



April 24, 2015

The Honorable Edward R. Royce
Chairman
The Honorable Eliot L. Engel
Ranking Member
Committee on Foreign Affairs
House of Representatives

State Department Construction: Basis for Building versus Leasing Decisions Was Insufficiently Documented at Three Embassies

The U.S. Department of State (State) is in the midst of a multiyear, multibillion-dollar construction program to replace vulnerable embassies worldwide. Given the large financial investment—approximately \$2.2 billion projected annually through fiscal year 2018 for new embassy-construction projects—it is important to understand how State makes decisions to assist in planning future construction efforts worldwide. We have previously concluded that embassy construction projects should be well-planned from the initial design through the project's completion.¹ Further, every effort should be made to minimize the cost to the U.S. government in the short- and long-term while maintaining quality standards. This includes decisions about whether to build or lease space.²

At your request, we most recently reported on State's management of overseas real property in September 2014.³ During that review, we visited three ongoing or recently constructed or renovated embassies—Sarajevo, Bosnia and Herzegovina; Belgrade, Serbia; and Helsinki, Finland—and learned that State was leasing space off-site for buildings that are typically included on an embassy compound.⁴ We found that State lacked complete documentation related to real property acquisitions, disposals, and leases. Lacking documentation could limit State's ability to make effective management decisions about real property. State concurred with our recommendations that it take steps to ensure that documentation related to acquisitions, disposals, and leases is prepared and retained according to the relevant guidance.

You asked us to follow-up on our prior work and review State's decision-making process related to new and renovated embassy construction in Sarajevo, Belgrade, and Helsinki. This report

¹GAO, *New Embassy Compounds: State Faces Challenges in Sizing Facilities and Providing for Operations and Maintenance Requirements*, [GAO-10-689](#) (Washington D.C.: July 20, 2010).

²GAO, *Federal Real Property: Greater Transparency and Strategic Focus Needed for High Value GSA Leases*, [GAO-13-744](#) (Washington D.C.: Sept. 19, 2013).

³GAO, *Overseas Real Property: State Department Needs to Improve Guidance and Records Management*, [GAO-14-769](#) (Washington D.C.: Sept. 25, 2014).

⁴How State made the decisions to construct buildings on new embassy compounds versus lease space off-site was outside the scope of our prior review.

assesses how State made and documented decisions to build on-site versus lease off-site for these three embassies.

To respond to this objective, we reviewed State's internal guidance and documentation requirements for new and renovated embassy construction. We collected and reviewed documents that State used during embassy planning and construction for Sarajevo, Belgrade, and Helsinki embassy construction and renovation projects (see table 1 for a description of these documents). We also interviewed State officials at the Bureau of Overseas Building Operations (OBO), which directs State's worldwide buildings and maintenance programs. In our prior engagement,⁵ we traveled to these embassies and interviewed embassy officials in order to gather information on how decisions were made for each embassy compound. We also reviewed our previous reports on management of federal real property and relevant State Office of Inspector General reports.

We conducted this performance audit from October 2014 to April 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Results in Brief

In the three cases in our review, OBO officials made decisions during the construction or renovation process to lease facilities off-site versus build on-site, but the officials did not provide a clear explanation of how those decisions were made in the documents OBO uses to plan for and track the status of embassy construction and renovation projects. For example, OBO decided to lease off-site warehouses at both the Sarajevo and Belgrade embassies as well as a Marine Security Guard Quarters at the renovated Helsinki embassy. OBO's planning documentation for the three embassy compounds provided general information on the construction projects and changes to the planned scope, schedule, and cost. However, we were unable to determine from the documentation the reasons for the decisions. OBO officials explained to us that they considered several factors—including location, security, and budget—in the decisions at these three embassies. The officials stated that they might have created documentation at the time decisions were made, but they could not locate the records or the documentation was not relevant to the specific circumstances at the three embassies in our review. Without complete documentation, as directed by State's guidance,⁶ we could not verify how OBO makes decisions, informs future decision makers about the basis for these decisions, or maintains institutional knowledge in the face of staff turnover. We recommend that the Secretary of State take steps to ensure that OBO more completely document the reasons for embassy-planning decisions so that this information is readily available. State concurred with our recommendation and provided comments which are included in the enclosure.

