

GAO

Report to the Chairman, Subcommittee
on National Security, Emerging Threats,
and International Relations, Committee
on Government Reform, House of
Representatives

September 2004

EMBASSY CONSTRUCTION

Achieving Concurrent Construction Would Help Reduce Costs and Meet Security Goals



G A O

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Highlights of [GAO-04-952](#), a report to the Chairman, Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform, House of Representatives

Why GAO Did This Study

After the 1998 bombings of two U.S. embassies in Africa, the State Department embarked on a multibillion-dollar, multiyear program to build new, secure facilities on compounds at posts around the world. The Secure Embassy Construction and Counterterrorism Act of 1999 generally requires that all U.S. agencies, including the U.S. Agency for International Development (USAID), collocate offices within the newly constructed compounds. This report discusses how State is incorporating office space for USAID into the construction of new embassy compounds and the cost and security implications of its approach.

What GAO Recommends

GAO recommends that State (1) achieve concurrent construction of USAID facilities to the maximum extent possible; and (2) consider, in coordination with USAID, incorporating USAID space into single office buildings in future compounds, where appropriate. GAO also suggests that if the new Capital Security Cost-Sharing proposal is not implemented in fiscal year 2005, Congress may wish to consider alternative funding approaches to support concurrent construction. State and USAID agreed with our findings and supported our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-952.

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

EMBASSY CONSTRUCTION

Achieving Concurrent Construction Would Help Reduce Costs and Meet Security Goals

What GAO Found

State has built new embassy compounds in separate stages—scheduling construction of the USAID annex after work has begun (or in many cases after work has been completed) on the rest of the compound. State and USAID attributed this practice to a lack of full simultaneous funding for construction at nine locations through fiscal year 2004. Concurrent construction of USAID annexes could help decrease overall costs to the government and help achieve security goals.

Concurrent construction would eliminate the second expensive mobilization of contractor staff and equipment and added supervision, security, and procurement support expenses that result from nonconcurrent construction. State has estimated that if nine future USAID annexes scheduled for nonconcurrent construction are built concurrently, it could save taxpayers \$35 million. Extrapolating from data provided by State, GAO estimated a total cost savings of around \$68 million to \$78 million if all 18 future USAID projects are built concurrently. GAO also found that designing additional space for USAID within the main office building, or chancery, may cost less than erecting a separate annex, depending on a number of factors, including the size and configuration of the planned buildings. In addition to cost considerations, concurrent construction could help State and USAID comply with the collocation requirement and decrease the security risks associated with staff remaining outside of the embassy compound. For example, USAID staff who remain in a temporary USAID facility after other U.S. government personnel move into a new embassy compound may be more vulnerable to terrorist attack because the temporary facility does not meet security standards for new buildings and may be perceived to be a “softer” target relative to the new, more secure embassy compound. State’s current plans call for continued nonconcurrent construction through fiscal year 2009.

State acknowledged that there are substantial advantages to concurrent construction and has indicated that it may revise its building schedule to allow for more concurrent construction if a new cost-sharing proposal to fund new embassies by allocating construction costs among all agencies having an overseas presence is implemented in fiscal year 2005. However, even if cost sharing is not implemented, there are still opportunities for building some USAID facilities concurrently with the overall construction of the embassy compound if State, with congressional consent, revised its plan and rescheduled some projects.

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Abbreviations

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

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United States Government Accountability Office
Washington, D.C. 20548

September 28, 2004

The Honorable Christopher Shays
Chairman, Subcommittee on National Security,
Emerging Threats, and International Relations
Committee on Government Reform
House of Representatives

Dear Mr. Chairman:

After the 1998 bombings of two U.S. embassies in Africa, the State Department embarked on a multibillion-dollar, multiyear program to build new, secure facilities on compounds at posts around the world. The Secure Embassy Construction and Counterterrorism Act of 1999¹ requires that all U.S. agencies, including the U.S. Agency for International Development (USAID), colocate offices within the newly constructed compounds. USAID had historically provided its own office space for larger missions, and according to the State Department's Bureau of Overseas Buildings Operations (OBO) and USAID, the agencies had unofficially agreed to largely continue this practice. Under this agreement, according to State and USAID officials, OBO would provide office space within State-funded facilities for USAID missions with fewer than 50 staff, but USAID would fund its own annex buildings within embassy compounds for larger missions.

At your request, this report examines (1) how State is incorporating office space for USAID into the construction of new embassy compounds, and (2) the cost and security implications of State's efforts to build USAID office space into compounds.

To accomplish these objectives, we reviewed planning and construction documents at OBO; interviewed State Department and USAID officials regarding construction program plans, implementation, and funding; and analyzed OBO estimates of the cost differentials between concurrent and nonconcurrent construction of USAID annexes. We also interviewed officials from four firms hired to build new embassy projects. Further, we visited two field locations—in Nairobi, Kenya, and Kampala, Uganda—where we discussed the implications of construction sequencing for the embassies and USAID. We conducted our review from December 2003 to

¹Pub. L. 106-113, div. B, Sec. 1000(a)(7)(div. A, title VI, sec. 606).

July 2004 in accordance with generally accepted government auditing standards. Appendix I provides more information on our scope and methodology.

