
Istanbul, Turkey <sup>a</sup>	74	Mitigation of security problem	28	On budget
Zagreb, Croatia <sup>a</sup>	1	Delay not significant	18	On budget
<b>Near East</b>				
Abu Dhabi, United Arab Emirates <sup>b</sup>	154 <sup>c</sup>	Material delivery did not arrive as scheduled; contractor reported differing soil conditions	11	10% under budget
Doha, Qatar <sup>a</sup>	30	Security threat	41	On budget
Tunis, Tunisia <sup>a</sup>	127	Change in project scope	20	On budget

Source: GAO analysis of OBO data as of September 2003.

Note: This table includes projects whose contracts were awarded from fiscal years 1999 through 2001.

<sup>a</sup>Completed project.

<sup>b</sup>Ongoing project.

<sup>c</sup>This number represents contract modification days as this project had not yet been completed.

OBO has attempted to manage project resources and keep its projects within their approved budgets by using funds from the projects' contingency line items or, in some cases, a management reserve line item. The use of contingency and management reserve line items is an industry practice. In Istanbul, for instance, the cost of the construction contract increased by about \$8.5 million. OBO covered this cost increase by using funds from the project's contingency line item, which OBO includes in project budgets for this purpose. In some cases where OBO has awarded contracts at a much lower value than the original independent government estimate, it has established a management reserve to hold these extra funds to insure against potential cost increases later in the construction. The

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OBO director must approve the use of funds for that project from the management reserve. We did not review how OBO established its project budgets, how it determined the contingency and management reserve line item amounts, or how it used the funds from those line items.

Further, OBO has also reevaluated its budget plans for ongoing and planned projects and has identified significant savings to be applied either to a project whose contract bid had come in above the approved budget or to new projects. For example, in the March 2003 project performance review, OBO identified anticipated savings of about \$63.6 million for six projects. OBO used these funds to sign a contract for a new construction project in Freetown, Sierra Leone, during fiscal year 2003. In the fiscal year 2002 appropriations conference report, Congress commended State for identifying such budget savings and urged the department to use them to significantly exceed the level of activity described in the budget request. OBO officials told us that the amount of such savings would decrease over time as the bureau improves its cost estimates.

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## Status of and Challenges Encountered by Projects Awarded since OBO Instituted Management Reforms

From fiscal year 2001, when OBO began to institute its management reforms, through the end of fiscal year 2003, State had started construction of 14 projects to replace vulnerable embassies and consulates.<sup>15</sup> As shown in table 2, as of July 2003, OBO expected 13 of these 14 projects to come in at or under their approved budgets and 1 project—Conakry, Guinea—to come in 6 percent over the approved budget. Six of these projects have had increases in their construction contract costs ranging from 2 percent to 11 percent above their original contract value. In addition, the project in Sao Paulo, Brazil, added 48 contract modification days to its original project completion date. This project, a major renovation initiated at the end of August 2002, missed its scheduled completion date of August 28, 2003, and was completed on October 15, 2003. Table 2 provides more information on challenges that have affected or may affect the cost and schedule of the projects that were initiated after OBO made reforms to its management practices.

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<sup>15</sup>Toward the end of fiscal year 2003, State awarded contracts for an additional 7 projects.

**Table 2: Cost and Schedule Performance of Projects Awarded since OBO's Management Reforms (as of late July 2003)**

Location	Percentage complete	Percentage over contract value	Change from original project budget	Number of contract modification days	Project challenges identified by OBO
Sao Paulo, Brazil	60	(2)	On budget	48	Contractor delays in procuring materials and labor
Abidjan, Cote D'Ivoire	33	0	2% under budget	0	Ordered departure of personnel caused by the political situation will have an impact on cost and schedule
Sofia, Bulgaria	31	3	19% under budget	0	None reported
Yerevan, Armenia	31	2	4% under budget	0	USAID building unfunded
Luanda, Angola	27	5	On budget	14	Design revisions for mitigation of security concerns include a cost increase and time extension
Abuja, Nigeria	23	0	On budget	0	Contractor has claimed that rock excavation due to differing site conditions will have an impact on schedule. OBO is evaluating  USAID building unfunded
Cape Town, South Africa	15	0	28% under budget	0	None reported
Conakry, Guinea	15	2	6% over budget	0	Contract will need additional time and will cost more due to the design and construction of a new type of foundation because of site conditions that differ from those originally anticipated  USAID building unfunded
Dushanbe, Tajikistan	14	2	3% under budget	0	None reported
Yaounde, Cameroon	14	0	9% under budget	0	Contractor claims differing soil conditions will affect the soil's capacity for a foundation
Tbilisi, Georgia	13	0	12% under budget	0	USAID building unfunded
Kabul, Afghanistan	11	0	On budget	0	None reported



