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United States General Accounting Office

GAO

Report to the Chairman, Legislation and
National Security Subcommittee,
Committee on Government Operations,
House of Representatives

October 1987

OVERSEAS CONSTRUCTION

Problems in Building USIA Office in Calcutta, India



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Washington, D.C. 20548

National Security and
International Affairs Division

B-226595

October 9, 1987

The Honorable Jack Brooks
Chairman, Legislation and National
Security Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In response to your October 2, 1986, request, we reviewed the problems that the Department of State has experienced in constructing a six-story office building for the United States Information Agency (USIA) in Calcutta, India. Although construction began in November 1985, the foundation has not yet been completed. The project has already experienced extensive delay and significant cost overrun primarily because of problems with the diaphragm walls.¹

Specifically, we found that (1) confusion existed as to whether the Indian firm that was awarded the contract was the lowest bidder and what costs were included in the contract; (2) the diaphragm walls built by the contractor failed, halting construction for about 8 months and causing substantial damage to an adjacent property; (3) the contractor refused to cooperate with State's Office of Foreign Buildings Operations (FBO) in correcting the problem until FBO agreed to pay added costs; (4) FBO engineers lost confidence in the contractor's technical ability to resolve the problem and considered terminating the contract; and (5) after discussions with the Ambassador and the Embassy staff, FBO officials were convinced that contract termination was not a viable course of action because of "probable consequential political damage."

The building, originally scheduled to be completed by January 1988, at a contract cost of approximately \$7 million, is now scheduled for completion by September 1989 (a 21-month delay). The contractor has already submitted claims for delay costs and added work totalling about \$3.2 million beyond the contract price, but the FBO Director estimates that these claims can be settled for \$1.2 million. In addition, FBO has indicated that the added costs for certain items, underestimated by the contractor in his bid price, will increase the total project cost by another \$375,000. Thus, a cost overrun between \$1.6 million and \$3.6 million is anticipated.

¹Diaphragm walls are used to hold the soil back so that the basement foundation can be laid.

Background

The USIA building in Calcutta is designed to be a reinforced concrete structure with about 40,000 square feet of space. The six-story building with a basement was to be paid for in excess Indian rupees.² FBO hired a U.S. architect and engineering firm to perform the site survey and design the building. In June 1985, FBO sought potential contractors. By July 1985, FBO had screened the prequalification data submitted by 12 contractors and concluded that 5 were qualified. After a pre-bid conference in August 1985, 3 of the 5 firms submitted bids. Two of the firms were from Calcutta and one was from New Delhi—about a thousand miles away from the construction site. According to FBO officials, the New Delhi contractor (Ansal Properties and Industries Ltd.) was known primarily as a real estate broker and developer. Table 1 shows the three bids.

Table 1: Bids for Contract to Construct USIA Building

Contractor	Bid in U.S. dollar equivalent
Ansal Properties and Industries Ltd. (New Delhi)	\$6,978,903
M. L. Dalmiya & Co. Ltd. (Calcutta)	7,766,949
Larsen & Toubro Ltd. (Calcutta)	14,742,616

Ansal, as the low bidder, was awarded the contract in September 1985.

Confusion Over Contract

In evaluating the bids, the U.S. Embassy contracting officer in Calcutta alerted FBO that, unlike the other two contractors, Ansal did not include provisional allowance items³ worth about \$1,368,000, which should have been added to Ansal's bid. Had that amount been added, Ansal would not have been the lowest bidder.

FBO records indicated that the matter was rechecked by the U.S. Embassy with the contractor, and the contractor said that these items were included in the bid. Ansal's bid indicated that allowance items were included in various cost components, but the amount was not shown as a separate line item. However, since the contract was awarded, FBO records show that the contractor has at times stated that allowance

²Excess currency is U.S.-owned foreign currencies for which the Treasury determines a 2 or more years' supply exists.

³The U.S. government sets forth certain allowance items in the contract that it has the option to procure directly or to require the contractor to provide. If the government elects to provide an allowance item, the specific amount will be subtracted from the contract price by a change order. Carpeting, marble, and certain hardware fixtures are examples of the allowance items for the USIA building in Calcutta.

items were not included in the contract price; at other times the contractor has acknowledged that the items were included. Thus, what the contract price includes and whether the contractor was the lowest bidder has been a controversial issue.

In August 1987, the FBO Director advised us that (1) allowance items were included in the bid price, but Ansal had claimed that it had underestimated both the quantities and associated costs for such items; (2) these matters were being negotiated; and (3) he estimated that there would be an increase of \$375,000 in the cost for allowance items.

Early FBO Problems With the Contractor

According to FBO officials and documents, the contractor was unfamiliar with the construction environment in Calcutta, had problems mobilizing necessary equipment and using local subcontractors, and was uncooperative with the FBO on-site Project Manager.

Between October 1985 and August 1986, the Project Manager repeatedly reported the contractor's uncooperative attitude to FBO officials in Washington. He also reported delays in the project because of the contractor's ineffective work planning and deficient knowledge of local and site conditions.

FBO records indicate that on several occasions work was interrupted due to equipment breakdown. The Project Manager complained that work stoppage was due to faulty equipment, lack of material, and lack of personnel, which he considered "inexcusable and intolerable."

Failure of Diaphragm Walls

In August 1986, the diaphragm walls failed on two sides. The eastern wall bowed and threatened to collapse altogether. The northern wall failed and caused substantial damage to an adjacent parking structure and service building, owned by the Indian Tobacco Company.⁴ According to State Department documents, the failure of the diaphragm walls on both sides of the property threatened the safety of people and property.