Background

OBO is responsible for planning, designing, constructing, and maintaining all U.S. government overseas diplomatic and consular facilities and manages over 23,000 properties at approximately 275 posts worldwide. State has constructed 78 new embassy compounds since 2001 and has 25 under design or construction. Most new embassy construction falls under the annual Capital Security Construction Program, which is driven by a post's physical and technical

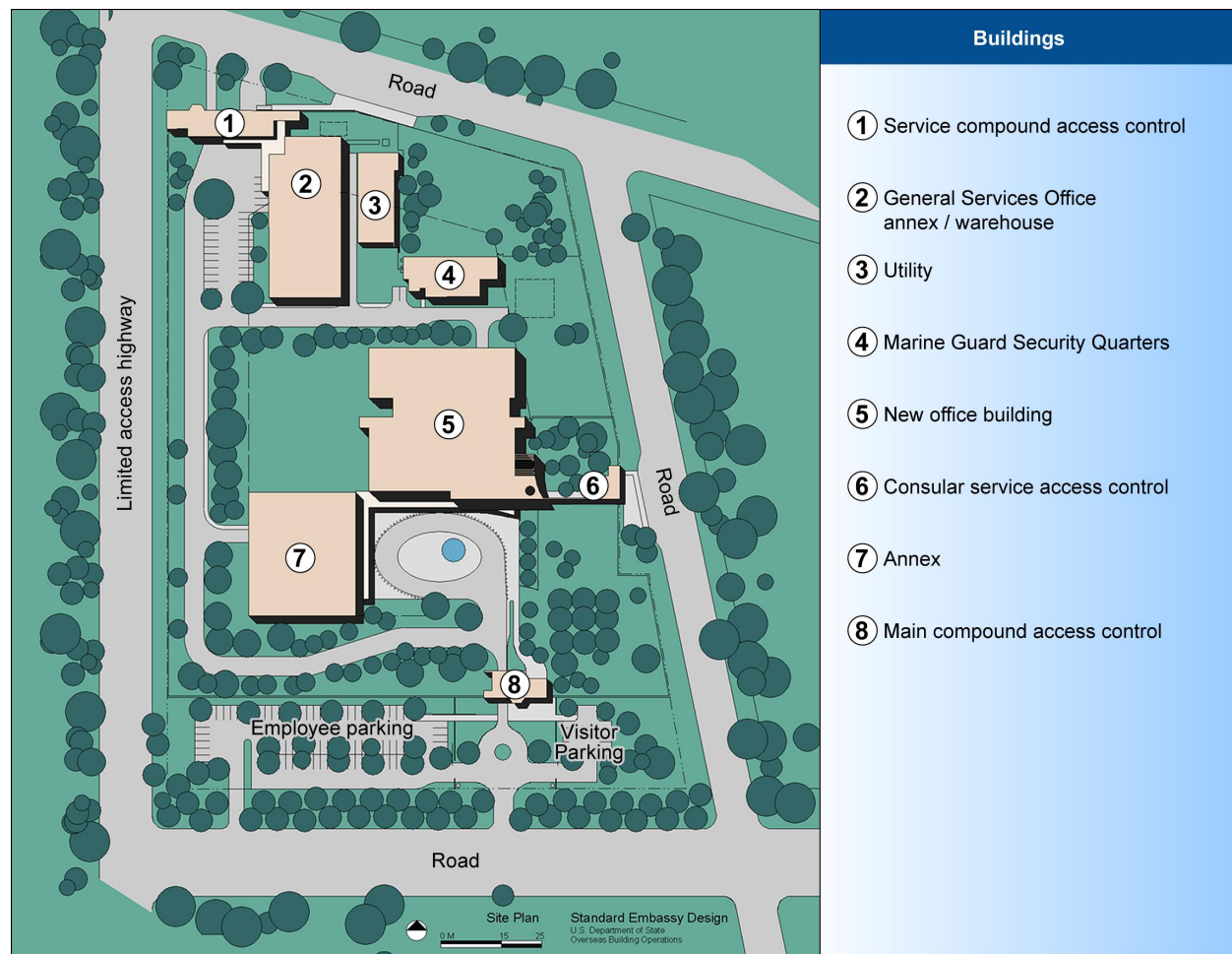
⁵[GAO-14-769](#).