(Continued From Previous Page)

Location	Percentage complete	Percentage over contract value	Change from original project budget	Number of contract modification days	Project challenges identified by OBO
Phnom Penh, Cambodia	11	0	12% under budget	0	Diplomatic Security certification is holding up construction  USAID building unfunded
Tashkent, Uzbekistan	11	0	18% under budget	0	None reported

Sources: GAO analysis of July 2003 Project Performance Review data, OBO officials.

Note: This table includes projects whose contracts were awarded in fiscal year 2001 or 2002. All 14 projects are using a design-build contract delivery method. Six projects that began in fiscal year 2002 employ a standard embassy design.

## Integrating All Requirements Early in the Design Process

Once a contract has been awarded, any subsequent changes to the design of the building are likely to have cost and schedule implications. In State's design-build process, design and construction sometimes occur simultaneously. Any changes to the design can require changes in the construction schedule.

A key component of the planning process for new embassy construction projects is the development of staffing projections. Staffing projections present the number of staff likely to work in the facility and the type of work they will perform. These are the two primary drivers of the size and cost of new facilities. Changes to staffing projections after Congress has appropriated money for a construction project may result in redesign and could lead to lengthy delays and additional costs, according to an OBO official. There is little room for flexibility after the budget is submitted given budgetary and construction time frames.

Officials from Diplomatic Security, the State Department bureau that initiates changes for security reasons, make every effort to have security requirements finalized before a contract is awarded, but changes in technologies or new analyses sometimes make design modifications necessary. Although the bureau does not insist that previously awarded contracts be modified to reflect these kinds of changes, OBO makes a decision about what is most prudent for security reasons in determining whether to modify the contract.

At both embassy construction projects that we visited, State added security or other requirements that increased costs and led to an extension in the contract completion date. At the U.S. embassy in Sofia, State added security requirements late in the design phase that increased the cost of the

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\$50 million project by about \$2 million and led to a 2-month extension to the original contract completion date. As in Sofia, Yerevan has had to adapt recent security modifications to include, among others, the addition of a generator and changes to the mail screening room.

### Finding Appropriate U.S. and Local Labor

Contractors on at least two projects have had difficulty finding appropriate workers at the right time. For example, one project—a major retrofit of existing buildings in Sao Paulo, Brazil—was completed in about 14 months rather than 12 months due in part to a lack of skilled labor. In March 2003, OBO reported delays in executing this project because the contractor had not yet hired critical craftsmen, particularly U.S. and Brazilian certified welders. At the project we visited in Yerevan, which OBO considers to be on track, the contractor had not hired enough local laborers because of a shortage of qualified construction workers in Armenia. OBO officials said that the contractor hired skilled workers from neighboring countries and made up the lost time on the project.

In addition, each project requires U.S. supervisors and laborers with security clearances to work in certain areas. However, contractor representatives told us that as State's overall construction program accelerates and the demand for U.S. workers with security clearances escalates, this form of labor could command a premium. Some contractor officials stated that there could be a shortage of these workers in the near term, which could result in delays that could potentially affect the duration and cost of the overall program. Others said the workers will be available but will demand a higher price for their labor, which would increase contract costs.

### Differing Site Conditions

In four ongoing projects<sup>16</sup> where OBO had raised concerns about the projects' progress, contractors had reported site conditions that differed from what they had originally anticipated. According to OBO documents, this difference could affect the projects' cost or schedule because it could require the contractor to construct a different type of foundation for the buildings. At the construction site we visited in Yerevan, a project OBO considered on track as of July 2003, the contractor determined that it had not thoroughly analyzed the soil conditions at the site and would need to blast away about 9 feet of rock from the site to make room for the

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<sup>16</sup>Abuja, Nigeria; Conakry, Guinea; Yaounde, Cameroon; and Abu Dhabi, United Arab Emirates.

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foundation. This blasting process caused about a 6-week delay, time that the contractor made up as the project progressed.