Results in Brief

State has built new embassy compound facilities in separate stages—first constructing the compound and then scheduling construction of a USAID annex building at a later date. State and USAID officials said that, because they were not able to obtain funding for construction of USAID annex buildings at nine locations through fiscal year 2004, OBO commenced construction of these compounds without the USAID annex. In contrast, USAID did obtain funds to permit concurrent construction of one new embassy compound that included the USAID annex. According to OBO officials, OBO has always preferred to construct all components of a new embassy compound concurrently and noted that its Long-Range Overseas Buildings Plan covering fiscal year 2002 through fiscal year 2007 showed all USAID annexes being constructed at the same time as the rest of the compound. OBO's current building plan through fiscal year 2009 calls for nonconcurrent construction of USAID annexes at an additional nine locations. According to OBO, its plan to continue nonconcurrent construction is a result of the funding issue.

Concurrent construction of USAID annexes could help reduce overall costs to the government and achieve security goals. Concurrent construction would eliminate the second expensive mobilization of contractor staff and equipment, as well as additional supervision, security, and procurement support expenses that result from nonconcurrent construction. OBO has estimated that if nine future USAID annexes scheduled for nonconcurrent construction are built concurrently, it could save taxpayers \$35 million.² OBO's cost estimates indicate that annex construction costs increase by an average of about 24 percent to 31 percent when USAID facilities are built nonconcurrently. Applying these average cost differentials to OBO's data, we estimated a total cost savings of around \$68 million to \$78 million if all 18 future USAID projects are built concurrently, compared with current plans to build some of the compounds nonconcurrently. These amounts, however, do not include other ongoing operational, security enhancement, and lease costs that USAID could save when staff move to the new compounds. We also found designing additional space for USAID within

²Estimates calculated in present value (fiscal year 2004) dollars.

the main office building, or chancery, may cost less than erecting a separate annex. For instance, OBO has estimated that, in two African locations where new nonconcurrent embassy construction is scheduled for 2006, housing USAID in the chancery would cost at least \$6.5 million per site less than building a separate USAID annex. In addition to cost considerations, concurrent construction could help State and USAID comply with the colocation requirement and decrease the security risks associated with remaining outside of the embassy compound. For example, according to State and USAID security officials, USAID staff who remain in an interim USAID facility after other U.S. government personnel move into a new embassy compound may be more vulnerable to terrorist attack because the interim facility does not meet security standards for new buildings and might be perceived to be a “softer” target relative to the new, more secure embassy compound. Under nonconcurrent construction, some U.S. personnel remain temporarily at risk, even after OBO has completed construction of a new chancery within a secure compound.

OBO acknowledged that there are substantial advantages to concurrent construction and indicated that it may revise its building schedule to allow for more concurrent construction if the new Capital Security Cost-Sharing Program to fund new embassy buildings is implemented in fiscal year 2005.³ However, even if cost sharing is not implemented, there are still opportunities for building more USAID facilities concurrently with construction of the overall compound if OBO revises, with congressional consent, its construction schedule.

In order to minimize costs and further improve security associated with building new embassy compounds, Congress may wish to consider alternative funding approaches to support concurrent construction of new embassy compounds if the Capital Security Cost-Sharing Program is not implemented in fiscal year 2005.

In addition, we recommend that the Director of the Bureau of Overseas Buildings Operations (1) update the Long-Range Overseas Buildings Plan to

³The executive branch recently developed the Capital Security Cost-Sharing Program, under which all agencies having an overseas presence will pay a share of the projects undertaken to replace embassies at vulnerable posts. Planned to begin in fiscal year 2005, the program will be phased in through fiscal year 2009. Legislation to fund this program was included in HR 4754, which was passed by the House of Representatives on July 8, 2004, and referred to the Senate; and S-2809, which was approved by the Senate Committee on Appropriations on September 15, 2004.

achieve the concurrent construction of USAID facilities to the maximum extent possible; and (2) in coordination with USAID, consider incorporating USAID space into single office buildings in future compounds, where appropriate.

In comments on a draft of this report, the State Department characterized the report as a fair and accurate representation of the issue and said it welcomed our recommendations. In its comments, USAID said the report successfully attempts to address the rationale as well as many of the difficulties in achieving concurrent construction and agreed with the recommendations.

Background

In the wake of the 1998 bombings at the U.S. embassies in Nairobi, Kenya, and Dar es Salaam, Tanzania, State has received increased funding for the construction of new, secure facilities overseas. Funding from fiscal year 1999 to 2004 totaled about \$3.4 billion. In addition, Congress passed the Secure Embassy Construction and Counterterrorism Act of 1999. The act established a number of security requirements for diplomatic facilities overseas, one of which was that all U.S. government personnel (except those under the command of an area military commander) at any new U.S. diplomatic facility abroad must be located at the same site.⁴ State identified facilities at about 185 posts that would need to be replaced to meet the security standards.

To help manage this large-scale construction program, OBO developed the Long-Range Overseas Buildings Plan,⁵ first published in July 2001 and recently updated in March 2004. The plan is updated annually, adding new projects as scheduled projects' construction contracts are awarded. The plan prioritizes posts based on security and operational considerations, including input from State's regional bureaus and the Bureau of Diplomatic Security. The most recent version of the plan prioritizes 77 proposed

⁴The Secretary of State may waive the colocation requirement if the Secretary, together with the head of each agency employing personnel who would not be located at site, determines that security considerations permit separate sites and it is in the national interest of the United States. 22 U.S.C. 4865(a)(2)(B).