⁶U.S. Department of State, *Foreign Affairs Manual: Creating Records*, 5 FAM 422 (June 9, 2009).

security vulnerability.⁷ State also has a major rehabilitation program for embassies that need significant investment to maintain a suitable level of security, safety, and functionality.

Beginning in 2002, new embassy compounds generally followed a standard embassy-design model intended to simplify the building process and provide economically feasible facilities. OBO guidance to posts describes the standard embassy design, which typically includes a new office building (chancery or consulate), General Services Office annex, warehouse, and non-office support spaces such as shops; Marine Security Guard Quarters (if a post has a Marine contingent), utility building; compound-access-control facilities; and parking (see fig. 1). According to OBO's guidance, the standard embassy design can be contracted or expanded to fit the requirements of each post.

Figure 1: Features of New Embassy Compounds under the Standard Embassy Design Model



Sources: Department of State and GAO. | GAO-15-472R

In 2010, OBO began to transition from the standard embassy design to a more flexible embassy-compound design model, known as the “design excellence” construction program, which continues to prioritize security while moving away from the uniformity of the standard

⁷State began this multi-year program to construct approximately 200 embassies and consulates in 1999.

embassy design to emphasize and allow for site-specific architectural features and environmental conditions.⁸

Regardless of the design model used, State's *Foreign Affairs Manual* (known as the *FAM*) requires all employees to create and preserve records that properly and adequately document the decisions, procedures, and essential transactions of the Department of State.⁹ As part of the description of the adequacy of documentation, the *FAM* specifies that documentation should be complete to the extent necessary to facilitate decision and policy making and action by the incumbents and their successors in office.¹⁰

OBO officials use various documents to plan for and track the status of construction and renovation of embassy compounds (see table 1). The *Financial Plan* and *Project Authorization Documents* serve as the initial plans for the compound, which could include building on the embassy compound or leasing a building off-site. Subsequent changes to the initial plans, which could include a decision to lease rather than build on the embassy site, would be initiated with a *Project Change Request* and reflected in an updated *Project Authorization Document*.

Table 1: Department of State's Embassy-Construction-Planning Documents

<p>Long-Range Overseas Building Plans (Long-Range Plans): Six-year plan documenting OBO's program for the replacement of the least secure embassies and consulates around the world. The plan documents construction for embassies that State expects to replace.</p> <p>Financial Plan (FINPLAN): Detailed financial plan for construction or renovation provided to Congress that has taken into account scope requirements and cost. This plan is completed in conjunction with the initial <i>Project Authorization Document (PAD)</i> described below.</p> <p>Project Authorization Document (PAD): Formal, official OBO record for documenting the approved scope, schedule, and budget for each construction, security, rehabilitation, repair, or improvement project with a cost of \$50,000 or more. The <i>PAD</i> serves as the basis for OBO's annual <i>FINPLAN</i> and subsequent reprogramming notifications sent to Congress. It is OBO's policy that no funding will be committed or obligated for a project before the issuance of a <i>PAD</i>. The following documentation must be submitted for each <i>PAD</i>: project scope summary, space requirements plan, delivery method, project's schedule, and project's cost estimate.</p> <p>Project Change Request (PCR): Request to revise an approved <i>PAD</i> to reflect a change in the scope, schedule, and budget of the project. A <i>PCR</i> is initiated by the office within OBO currently managing the project.</p>
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Source: GAO summary of Department of State documents.