Political and Civil Unrest or  
Other Unforeseen Events

Many ongoing and planned projects are located in developing countries with the potential for political and civil unrest and thus pose unpredictable challenges to State in its embassy construction work. For example, civil unrest delayed the start of the project in Abidjan, Cote D'Ivoire, in 2002, leading to delays in the project schedule and potential cost increases. Further, political upheaval in Zimbabwe forced OBO to postpone construction of the new embassy in Harare from fiscal year 2002 until at least fiscal year 2005, according to OBO's most recent Long-Range Overseas Buildings Plan. On the other hand, State decided to replace the embassy in Kabul, Afghanistan, and brought the construction project to the front of the 2002 schedule following the U.S. and allied military action there that responded to the September 11 terrorist attacks.<sup>17</sup>

Site Acquisition

Although OBO has developed a flexible approach to deal with problems in acquiring sites for new embassy compounds, the issue of site acquisition could become more important as OBO increases the number of projects it undertakes each year. In the short term, the shifting of projects across fiscal years, as discussed earlier, keeps the overall program on track; however, in the long term, the number of difficult site acquisitions per year may increase. If the less complicated site acquisitions continue to be pulled to the front of the line, and more complicated ones pushed back, State may have increasing difficulty obtaining sites for its annual program.

Coordinating Funding for  
Construction of Compounds  
with USAID Buildings

As mentioned earlier in this report, OBO attempts to build embassy and consulate compounds that contain the main office building, all support buildings, and, where necessary, a building for USAID. In several cases, however, OBO has started to build compounds without the proposed USAID building because funding for the USAID building was not available.

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<sup>17</sup>The U.S. embassy in Kabul, which had been closed in January 1989 for security reasons, officially reopened as an embassy on January 17, 2002.

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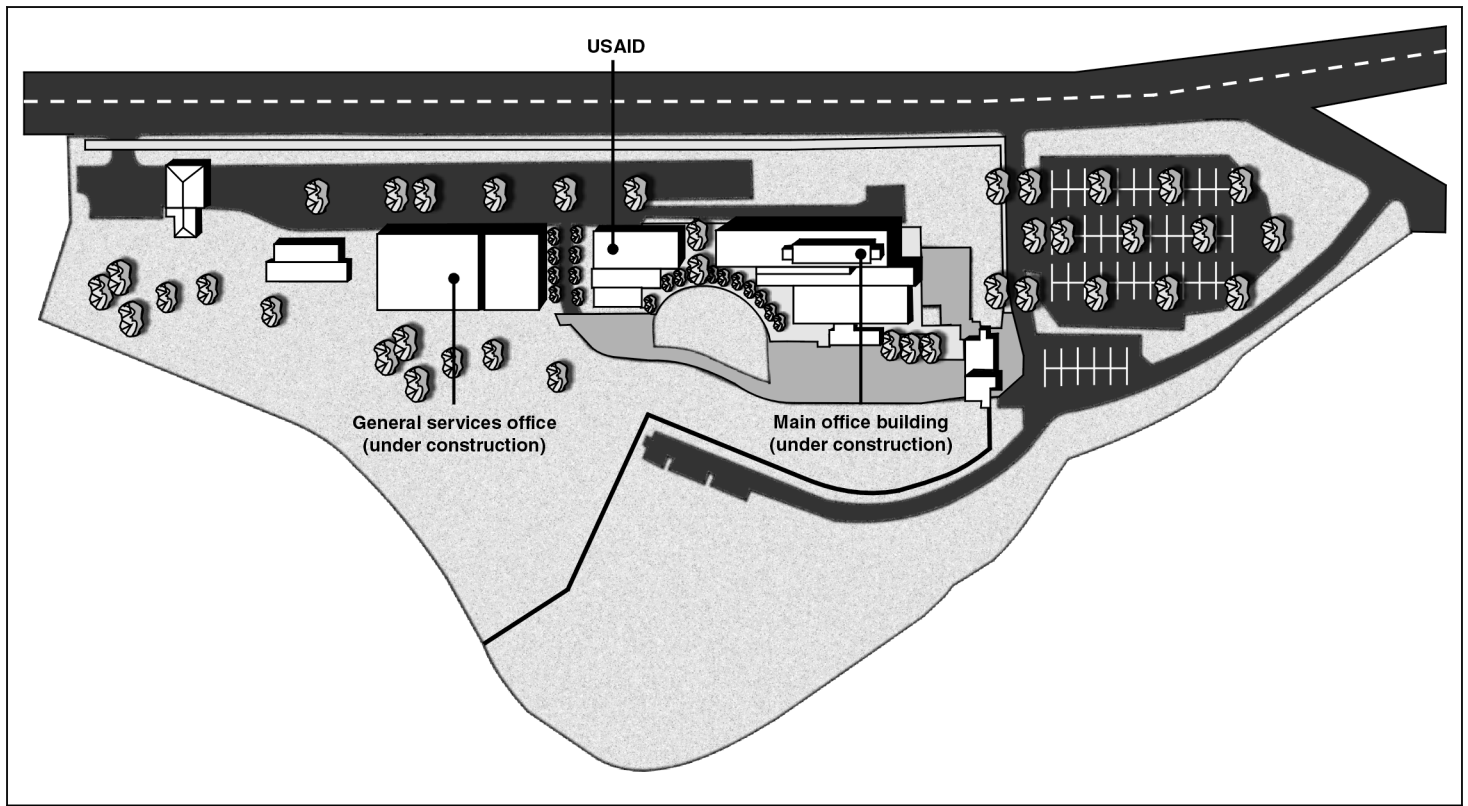
In compounds where USAID is likely to require desk space for more than 50 employees, USAID and OBO informally agreed that USAID would secure funding in its appropriations for a separate building on the compound.<sup>18</sup> If USAID does not secure funding for its building at the same time as the new embassy compound, the compound is constructed as scheduled, but the USAID building may be built either after the rest of the compound, later in the construction process, or not at all. If a USAID building is constructed after the rest of the compound, the overall costs to the government would likely be higher because the contractor must remobilize the construction staff. The delay could also pose a security risk and inconvenience to post operations, as construction personnel and equipment would be coming into and out of the site on a regular basis. OBO officials told us that five projects were awaiting funding for the construction of the proposed USAID building on the compounds.