For 5 months FBO officials in Washington and the Project Manager tried unsuccessfully to get the contractor to correct the problem. On August 12, 1986, the Project Manager gave the contractor a written notice of the

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indicated that it (1) lacked needed information, (2) included incorrect computations, and (3) contained deductions that were wrong. The Chief concluded that "the nature of the errors made in this proposal implies that Ansal does not have the technical competence to design a bracing system for this excavation." The Chief cited 15 deficiencies to support his conclusion.

FBO and Embassy Differ on How Best to Resolve Situation

Although FBO officials were grappling with how to resolve the technical problems with Ansal, U.S. Embassy officials wanted FBO to withdraw the stop-work order and resume construction for nontechnical reasons. Notes made by the Project Manager on various meetings with Embassy officials held in November 1986 show that Embassy officials tried numerous approaches to convince FBO not to terminate the contract with Ansal. Embassy officials were concerned that such an action (1) would strain the Indo/American relationship,⁵ (2) could present legal problems,⁶ and (3) might cause a scandal. According to these notes, the Embassy officials indicated that the Ambassador was not concerned about costs and he recommended that FBO go beyond contract requirements to help Ansal solve its problems. These notes also indicate that the Embassy officials said that they would seek to have the Project Manager replaced if he recommended the contract with Ansal be terminated. Our discussion with Embassy officials and a review of other documents generally corroborate that these were the positions taken by the Embassy.

According to the Project Manager's report covering September 1986 through February 1987, the Ambassador claimed that FBO could not terminate Ansal's contract under any circumstances—a fact that the contractor had expressed to the Project Manager on several occasions. The report concluded that the project must therefore continue with a contractor who has frequently violated the contractual requirements.

⁵Calcutta is in the state of West Bengal, where the Marxist state government is unfriendly to the United States. Embassy officials felt that if the contractor refused to willingly withdraw from the project, the U.S. difficulties with the contractor would probably receive extensive publicity and this could exacerbate U.S. relations with the host government.

⁶The legal problem alluded to concerns the prospect of the contractor suing FBO and tying up the project for years in the Indian court system, similar to what is happening on the New Delhi senior officer residences. Feeling that an Indian contractor had provided shoddy workmanship and had overcharged for certain items in the senior officer residences, FBO refused to pay certain charges. The contractor then refused to relinquish possession of two units, and the case is expected to be in legal dispute for several years.

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A January 13, 1987, cable from the U.S. Embassy in New Delhi reminded FBO that "the President has delegated to the Ambassador the duties of the coordinator of U.S. policies and activities in India, and that all offices of the government here are to keep him fully informed at all times about their activities. The Ambassador feels, therefore, that the activities of FBO fall within his purview." According to the cable, the Ambassador wanted to delay delivery of the show-cause letter until all the risks had been fully explored.

By cable dated January 16, 1987, the Director of FBO again cited the history of the problems with Ansal. He told the Ambassador that FBO's decision to send a show-cause letter to the contractor was made after a careful and thorough review of all the facts. He also said he hoped that the Ambassador would permit the Project Manager to proceed with the letter. After receiving this cable, the Ambassador authorized the delivery of the show-cause letter. On January 23, 1987, FBO delivered the letter to Ansal. Ansal then contacted U.S. Embassy officials in New Delhi and requested that FBO permit Ansal to complete the project in Calcutta. The Embassy arranged for FBO and Ansal to meet and discuss the problems.

FBO Decides to Continue With Contractor

In early February 1987, an FBO team met with Embassy officials and discussed the Calcutta project and the contractor's performance. The FBO team then met with the contractor to hear his detailed response to the specific deficiencies identified in the show-cause letter. The FBO Director advised us that FBO decided to retain the contractor based on the report prepared by the team leader after these discussions.

The team leader reported that the contractor was unsuccessful in his attempt to persuade the FBO team of the validity and technical merits of his proposal to correct the problems with the diaphragm walls, and the FBO team continued to have no confidence in the contractor's proposed solution. However, he concluded:

"It is a fact of life in these parts that to terminate Ansal for cause will result in a highly visible and extremely acrimonious contest between U.S. government and Ansal. It is also a fact of life that such a contest is anathema to post for reasons of

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when he rejoins FBO under a new contract, he will be an assistant to a Senior Project Director in Germany.

Other Related Information

During our review we also noted that:

- The FBO Director had cabled the U.S. Ambassador in January 1987 that FBO had learned that a diaphragm wall built by Ansal for an earlier (non-FBO) construction job in New Delhi had also failed.
- One of the Calcutta contractors that was among the final three bidding for the contract had stated in his proposal that the diaphragm walls would not withstand the earth pressure during the construction phase without strutting (i.e., bracing).

Conclusion

The foundation has not yet been completed and the project is already encountering substantial delay and cost overrun. The diaphragm walls had to be rebuilt and braced; FBO estimates that the project will be completed 21 months later than originally anticipated; the original cost of the contract of \$7 million will be increased by \$1.6 to \$3.6 million; and the adjacent property has been damaged. These factors seem to provide reasonable technical justification for terminating the contract. However, concern about probable consequential political damage appears to be the basic reason the contract was not terminated.

Objective, Scope, and Methodology

Our objective was to review the problems being experienced in constructing the USIA building in Calcutta, India. Our review was conducted at the Department of State and USIA from January to August 1987 in accordance with generally accepted government auditing standards. We performed fieldwork at the U.S. Embassy in New Delhi, India, and the American Consulate in Calcutta, India. As requested, we did not obtain official agency comments.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Secretary of State

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