Note: According to State Department internal guidance, the *Financial Plan (FINPLAN)*, *Project Authorization Document (PAD)*, and *Project Change Request (PCR)* are all requirements for construction, security, rehabilitation, repair, or improvement projects with a cost of \$50,000 or more. According to OBO officials, the *Long-Range Overseas Building Plans (Long-Range Plans)* are not required by Congress or OBO.

⁸The OBO design standards issued in March 2015 changed the name for OBO's "design excellence" initiative to "Excellence in Diplomatic Facilities" to reflect the holistic approach to facilities planning, site selection, design, construction, and maintenance embodied in this initiative.

⁹5 FAM 422.3 (June 9, 2009).

¹⁰5 FAM 422.2 (June 9, 2009).

OBO's Decision Making Process for Building On-Site versus Leasing Off-Site at Selected Embassies is Unclear, and Not Well Documented

OBO officials referred us to the *Project Authorization Documents* described in table 1 above for documentation of their initial scoping decisions and subsequent changes to the plans for embassy compounds. We found that these documents noted decisions, but they did not include the basis for decisions made to lease facilities off-site versus build on-site. For example, the documentation did not include an analysis of the trade-offs or a cost-benefit analysis of the decision to lease versus build. Including this type of analysis in the documentation could have made the decisions more transparent. When we requested more specific information, OBO officials told us that they might have created documentation at the time the decisions were made. But the officials either could not locate it, or did not create it if it was not relevant to the specific circumstances at the three embassies in our review. They said, for example, that they considered several factors—including location, security, and budget—in making decisions, but they did not document these considerations. For example, in some cases, if funds are not available to purchase, construct, or acquire buildings, leasing may be the only viable option at the time.¹¹ Without supporting documentation that explains how officials made decisions to construct buildings on embassy compounds or lease space off-site, it will be difficult for OBO to facilitate current and future management decisions and policy making, as directed by State's guidance. This lack of documentation also limits State's ability to maintain institutional knowledge and accountability for the embassy construction program.

We have previously concluded that leasing can be more costly in the long-term than acquiring property and that without a lease-versus-purchase analysis, decision makers lack financial information to support the decision to lease rather than own.¹² However, in the three cases we reviewed, without supporting documentation, we could not determine what factors OBO management considered in their planning decisions and whether management's decision to lease was sound, given other options and priorities.

Sarajevo, Bosnia and Herzegovina

In Sarajevo, OBO officials initially decided not to build a warehouse on the embassy compound and instead leased a warehouse off-site, but later decided to construct a warehouse on-site. The initial *Long-Range Plan* for the Sarajevo embassy compound, done in 2002, included a warehouse for a cost of \$3.1 million. The plan also noted that the leased warehouse was on a road that was dangerous to drive on, and the one-hour travel time from the embassy resulted in lost productivity. OBO subsequently decided not to build the warehouse, and the planning documents stated that adequate warehouse facilities could be provided in a more cost-effective manner by continuing to lease the warehouse. However, the documents did not include any supporting analysis for this conclusion. In 2012, after the embassy's construction had been completed, and funding became available, OBO decided to build a new warehouse on-site and allocated \$7.7 million for the project but did not document the basis for this decision.¹³ OBO officials explained that they had initially decided not to build the warehouse when the project ran over budget, and thus they could not construct all of the buildings planned for the embassy compound.

¹¹See for example, [GAO-14-769](#) and [GAO-13-744](#).

¹²[GAO-13-744](#).

¹³OBO had to increase their allocation to approximately \$12 million in 2013 for the warehouse construction due to high contractor bids in 2012. The warehouse is currently under construction.