At the U.S. embassy in Yerevan, funding for the compound's USAID building was not available when the compound construction contract was awarded. Therefore, USAID staff will not move to the new site concurrent with the rest of the embassy's staff. Rather, USAID may be forced to remain at the current, insecure facility at an additional cost until completion of its annex unless alternative arrangements can be made. The Ambassador told us that USAID was one of the most important missions at the embassy and that not having it colocated on the compound would create a major inconvenience to the embassy's operations and decrease mission effectiveness. Figure 5 shows the central location of the proposed USAID building within the new U.S. embassy compound in Yerevan.

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<sup>18</sup>U.S. General Accounting Office, *Embassy Construction: Process for Determining Staffing Requirements Needs Improvement*, [GAO-03-411](#) (Washington, D.C.: April 2003).

Figure 5: Site of Proposed, but Unfunded, USAID Building at the U.S. Embassy in Yerevan



Source: OBO.

As of September 2003, one completed project and five ongoing construction projects—including Yerevan—had to delay or postpone building the USAID annex due to a lack of USAID funding at the start of construction for the rest of the compound. Other locations included the recently completed project at Nairobi, Kenya; as well as the ongoing projects in Tbilisi, Georgia; Conakry, Guinea; Abuja, Nigeria; and Phnom Penh, Cambodia. In addition, according to an OBO official, two projects that will receive security capital funding this year—Bamako, Mali, and Kingston, Jamaica—may not have funding for the planned USAID buildings at the time of construction, although funding may become available sometime during construction.

The U.S. government has had mixed success in dealing with this problem of coordinating funding. For example, for the new compound in Nairobi—the

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location of one of the 1998 embassy bombings—State awarded a construction contract for the USAID building in September 2003, 7 months after the rest of the compound had been completed. In another case, Dar Es Salaam, funding became available in time for OBO to modify the construction contract and complete the USAID building at the same time as the rest of the compound.

We plan to do additional work in the near future on the issue of coordinating USAID funding with funding for new embassy and consulate compounds.

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## Conclusion

Providing secure and safe office facilities at U.S. embassies and consulates is a critical task that will require sustained funding and management attention over many years. To sustain support for this program, the State Department must demonstrate that it is exerting effective management, resulting in projects that are on time and within approved budgets. We believe that State has put in place a number of mechanisms that together represent a positive management approach with the potential to achieve favorable program results. However, it is too early to assess whether these new mechanisms will ensure that State can consistently achieve cost and schedule targets on individual construction projects over the course of the program.