⁵See Bureau of Overseas Building Operations, U.S. Department of State, *Long-Range Overseas Buildings Plan: FY 2004-FY 2009* (Washington, D.C., January 2004) for the latest version of the plan.

security capital and regular capital projects⁶ from fiscal years 2004 through 2009, including 18 separate USAID annex buildings.

Until the late 1990s, the majority of USAID missions were not colocated with embassies but existed in separate commercial or freestanding buildings. Most of these facilities were rented; several were built with host country trust funds, and a small number were constructed with funds appropriated by the Foreign Operations Appropriations Acts.

Since the 1999 colocation requirement, State and USAID have not been fully successful in obtaining funding for construction of separate USAID annex buildings at locations where State was building a new embassy compound. In its fiscal year 2001 report on Commerce, Justice, and State funding, the House Committee on Appropriations wrote that it did not approve the use of the funds for the USAID annexes because appropriations requirements of USAID fall under the jurisdiction of the Foreign Operations, Export Financing, and Related Programs Subcommittee.⁷ In an effort to overcome funding problems, USAID requested that the Foreign Operations subcommittee fund a new account for fiscal year 2003, the Capital Investment Fund, to fund information technology enhancements and construction of colocated USAID facilities. Although the fund has been established, USAID has not obtained full funding to construct all of its buildings. In its report on the fiscal year 2003 Foreign Operations appropriation, the House Committee on Appropriations noted that buildings and space for all other government agencies overseas were appropriated through State's account for overseas construction, and stated that therefore the committee had not funded all requests for USAID buildings on new embassy compounds.⁸ State's fiscal year 2005 budget request, which has been approved by the House and is pending approval in the Senate, includes the construction of four USAID

⁶The plan includes a number of posts where facilities must be replaced because of compelling operational or other requirements.

⁷House of Representatives, *Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Bill, Fiscal Year 2001*, Report 106-680, p. 106 (Washington, D.C., June 19, 2000).

⁸House of Representatives, *Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 2003*, Report 107-663 (Washington, D.C., Sept. 19, 2002).

buildings anticipated to be funded from contributions through the Capital Security Cost-Sharing Program.⁹

State Has Built Compounds in Stages

State has built new embassy compound facilities in separate stages to accommodate the lack of USAID funding, according to State and USAID officials. Only one of three new embassy compounds completed to date includes the planned annex for USAID. In addition, contracts have been awarded or construction is under way on several more compounds that do not include, but will eventually have, a separate annex for USAID. Under OBO's current 6-year building plan, nonconcurrent construction will continue through at least fiscal year 2009.

State and USAID Attribute Nonconcurrent Construction to Lack of Funds

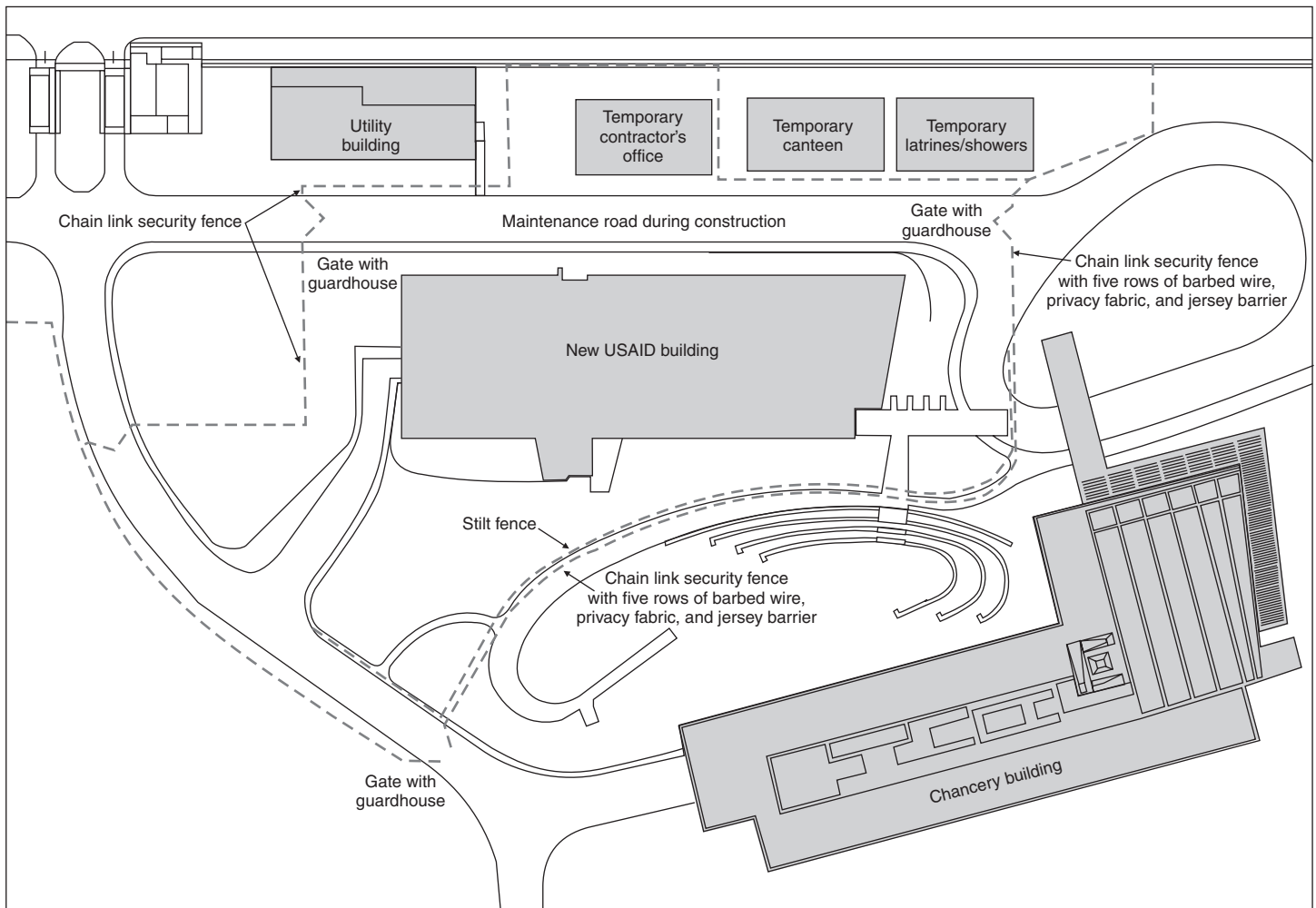
State initiated the Security Capital Construction Program to replace its most vulnerable posts. Under this program, OBO is constructing replacement facilities on embassy and consulate compounds that will contain the main office building, or chancery, all support buildings, and a separate annex building for USAID, where necessary. According to OBO, it has always preferred to construct all components of a new embassy compound concurrently, and its 2002 long-range plan included projects in which the USAID building would be built concurrently with rest of the compound. It was only after USAID did not receive funding for its annexes in fiscal year 2001 that OBO began to move to a nonconcurrent approach to construction, according to OBO officials.