Belgrade, Serbia

In Belgrade, OBO officials also decided not to build a warehouse on the embassy compound and instead leased a warehouse off-site. Similar to Sarajevo, the initial *Long-Range Plan* for the Belgrade embassy compound included construction of a warehouse, but OBO subsequently decided not to build it. However, the planning documents did not indicate a reason for the change. OBO officials told us that due to the layout of roadways, there are access problems for large trucks, and thus, a warehouse was removed from the scope when the construction began in 2009. They also told us that they looked at multiple sites in Belgrade, and considered several factors in site selection, and those factors outweighed the poor access issues at this particular site. However, there was no documentation of this analysis. The new embassy compound was completed in 2013. OBO had been leasing a warehouse for the embassy before the plan for the new compound was developed and continues to do so.

Helsinki, Finland

In Helsinki, the project was a major renovation rather than a new embassy compound, like the other two selected embassies.¹⁴ The project began as an emergency sewer repair. When the post and OBO identified other repair needs, such as plumbing and asbestos removal, the project evolved into a major renovation. As such, the plans for the Helsinki embassy did not initially include a Marine Security Guard Quarters, which is generally included at new embassies and consulates with a Marine contingent. OBO officials told us that they never considered Marine Security Guard Quarters due to limited space on the site. However, the plans for the Helsinki embassy did not document OBO's rationale for not including the Marine Security Guard Quarters. When the site plans expanded from an emergency sewer repair to a major renovation, documenting the decision to exclude the Marine Security Guard Quarters on the compound would have provided OBO with an institutional record for its decisions. OBO had been leasing the Marine Security Guard Quarters before OBO developed the renovation plans and continues to do so.

Conclusions

OBO did not document the basis for decisions to build on-site or lease space off-site for the embassy construction and renovation projects at the three locations we reviewed. While there are many factors to consider in making such decisions, without documentation on how these decisions were made, it is difficult to determine whether OBO officials made sound planning decisions for these three posts. For example, it is unclear whether leasing a warehouse in Sarajevo for several years after the new embassy compound was built was more cost-effective than building it at the time of the initial construction. Further, without the rationale for prior decisions, future decision makers cannot definitively determine the best way forward. With staff turnover, the need to maintain institutional knowledge becomes even more important. Given the magnitude of State's embassy construction program, and the limited resources available, it is important that OBO make practical, cost-effective planning decisions and that the reasons for the decisions are documented according to State Department policy so they are transparent to the Congress and other stakeholders.

¹⁴State used major rehabilitation program funds to renovate the Helsinki embassy since it did not qualify for the Capital Security Construction Program as it was not one of the most vulnerable posts in terms of security. OBO officials told us that the embassy was in poor condition, and OBO determined that it would be more cost effective to renovate the entire embassy at one time rather than making incremental improvements.

Recommendation for Executive Action

The Secretary of State should take steps to ensure that OBO fully documents and keeps readily available the basis for its planning decisions according to State's policy for new embassy compounds and major renovation projects, such as decisions to construct a building on-site or lease space off-site.

Agency Comments and our Evaluation

We provided a draft of this report to State for review and comment. In written comments provided by OBO through State, reproduced in the enclosure, State concurred with our recommendation and stated that OBO realizes it needs to better understand when formal documentation is required. The comments noted that OBO has taken steps to improve the processes and procedures with regard to documenting decisions as well as preserving project files, and that OBO will endeavor to more thoroughly document its major planning decisions with regard to new embassy compounds and major renovation projects.