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## Agency Comments and Our Evaluation

The Department of State provided written comments on a draft of this report (see app. III). In the comments, State said that the report is a fair and accurate representation overall of the department's overseas construction process and provided additional information on (1) how State prioritizes and plans for its construction projects, (2) the problems in funding USAID building projects, and (3) other capital construction projects being implemented by OBO. We revised the text of the report to include information on how Diplomatic Security and OBO view the relative vulnerability of facilities at overseas posts. State also provided technical comments, which we incorporated in the report where appropriate.

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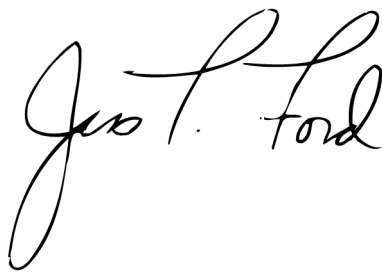
As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 10 days from the report date. At that time, we will send copies of this report to other interested members of Congress. We will also provide copies of this report

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to the Secretary of State and the Director of the Office of Management and Budget. We also will 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>.

If you or your staff has any questions about this report, please call me at (202) 512-4128. Another contact and staff acknowledgments are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink that reads "Jess T. Ford". The signature is written in a cursive style with a large, looping initial "J" and a distinct "T" and "F".

Jess T. Ford, Director  
International Affairs and Trade

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# Scope and Methodology

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To determine whether the Bureau of Overseas Buildings Operations (OBO) has mechanisms in place to more effectively manage State's construction program to replace vulnerable embassies and consulates, we (1) reviewed the report of the Overseas Presence Advisory Panel and earlier GAO reports that outlined problems in embassy security and State's embassy construction program and (2) interviewed OBO and contractor officials about specific steps OBO has taken to improve program management, including the usefulness of and rationale behind both the standard embassy design for new embassy and consulate compounds and the design-build contract delivery method. We also attended quarterly meetings of the Industry Advisory Panel where industry representatives provided advice and information on industry best practices to senior OBO management officials, as well as monthly project performance reviews where senior OBO officials addressed issues related to embassy construction projects. Further, we visited two field locations—in Sofia, Bulgaria, and Yerevan, Armenia—where we observed the level of management and supervision at the new embassy construction sites and the contractor's performance on the projects.

To determine the status of the overall construction program, as well as its current and potential challenges, we reviewed capital projects—whether a completely new embassy or consulate compound, a new building, or a major retrofit of an existing building—that would bring the post up to current security standards. Table 3 provides the list of projects included in this review: 7 completed projects and 15 ongoing projects whose contracts were awarded from fiscal years 1999 through 2002. We excluded the Dili, East Timor, project from the scope of our review because it was an interim office building.



**Table 3: List of the 22 Post Replacement Projects Included in This Review**

<b>Project status<sup>a</sup></b>	<b>Project location</b>
<b>Completed</b>	Dar Es Salaam, Tanzania
	Kampala, Uganda
	Nairobi, Kenya
	Istanbul, Turkey
	Zagreb, Croatia
	Doha, Qatar
<b>Not completed</b>	Tunis, Tunisia
	Abidjan, Cote D'Ivoire
	Abuja, Nigeria
	Yaounde, Cameroon
	Cape Town, South Africa
	Conakry, Guinea
	Luanda, Angola
	Dushanbe, Tajikistan
	Kabul, Afghanistan
	Sofia, Bulgaria
	Tashkent, Uzbekistan
	Tbilisi, Georgia
	Yerevan, Armenia
	Phnom Penh, Cambodia
	Abu Dhabi, United Arab Emirates
Sao Paulo, Brazil	

Source: OBO.

<sup>a</sup>As of September 30, 2003.

Table 4 shows the seven projects whose contracts were awarded in late fiscal year 2003 that are outside the scope of our review. This table does not include the recently started projects in Athens, Moscow, or Beijing because OBO is utilizing the design-bid-build process for these three projects and has yet to award their construction contracts.

**Table 4: List of Post Replacement Projects Awarded in Late Fiscal Year 2003**

<b>Project location</b>
Freetown, Sierra Leone
Bamako, Mali
Astana, Kazakhstan
Frankfurt, Germany
Bridgetown, Barbados
Kingston, Jamaica
Tirana, Albania

Source: OBO.