Since 1999, OBO has completed construction of new embassy compounds in Dar es Salaam, Nairobi, and Kampala, Uganda, which were planned to include a separate facility for USAID. So far, OBO has completed the annex for USAID only at the compound in Dar es Salaam. Initially, OBO awarded a construction contract that did not include the USAID annex, but USAID received \$15 million in additional operating expense funds through the regular appropriation process to pay for new construction. In addition, \$2.5 million from program funds were used with \$25 million obtained from the Security Supplemental Account for security upgrades. The funding became available in time for OBO to modify the original construction contract and complete the USAID annex at the same time as the rest of the compound.

⁹See Department of State and U.S. Agency for International Development fiscal year 2005 budget justifications.

For Nairobi, OBO awarded a construction contract for a new embassy compound in September 1999 that did not include the USAID facility because there were no funds for this USAID annex. Subsequently, OBO and the contractor negotiated to include the USAID annex as a modification to the original contract, but sufficient funding did not become available in time. Construction of the chancery building was completed in 2003. USAID received funding for its annex in fiscal year 2003; construction began in June 2004 and is scheduled to end in June 2006, 3 years after the compound was completed and became operational (see fig. 1). In the meantime, USAID is leasing space at a cost of about \$300,000 per year on the campus of a nongovernmental research facility.

Figure 1: Diagram of U.S. Embassy Adjacent to USAID Construction



Source: Department of State.

A construction contract for the new embassy compound in Kampala was awarded in 1999 and construction was completed in fiscal year 2002, but USAID did not receive funding for its annex until fiscal year 2004. OBO expects to award a construction contract for the USAID annex sometime in 2004, according to an OBO official. USAID plans to remain in its interim location outside the new compound—an office converted from a residence in Kampala and leased for \$144,000 per year—until its new facility is built in about 2006.

In addition, contracts have been awarded or construction is under way on the following seven compounds that do not include a separate building for USAID because the agency lacked funding for the construction: Yerevan, Armenia; Phnom Penh, Cambodia; Tbilisi, Georgia; Conakry, Guinea; Bamako, Mali; Kingston, Jamaica; and Abuja, Nigeria. At most of these posts, construction of the USAID facility will start between 2 to 4 years after OBO awarded the contract for the compound. For example, OBO awarded construction contracts for the new embassy compounds in Phnom Penh and Conakry in fiscal year 2002 and plans to solicit bids to construct the USAID annexes on these compounds during fiscal year 2004. In Yerevan, the U.S. Ambassador and OBO devised an alternative to waiting for funds to build a separate facility for USAID: OBO is adding a floor to a warehouse building under construction on the compound to house USAID. OBO can add a floor to the building for less money than it would cost to build a separate annex, although USAID will have less space, according to State and USAID officials. Table 1 shows the contract award dates for selected new embassy compounds and the award dates for the corresponding USAID annex. The Secretary of State has had to issue waivers of the colocation requirement for some of these locations to permit USAID to remain outside the compound pending construction of a facility on the compound.

Table 1: Contract Award Dates for New Embassy Compound Projects That Are Completed, Under Way, or Under Contract, and Dates of Award for USAID Contract

Post	Embassy contract award date (fiscal year)	USAID contract award date (fiscal year)
Kampala, Uganda	1999	2004
Nairobi, Kenya	1999	2003
Yerevan, Armenia	2001	N/A ^a
Abuja, Nigeria	2002	2006
Conakry, Guinea	2002	2004
Phnom Penh, Cambodia	2002	2004
Tbilisi, Georgia	2002	2006
Bamako, Mali	2003	2005
Kingston, Jamaica	2003	2006

Source: GAO analysis of State Department data.