With regard to our review of the Helsinki embassy project, OBO noted a concern about our characterization of the decision not to include a Marine Security Guard Quarters as part of the major rehabilitation. OBO stated that when the Department undertakes a major rehabilitation project, it is not standard practice to consider whether an off-site Marine Security Guard Quarters can be moved onto the compound as part of the project. Further, OBO stated that there is rarely space on current compound sites for additional buildings. We maintain that such consideration, and subsequent documentation of the resulting decision, would help to improve the transparency of the decision-making process. If there is no available space for the quarters, OBO can note this limitation and document the resulting decision. Alternatively, OBO could document its policy on considering new construction for major renovation projects so that it does not need to explain its decision on a case-by-case basis. Because the plans for the Helsinki embassy did not document OBO's assessment of the space on the embassy compound or the rationale or standard practice for not including the Marine Security Guard Quarters, it was unclear why this decision was made.

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We are sending copies of this report to appropriate congressional committees and the Secretary of State. In addition, the report is available at no charge on the GAO website at www.gao.gov.

If you or your staff have any questions about this report, please contact us at (202) 512-2834 or wised@gao.gov or (202)-512-8980 or courtsm@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Amelia Shachoy and Hynek Kalkus, Assistant Directors; Joshua Akery, Hannah Laufe, Grace Lui, Josh Ormond, Nitin Rao, Amy Rosewarne, and Kelly Rubin.



David J. Wise
Director, Physical Infrastructure Issues



Michael J. Courts
Director, International Affairs and Trade

Enclosure

Enclosure: Comments from the Department of State



United States Department of State

Comptroller

Washington, DC 20520

APR 14 2015

Dr. Loren Yager
Managing Director
International Affairs and Trade
Government Accountability Office
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Washington, D.C. 20548-0001

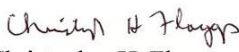
Dear Dr. Yager:

We appreciate the opportunity to review your draft report,
“State Department Construction: Basis for Building Versus Leasing Decisions
Was Insufficiently Documented at Three Embassies” GAO Job Code 542240.

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, Office Director, Office of Resource Management, Bureau of Overseas
Buildings Operations at (703) 875-5748.

Sincerely,


Christopher H. Flaggs

Enclosure:
As stated.

cc: GAO – Michael J. Courts
OBO– Lydia Muniz
State/OIG – Norman Brown

Department of State Comments on GAO Draft Report
STATE DEPARTMENT CONSTRUCTION: Basis for Building Versus
Leasing Decisions Was Insufficiently Documented at Three Embassies
(GAO-15-472R, GAO Code 542240)

The Department appreciates the opportunity to comment on the GAO draft report entitled “*State Department Construction: Basis for Building Versus Leasing Decisions Was Insufficiently Documented at Three Embassies.*”

Helsinki, Finland (pg. 6 of draft report)

It should be noted that when the Department undertakes a major rehabilitation project to renovate a chancery compound, it is not standard practice to consider whether an offsite Marine Security Guard Quarters (MSGQ) can be moved onto the compound as part of the project. This paragraph implies that OBO should have considered moving the MSGQ onto the compound but failed to do so, which may not be entirely accurate. Had this been a New Embassy Compound project, the objective would be to always include an MSGQ on compound. There is rarely space on current compound sites for additional buildings, be it an MSGQ or a warehouse.

Recommendation for Executive Action

The Secretary of State should take steps to ensure that OBO fully documents and keeps readily available the basis for its planning decisions according to State policy for new embassy compounds and major renovation projects, such as decisions to construct a building on-site or lease space off-site.

OBO Response

State concurs with the recommendation. All project management documentation of the Bureau of Overseas Buildings Operations is contained in the project files located in OBO-Link. All action memos are located in OBO-Track, but OBO-Track is not designed or organized in a way that easily allows capture of specific project documentation. OBO realizes the need to have a better understanding of when formal documentation is required versus the normal project conversation, evaluation/development type of project detail. The projects that GAO reviewed were older projects. In recent years, OBO has taken steps to improve the processes and procedures with regard to documenting decisions as well as preserving project files. OBO will endeavor to more thoroughly document its major planning decisions with regard to new embassy compounds and major renovation projects.