We also reviewed the State Department's Long-Range Overseas Buildings Plan, monthly project performance documents, contract modifications, and other OBO documents. We interviewed key State Department officials from OBO and Diplomatic Security and contractor officials currently working on new embassy construction projects. We visited the ongoing projects in Sofia and Yerevan to determine the types of problems that could affect cost and schedule and what OBO and the contractor are doing to overcome these problems. Contracts for the design and construction of these projects were awarded in September and August 2001, respectively. The contractor broke ground around September 2002. When we visited the sites in July 2003, the contractor was pouring concrete slabs for the floors. We did not verify data provided by OBO.

We conducted our work between October 2002 and September 2003 in accordance with generally accepted government auditing standards.

# Information on Embassy Construction Projects' Contractors and Building Size

This appendix provides information on the contractors responsible for each of the 22 ongoing embassy or consulate construction projects. It also indicates which projects are using standard embassy design and the respective sizes of these projects. Table 5 is a list of contractors currently working on a new embassy or consulate construction project or compound renovation. Company locations are provided to show the geographic dispersion of the companies to which State awards its contracts.

**Table 5: List of Contractors for Ongoing Embassy and Consulate Replacement Projects**

<b>Contractor name and location</b>	<b>Projects</b>
ABB SUSA North Brunswick, New Jersey	Luanda, Angola
Alutiq-Fluor Joint Venture Rosslyn, Virginia	Sao Paulo, Brazil
B.L. Harbert International Birmingham, Alabama	Abuja, Nigeria
Brown & Root Services Rosslyn, Virginia	Kabul, Afghanistan
Caddell Construction Montgomery, Alabama	Yaounde, Cameroon Conakry, Guinea Freetown, Sierra Leone Bamako, Mali
Caribbean Consultants, Ltd. Bridgetown, Barbados	Bridgetown, Barbados
Hensel Phelps Construction Aurora, Colorado	Cape Town, South Africa
HITT Fairfax, Virginia	Tirana, Albania
J.A. Jones Construction Charlotte, North Carolina	Abidjan, Cote D'Ivoire Sofia, Bulgaria Yerevan, Armenia Tashkent, Uzbekistan Tbilisi, Georgia Abu Dhabi, United Arab Emirates Frankfurt, Germany
Kullman Industries, Inc. Lebanon, New Jersey	Dushanbe, Tajikistan
Fluor International, Inc. Greenville, South Carolina	Astana, Kazakhstan Kingston, Jamaica
H.B. Zachry Construction San Antonio, Texas	Phnom Penh, Cambodia

Source: OBO.

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**Appendix II**  
**Information on Embassy Construction**  
**Projects' Contractors and Building Size**

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Table 6 is a list of the projects employing a standard embassy design and their size. Standard embassy designs were not used until fiscal year 2002. OBO plans to use the standard design for most future projects, unless the embassy involves a large degree of complexity or has special significance to the United States, such as Beijing.

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**Table 6: Size of Embassy Construction Projects Using Standard Embassy Design**

<b>Location</b>	<b>Size of embassy</b>
Freetown, Sierra Leone	Small
Yaounde, Cameroon	Medium
Conakry, Guinea	Medium
Cape Town, South Africa	Medium
Bamako, Mali	Medium
Kingston, Jamaica	Large
Astana, Kazakhstan	Large
Phnom Penh, Cambodia	Large
Tbilisi, Georgia	Large
Tashkent, Uzbekistan	Large

Source: OBO.

# Comments from the Department of State

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



United States Department of State

Washington, D.C. 20520

OCT 27 2003

Dear Ms. Westin:

We appreciate the opportunity to review your draft report, "EMBASSY CONSTRUCTION: State Department Has Implemented Management Reforms But Challenges Remain," GAO-04-100, GAO Job Code 320163.

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 Cy Alba, Branch Chief, Office of Overseas Building Operations, at (703) 875-5748.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Bowab".