^aPost is incorporating USAID office space into a warehouse building under construction on the compound.

Nonconcurrent Construction Will Continue for Years under Current Plan

In addition to the projects previously discussed, OBO's current 6-year building plan includes 18 new embassy compounds that will include a separate facility for USAID, 9 of which are slated to be built nonconcurrently. For the remainder of fiscal year 2004, OBO will award construction contracts for 3 new embassy compounds without including the USAID annex: in Managua, Nicaragua; Kathmandu, Nepal; and Accra, Ghana. The current schedule also calls for awarding embassy construction contracts in 5 locations in fiscal year 2006 but not awarding the contracts for USAID annexes until fiscal year 2007; and awarding 1 embassy project in fiscal year 2008 but not awarding the USAID contract until at least fiscal year 2009.¹⁰ Table 2 lists new embassy compound construction projects through fiscal year 2009.

Table 2: New Embassy Compound Construction Projects, Fiscal Years 1999 through 2009

	New compounds planned or completed (fiscal years 1999-2009)	New compounds with USAID annexes planned or completed (fiscal years 1999-2004)
Locations with USAID staff	54	
Locations without USAID staff	47	
Locations with USAID annexes	28	
Locations without USAID annexes	73	
Annexes built concurrently with chancery		1
Chancery completed, nonconcurrent construction of annex under way		1
Chanceries under construction, nonconcurrent construction of annexes planned		8 ^a
Nonconcurrent construction of annexes planned		9
Concurrent construction of annexes planned		9
Total	101	28

Source: GAO analysis of State Department data.

^aThis number includes one compound where the chancery has been completed, but the annex contract has not yet been awarded.

¹⁰The next long-range plan will be published in fiscal year 2005. According to OBO officials, construction scheduling may be revised in this plan to build the last nonconcurrent USAID annex in fiscal year 2007.

Concurrent Construction Could Decrease Costs, Improve Security

Nonconcurrent construction increases the overall cost to the government and raises concerns about security. We also found that, in some cases, constructing a separate annex building could cost more than building a larger chancery to accommodate USAID. OBO's own analysis of 9 projects shows that the current schedule of nonconcurrent construction will add more than \$35 million in costs.¹¹ In addition, extrapolating from OBO's data, we have projected an overall cost increase of as much as \$78 million if all 18 future USAID annexes follow the historical pattern of nonconcurrent construction. This estimate does not include security enhancements and other costs that USAID will incur while its staff are in interim facilities pending completion of the USAID annex. This estimate also does not include potential cost savings from merging USAID space into chancery buildings in the future. Finally, nonconcurrent construction has security implications for USAID employees left behind in interim facilities and for the other U.S. government employees moved to more secure compounds.

State and USAID Officials and Contractors Agree That Nonconcurrent Construction Is the More Costly Approach

All government officials and private construction contractors with whom we spoke agreed that the practice of nonconcurrent construction significantly adds to the overall expense of building USAID office space. Building nonconcurrently can result in a second expensive mobilization of contractor staff and equipment, additional work to procure building materials, and added construction management oversight. According to contractors experienced in building embassy compounds overseas, such remobilization and duplication of support activities can add 20 percent to 25 percent to what a concurrent construction contract would have cost, depending on the location. They said that when the U.S. government does not receive funds for the USAID annex until after the contractor has finished building the embassy, there is no chance of maximizing economies of scale that result from contractor staff and equipment already on site. In Nairobi, for example, according to one of the contractors we met with, OBO could have built the USAID annex for \$19 million using the same contractor building the embassy chancery, but OBO awarded a contract for almost \$30 million to a different builder since funding was not available until 4 years later. OBO officials have also said that in addition to contractor mobilization costs, nonconcurrent expenses must include OBO's added supervision and site security costs for a second project. For instance, in Nairobi, OBO's project supervision and construction security

¹¹Estimates calculated in present value (fiscal year 2004) dollars.

cost estimates for the USAID annex rose from \$683,000 for concurrent building to \$2.9 million for nonconcurrent building.

Nonconcurrent construction also increases security enhancement expenses. Until secure office space is built, USAID must either remain in or move to interim facilities. The interim site may require significant security upgrades to obtain some minimum level of protection for staff, including the leasing of surrounding property to create setbacks from roads, as well as the addition of perimeter fencing and installation of anti-ram barriers. Security, supervision, and maintenance personnel costs would continue to accrue until the new USAID facility were completed. For instance, in Kampala, Uganda, USAID will likely spend \$3.2 million for operational and security expenses from the time the new chancery opened in 2002 until the annex in the new embassy compound is finished in 2006.

