



Highlights of [GAO-09-48](#), a report to congressional committees

Why GAO Did This Study

To provide safe and secure workplaces for overseas posts, the Department of State (State) has built 64 new embassy compounds (NEC) and other facilities since 1999, has 31 ongoing projects, and plans to build at least 90 more. In 2007, State reported the U.S. contractor pool for building NECs had reached its limit and proposed legislation to amend the criteria to qualify for NEC awards. GAO was asked to examine (1) how contractor participation in the NEC program changed in recent years, (2) the degree to which State assessed the need for and potential outcomes of its proposed amendment, (3) factors contractors consider when deciding to participate in the program, and (4) actions State has taken to address reported declines in contractor participation. GAO examined two indicators of contractor participation; reviewed State documents and proposed legislation; and interviewed State officials and U.S. firms that won NEC awards from 2001-2007.

What GAO Recommends

GAO recommends the Secretary of State systematically review the adequacy of the NEC contractor base, the benefits and risks of its proposed legislation, and how it would mitigate the risks. State commented that the contractor base is adequate but could benefit from expansion, and that a recent revision of its legislative proposal removes the need for a cost-benefit analysis. GAO believes the recommendation is still valid.

To view the full product, including the scope and methodology, click on [GAO-09-48](#). For more information, contact Jess T. Ford at (202) 512-4128 or fordj@gao.gov or Terrell G. Dorn at (202) 512-6923 or dornr@gao.gov. To view the e-supplement online, click on [GAO-09-47SP](#).

EMBASSY CONSTRUCTION

Additional Actions Are Needed to Address Contractor Participation

What GAO Found

State received at least two bids—the legislatively specified minimum for adequate competition—for 60 of the 61 NEC projects it awarded from 1999-2008, and received three or more bids for at least 49 of the 61. Nonetheless, there was a statistically significant decline in the number of bids per NEC project from 2002 to 2008. GAO also found that the number of firms prequalified to bid on NEC projects also declined during this period. While many factors could affect contractor participation, GAO found the declines in the number of prequalifying firms and bids received were due, in part, to rising construction costs, which made it more difficult for some firms to meet qualification criteria. In addition, officials from five firms cited insufficient profits and State management practices as reasons for their recent withdrawals from the program.

State has not systematically assessed the need for, or the possible outcomes of, its legislative proposal that would open competition for NEC awards to construction firms that cannot meet current qualification criteria. Although State identified several factors it believed reduced contractor participation, it has not assessed whether a sufficient number of contractors capable of meeting current requirements exists or how its legislative proposal would affect the NEC program. Specifically, State has not assessed the potential benefits or identified the potential risks of its legislative proposal, and has not stated how the risks would be mitigated. Absent these analyses, it is unclear whether the proposed amendment, including its December 2008 revision, would benefit State's embassy construction program.

Contractors interviewed by GAO cited various incentives and challenges that affected their decision to participate in the NEC program. Although making profits was cited as the primary incentive for participating, contractors reported losing money on 42 percent of the contracts they performed. Contractors also cited several significant challenges that affected their decisions to submit contract proposals, including meeting State's shortened construction schedules, supplying labor and material to remote locations, finding and retaining cleared American workers, managing financial constraints, and dealing with foreign governments. Firms also expressed concerns with State's processes, including unclear solicitation documents and contract requirements, laborious design reviews, and State's 2001 decision to end formal partnering relationships with contractors.

State has made several recent efforts to encourage contractors' participation in the NEC program. State has begun new outreach efforts to improve relations with contractors, and undertaken several changes to its management practices and organizational structures, including lengthening project schedules, improving clarity of contract requirements, and establishing a project management group to provide coordination and oversight throughout each phase of a project. While these changes address some contractor complaints, their full effects may not be apparent for a number of years.