Joseph W. Bowab, Acting  
Assistant Secretary for  
Resource Management and  
Chief Financial Officer

Enclosure:

As stated.

cc: GAO/IAT - John Brummet  
State/OIG - Luther Atkins  
State/OBO - Cy Alba  
State/M/P - Jay Anania  
State/H - Paul Kelly

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

**Department of State Comments on GAO Draft Report  
EMBASSY CONSTRUCTION:  
State Department Has Implemented Management Reforms But Challenges Remain  
(GAO-04-100, GAO Code 320163)**

**Introduction**

The Department of State appreciates the opportunity to review and comment on the GAO Draft Report, “EMBASSY CONSTRUCTION: State Department Has Implemented Management Reforms But Challenges Remain.” We believe the report is overall a fair and accurate representation of the Department’s overseas construction process. It is a positive report, one that recognizes the many management reforms that have been instituted by the Bureau of Overseas Buildings Operations (OBO) in its structure and operations since 2001.

**Progress**

The enhanced status of OBO as a bureau within the Department, the active participation of the OBO Director and Chief Operating Officer in the construction process, the establishment of a Long-Range Overseas Buildings Plan, the monthly project reviews at headquarters, the creation of an Industry Advisory Panel, outreach efforts aimed at enlarging the contractor pool, ongoing work to standardize and streamline the planning, design, and construction processes, from the LROBP to the initiation of design-build contract delivery and standard embassy design for most projects are all factors in the Department’s improved performance. The GAO report properly cites all of these management reforms.

**A Cooperative Effort**

Throughout the course of the GAO review, OBO has been forthcoming in providing information, access to all of its records, making its staff available to answer questions, and providing briefings, as well as inviting the GAO staff members to participate in internal review meetings. The GAO staff has been professional in its endeavors and has been receptive to our opinions and explanations. The cooperative effort between the legislative and executive branches throughout this review on behalf of the American taxpayer continues to serve as a model for future work. The openness and cooperative spirit of both branches has resulted in a report that we believe will benefit all parties concerned.

**Other Comments**

We also appreciate the opportunity to provide further comments, clarifications, and updates on specific passages in the draft report. We have three major areas of concern: (1) discussion of the Long-Range Overseas Buildings Plan (LROBP); (2) discussion of the funding for USAID projects; and (3) the omission of other capital construction projects.

**(1) Long-Range Overseas Buildings Plan (LROBP)**

The discussion in the report of the process for identifying the NEC projects that go into the Long-Range Overseas Buildings Plan (LROBP) is still a concern as it appears confusing and in some instances incorrect. Below is the text of a document that OBO previously provided to GAO, which presents a clearer and more complete picture of the process – including how posts are identified to go into the top 80 and how the top 80 posts are prioritized. The report uses only a portion of the material OBO provided (pages 11 and 12) and thus does not make clear the process and the distinction between the Bureau of Diplomatic Security’s (DS) evaluation of a post’s vulnerability and the list of posts to be replaced that goes to Congress, and how that is turned into the list of posts in the security capital portion of the LROBP.

Now on pp. 8 and 9.

Also on page 11, in the discussion of the DS evaluation list, the report states “Diplomatic Security and OBO officials believe that there is very little difference in vulnerability between the top-ranked posts and the lowest ranked posts on the list.” As far as the DS list goes, this is not correct. The proof that this is not correct is that DS evaluates all posts, including those replaced during the Inman program and the new posts that we are replacing under the current program. Originally only 187 or so of the 260 plus posts on the DS list were identified for inclusion in the first report to Congress, which listed all posts to be replaced (and resulted in the first top 80 subset). The GAO report confuses the DS list and the one sent to Congress. It would be more accurate to state that Diplomatic Security and OBO officials believe that there are a great many posts that are very vulnerable and in need of replacement, and that the differences in vulnerability do not make posts at the lower end of the 187 substantially safer than those at the top of the list. This lack of clarity is, in part, because the report does not incorporate our full one-page discussion.

See comment 1.

Here is a more complete description of the process:

- The Bureau of Diplomatic Security completes an annual physical security vulnerability evaluation of all U.S. overseas posts, taking into account many factors affecting a post’s overall physical security level. This security evaluation listing is the basic information used to develop the Priority List of Diplomatic Facilities for Replacement (Replacement List), which is required under PL-106-113. By congressional mandate, the posts in the Replacement List are prioritized and listed in bands of 20. Congress has further authorized spending one type of State capital funds, its security capital funds, only on the top 80 (or first four bands) of posts.
- The Replacement List is updated annually. Posts that have received full funding for their NEC and for which construction has begun on the new facilities are removed from the top 80 list and are moved to a “funded/under construction/completed” column for record purposes. Senior Department management, including the regional bureaus, using DS’s security evaluation and considering other factors, such as the number of USG employees at post, nominates new posts to move into the top 80 Replacement List. These nominations are forwarded to the Under Secretary for Management and the

Secretary for their approval and inclusion in the Replacement List. This list is then provided to Congress.