Concurrent Construction of Future USAID Annexes Could Save Millions of Dollars

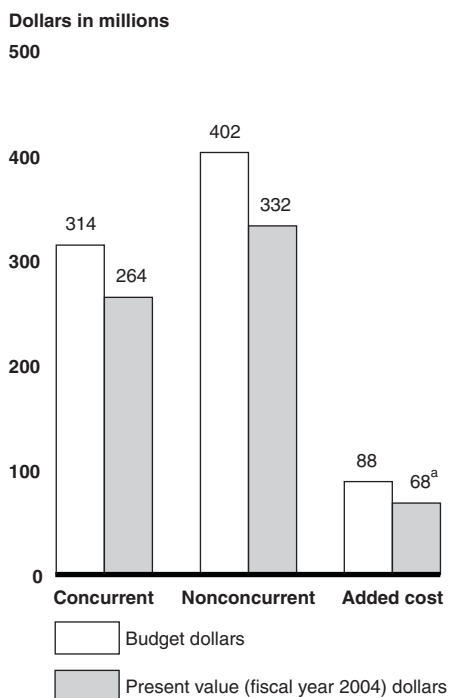
OBO estimates that future USAID annex projects now scheduled for nonconcurrent construction will increase costs to taxpayers by \$35 million. Extrapolating from these data, we project that annex construction costs could rise between \$68 million to \$78 million if all 18 future annexes were delayed. These expenses do not include the \$27 million to \$30 million¹² cost increase that, based on OBO's data, we inferred was generated by nonconcurrent construction of annexes for embassy compounds awarded before 2004. There are no opportunities to significantly reduce this expense because these compounds are already built or under construction without USAID annexes. Estimates from OBO calculate the cost increase for building the 9 USAID annexes now scheduled for nonconcurrent construction over the next 5 budget years at \$43 million (or \$35 million at present value) above the cost for building at the same time.¹³ We further extrapolated from these and other OBO cost estimates, an average cost differential increase for a USAID annex of about 24 percent to 31 percent for nonconcurrent construction. Using OBO's cost data, we calculated the

¹²The \$27 million to \$30 million cost increase is calculated using the present value (fiscal year 2004) of an estimated \$40 million to \$44 million (in budget dollars) increase for awarding USAID annex contracts during fiscal years 2003 to 2006 for eight compounds already being constructed without annexes before fiscal year 2004. See appendix I for a more detailed description of the methodology we used.

¹³Although the current building schedule indicates "concurrent execution" of the annex at Harare, Zimbabwe, OBO provided estimates for the costs of nonconcurrent construction at that location.

range of the potential cost increase of nonconcurrent construction for all future annex projects to be between \$88 million to \$101 million over the next five budget years (or \$68 million to \$78 million at present value).¹⁴ Figure 2 compares concurrent and nonconcurrent construction costs for 18 projects to be built after fiscal year 2004.

Figure 2: Estimated Concurrent and Nonconcurrent Construction Costs for 18 USAID Annexes



Source: GAO analysis of State Department data.

^aThis amount reflects the lower end of the estimated range based on a 24-percent average cost increase. Total costs could rise to \$101 million in budget dollars and about \$78 million at present value for fiscal year 2004, if the higher average of 31 percent is used. See appendix 1 for a more detailed description of the methodology we used.

¹⁴The cost increase is calculated for nonconcurrent construction of 18 planned USAID annexes to be awarded in or after 2004. See appendix I for a more detailed description of the methodology we used.

Further, our estimates do not include the costs of additional operations and lease expenses or increased security and personnel costs, for which we did not have comprehensive data but which could be substantial. For example, OBO has estimated that in one European location, USAID will have to pay an additional \$690,000 for rent because of a 1-year delay in awarding the construction contract. In two African locations, USAID officials estimate they will have to pay an additional \$5.5 million for 3 or more years of rent and continuing security expenses until their new facilities are built.

Including USAID Space within a Larger Chancery Rather Than Constructing a Separate USAID Annex May Decrease Costs

Depending on a number of factors, building a separate annex for USAID increases costs over designing additional space for USAID within the chancery. Two of the contractors we met with stated that constructing one building could be more cost effective than constructing two. OBO has estimated that in two African locations where new embassy construction is scheduled for 2006, building a separate USAID annex would cost at least \$6.5 million per site more than housing USAID in the chancery, assuming nonconcurrent construction. OBO officials have said that, except for very large USAID missions, there may be little reason to build a separate USAID annex other than the ease of allocating construction costs to USAID. Further, OBO has recently re-evaluated the office space parameters for new overseas missions, significantly reducing the sizes of proposed USAID annexes. Assuming these revised space allocations are adequate, an additional five to eight proposed USAID annexes would be similar in size (2,500 gross square meters or less) to those at the two African locations OBO analyzed. The cost differentials between a separate annex versus locating USAID within the chancery in those locations could be similar if other key factors, such as building configuration and site conditions, were also comparable.

However, there are factors other than costs that should be considered when determining whether to build a separate annex or include space for USAID in the chancery, according to USAID. Such factors include geographic location, the type of work USAID is engaged in, and the security profiles of the country. Moreover, a separate unclassified USAID annex may allow greater access for local staff and visitors.

Nonconcurrent Construction Poses Security Risks

In addition to cost considerations, nonconcurrent construction of the USAID annexes raises a number of security concerns, according to State Diplomatic Security and embassy officials as well as USAID security officials. For example, some officials expressed concern about the safety of USAID employees who remain in interim facilities after other U.S.

government personnel have moved to the new embassy compounds. State is building the compounds to provide safe, secure facilities because U.S. facilities and personnel have faced continued threats from terrorist and other attacks since the Kenya and Tanzania embassy bombings. For example, from 1998 through 2002, there were 30 terrorist attacks against overseas posts, personnel, and diplomatic residences. During that same period, overseas posts were forced to evacuate personnel or suspend operations 83 times in response to direct threats or unstable security situations in the host country.