- Again, working with the DS security evaluation list, each regional bureau annually ranks all posts within its region than are in the Top 80 Replacement List. They use such additional factors as threat, survivability, staffing trends, regional interests, and functionality. This effort results in a prioritized list for State's capital security projects for each of the six regional bureaus. Each year, as new posts are added to the top 80 replacement list from those remaining on the list of posts slated for eventual replacement. These posts usually go to the end of the bureau's priority list.
- OBO combines the prioritized lists from the different regional bureaus into one master list, and revises the list annually. The first six posts on the list are the top ranked posts from each region. Post 7 through 12 on the list are the second-ranked posts from each region and so on. As new posts are added each year, they usually go to the end (in effect, the out years) of this list as well. With the help of its Planning and Real Estate offices, OBO then determines if a site already exists to build on or when a new site could actually be acquired. When necessary, OBO reschedules the list based on the likely available capital security funding in each year covered by the LROBP, opportunities or problems in acquiring a site, and constraints on the ability of construction companies to work in a particular country at the planned time.
- This prioritized and scheduled listing of posts/projects then becomes the Capital Security portion of the LROBP.
- State may use its other type of capital funds, regular capital (now called non-security) funds, to replace any posts not in the top 80 Replacement list that have compelling operational or other requirements that must be addressed. These posts are included in the Regular Capital portion of the LROBP.

The Department developed a new "Guide to Developing Staffing Projections for New Embassy and Consulate Compound Construction." These formal procedures were developed in response to an earlier GAO report ("Embassy Construction – Process for Determining Staffing Requirements Needs Improvement," GAO-03-411) and now govern the process for developing authoritative interagency-approved projections vital to the proper planning of new projects. OBO emphasized the importance of this new process when it met in September with State regional bureaus and tenant agencies to kick off the next round of the LROBP.

## **(2) Funding for USAID Projects**

Beginning with the second to last sentence on page 6, the report addresses the difficult issue of coordinating funding for USAID building projects with funding for NEC projects. The issue is addressed in more depth beginning with the second paragraph on page 28. The Department agrees this is a very significant issue. The difficulty in coordinating funding is not due to any lack of effort by the Department or USAID but rather is due to the availability and timing of funding for these projects. The Department

See comment 2.  
Now on pp. 3 and 23.



fully plans for all known USAID projects and includes them in the LROBP. The Department is doing everything within its control to ensure USAID buildings are complete when we cut the ribbons on new NECs in countries where USAID offices are present and continues to seek Congressional support to provide concurrent funding for NEC projects and (where needed) USAID buildings.

**(3) Other Capital Construction Projects**

It is important to note that in addition to the construction projects mentioned in the report OBO also has the following major capital projects:

Completed

Istanbul Marine Security Guard Quarters (MSGQ)  
Lima USAID Annex  
Bogota USAID Annex

Under Construction

Doha MSGQ  
Zagreb MSGQ  
Dar Es Salaam MSGQ  
Kampala MSGQ  
Nairobi MSGQ  
Nairobi USAID Annex

MSGQ are now constructed as part of the New Embassy Compounds. However, as noted in (2) above, USAID funding is still not always available in time for inclusion as part of the initial project.

See comment 3.

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The following are GAO's comments on the Department of State letter dated October 27, 2003.

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## GAO Comments

1. We relied primarily on information from the March 2003 Long-Range Overseas Buildings Plan and discussions with OBO officials in drafting this section of the report. We revised the text to include information on how Diplomatic Security and OBO officials view the relative vulnerability of facilities at overseas posts.
2. We plan to do additional work in the near future on the issue of the U.S. government's efforts to coordinate USAID funding with funding for new embassy and consulate compounds.
3. Our work focused on the replacement of vulnerable embassies and consulates through construction projects that would bring the post up to current security standards. As a result, our report does not discuss these projects.

# GAO Contact and Staff Acknowledgments

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**GAO Contact**

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**Staff  
Acknowledgments**

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