Terrorists continue to look for targets, according to the security officials, and an interim USAID facility might be perceived to be a “softer” target than a new, more secure embassy, thus making USAID employees more vulnerable to attack. For example, figure 3 shows a new embassy compound main gate with an anti-vehicle delta barrier, anti-ram perimeter wall, and blast-resistant guardhouse containing bomb detection equipment, compared with an interim USAID facility entrance with temporary barriers that are removed after work hours.

Figure 3: Hardened Access Facility at New Embassy Compound (left) Compared with USAID-Guarded Entrance in Same City



Source: GAO.

State, USAID, and embassy officials described a number of actions taken to mitigate the risks for USAID employees who are not colocated in new embassy compounds. For example, a post may construct special jersey barriers and fences, dig trenches, close streets adjacent to a USAID facility to create a setback around the building during the day, and lease properties adjacent to its facilities to create a buffer. A post may also use contract

guard services, deploy surveillance detection teams and mobile response teams, and use the services of local police.

Despite actions to mitigate the security risks of nonconcurrent construction, State and USAID officials remain concerned because interim facilities do not meet the security standards established by the Overseas Security Policy Board. In addition to the Secure Embassy Construction and Counterterrorism Act of 1999, which requires a 100-foot setback and colocation of all U.S. government employees at a new site, the security standards for new office buildings include anti-ram perimeter walls and barriers, construction to meet blast protection, forced entry/ballistic resistant protection for doors and windows, and controlled access points. A USAID security official stated that, despite measures to reduce security risks, facilities are vulnerable when they are not controlled by the U.S. government. For example, the official said that posts using temporary jersey barriers eliminate the setback each evening when the barriers are removed and the streets are reopened to normal traffic. Further, a State security official stated that the Bureau of Diplomatic Security was an early advocate of colocating all U.S. personnel when the new embassy compound is built. He said that the bureau is concerned from a threat perspective and that the threat to U.S. personnel remains high. He said that when USAID cannot be collocated, the bureau tries to find ways to mitigate the risk but there is no perfect solution. However, he said the bureau does not recommend delaying the construction of a compound until funding for the USAID annex is available because that would leave a greater number of staff vulnerable.

Nonconcurrent construction also has security implications for the employees who move into the newly constructed compound. Subsequent construction of the USAID annex on the compound results in more workers, vehicles, and equipment on site, which may increase the vulnerability of the overall embassy compound and its personnel by giving terrorists the opportunity to conduct surveillance or attack the embassy, according to State and USAID officials. To address this issue, OBO and regional security officers in Nairobi, Kenya, and Kampala, Uganda, described a number of actions required to control the access of construction personnel and equipment to the compound. For example, the regional security officers told us that they need to hire additional security guards to inspect trucks bringing building materials to the compound. The regional security officer in Nairobi said he would need about 14 additional guards to perform these inspections. For some sites, destruction of part of the perimeter wall to add an entrance for the construction vehicles and

equipment has been discussed as a way of allowing contractor access to the compound. Construction workers need to undergo background checks and receive identification cards, according to regional security officers; these requirements could place a significant burden on their time and workload unless State hires a site security manager.

Opportunities Exist for More Concurrent Construction

OBO acknowledged that it would be advantageous to the U.S. government to build embassy compounds concurrently. OBO said it may revise its schedule to allow for more concurrent construction and consider on a case-by-case basis whether USAID should have a separate annex if the Capital Security Cost-Sharing Program is funded. However, even without cost sharing, there are opportunities for more concurrent and efficient construction. By delaying one project slated for fiscal year 2006 and estimated to cost more than \$100 million, State would have sufficient funds to eliminate the backlog of USAID projects. Moreover, it is not unprecedented for projects in successive annual plans to be moved from one year to another. For example, over the last three planning cycles, several planned projects have had to be moved from one year to another due to factors such as a failure to acquire land in a timely manner or a change in executive branch priorities. Therefore, if OBO could reschedule planned projects it could make headway in minimizing nonconcurrent construction. OBO emphasized that it would need congressional support to do this.

Conclusion

OBO's multibillion-dollar program to build new, secure embassies and consulates around the world was designed to collocate all U.S. employees stationed overseas within a secure compound, as required by law. However, by building the compounds in stages, some employees must temporarily remain in less secure space outside the compound. Concurrent construction will help State and USAID comply with the collocation requirement. Our analysis also shows that concurrent construction likely results in cost savings for the taxpayer and that incorporating all office space into the main chancery building rather than building a separate annex may be, in some cases, a more efficient approach. According to State, lack of funding and restrictions on the use of funds has required OBO to phase construction of new embassy compounds that have a USAID annex component. However, State said it will consider revising its construction schedule to achieve more concurrent construction if the Capital Security Cost-Sharing Program is implemented in fiscal year 2005.

However, even if the plan is not implemented, opportunities exist to schedule the construction of more projects concurrently.

Matter for Congressional Consideration

In order to minimize costs and further improve security associated with building new embassy compounds, if the Capital Security Cost-Sharing Program is not implemented in fiscal year 2005, Congress may wish to consider alternative funding approaches to support concurrent construction of new embassy compounds.

Recommendations for Executive Action

We recommend that the Director of State's Bureau of Overseas Buildings Operations (1) update the Long-Range Overseas Buildings Plan to achieve the concurrent construction of USAID facilities to the maximum extent possible; and (2) in coordination with USAID, consider incorporating USAID space into single office buildings in future compounds, where appropriate.

Agency Comments and Our Evaluation

The State Department and the U.S. Agency for International Development provided written comments on a draft of this report (see app. II and app. III). State also provided technical comments, which we have incorporated into the report as appropriate.

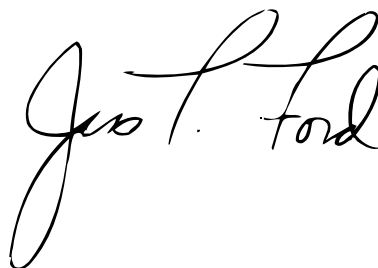
In its comments, State said that the report is a fair and accurate representation of the issue and welcomed our recommendations. State said it would update the Long-Range Overseas Buildings Plan to achieve concurrent construction to the maximum extent and coordinate with USAID to consider incorporating USAID space into single office buildings in future compounds where appropriate if the Capital Security Cost-Sharing Program is implemented. However, our recommendations and matter for consideration are designed to bring about concurrent construction to the maximum extent regardless of the implementation of the Capital Security Cost-Sharing Program.

In its comments, USAID said the report successfully attempts to address the rationale as well as many of the difficulties in achieving the goal of concurrent construction of new embassy compounds and facilities to be occupied by USAID employees on those compounds. USAID said it agreed with both our recommendations and provided information to support the recommendations and explain its requirements.

We are sending copies of this report to interested congressional committees, the Secretary of State, and the Administrator of USAID. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4128. Another GAO 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

Scope and Methodology

To examine State's efforts to incorporate office space for the U.S. Agency for International Development (USAID) into the construction of new embassy compounds and to assess the cost and security implications of its approach, we

- reviewed the State Department's Bureau of Overseas Buildings Operations (OBO) construction documents and the Long-Range Overseas Buildings Plans for fiscal years 2002 to 2007, years 2003 to 2008, and 2004 to 2009;
- interviewed State Department and USAID officials regarding completed, ongoing, and planned new embassy compound projects that include a separate annex for USAID, including operational, cost, and security issues arising from nonconcurrent construction and the issues involved in housing USAID in separate buildings;
- interviewed officials from several U.S. construction firms experienced in building new embassy projects regarding the costs of OBO construction scheduling practices; and
- analyzed OBO estimates of the cost differentials between concurrent and nonconcurrent construction.

Further, we visited two field locations—in Nairobi, Kenya, and Kampala, Uganda—where we discussed with State and USAID officers at each post the implications of construction sequencing to the embassies and USAID.

To analyze the cost impacts of different USAID annex construction scheduling, we developed a cost model enabling us to extrapolate from State data the aggregate and annual costs for both concurrent or nonconcurrent construction projects for USAID annexes. Our model is based on cost estimate data provided by OBO for 26 projects. (Estimates for Yerevan, Armenia, were not used because OBO no longer plans to build a separate annex for USAID.) For some projects, we had estimates of fiscal year contract award and midpoint construction costs in nominal dollars for concurrent and nonconcurrent construction. Using such data from 13 projects, we estimated the average percentage cost differential per project¹ to build a nonconcurrent annex as a range of 30.75 percent and 23.83 percent. The higher end of the range results from excluding data for 3 of

¹Calculated in fiscal year 2003 dollars.

the 13 locations (Kampala, Uganda; Harare, Zimbabwe; and Kingston, Jamaica) where OBO indicated that site-specific factors accounted for major deviations from the mean. Both average percentage differentials are used to project base-year costs for concurrent construction for Abuja, Nigeria, and for nonconcurrent construction on 11 projects for which we had incomplete data. We also had data on an additional project (Tbilisi, Georgia) but used it only to represent the costs of that project, not to estimate the average cost differential because the data for the project reflected building sizes for concurrent and nonconcurrent construction costs that were substantially different. Assumptions included

- the length of construction period (24 months for concurrent and 15 months for nonconcurrent),
- the 1-year lag between proposed award year for concurrent construction and nonconcurrent construction,
- cost distribution over the construction period, and
- average dollar cost escalation of 3 percent per year.

These assumptions for each of the 26 projects enabled us to estimate

- annual construction costs,
- total budget dollar costs, and
- present value costs in fiscal year 2004 dollars.

We did not verify the accuracy of OBO's cost estimates or its methodology for estimating costs. However, we did meet with OBO officials responsible for the cost estimates to discuss their methodology and underlying assumptions. The cost differentials between concurrent and nonconcurrent construction that OBO estimated were consistent with those estimated by two of the contractors we met with.

We conducted our work from December 2003 to July 2004 in accordance with generally accepted government auditing standards.

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

Assistant Secretary and Chief Financial Officer

Washington, D.C. 20520

Ms. Jacqueline Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

SEP 14 2004

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "EMBASSY CONSTRUCTION: Achieving Concurrent Construction Would Help Reduce Costs And Meet Security Goals," GAO Job Code 320237.

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, Bureau of Overseas Building Operations, at (703) 875-5748.

Sincerely,

Christopher B. Burnham

cc: GAO – John Brummet
OBO – Charles Williams
State/OIG – Mark Duda

Department of State Comments on GAO Draft Report
EMBASSY CONSTRUCTION:
Achieving Concurrent Construction Would Help Reduce Costs
And Meet Security Goals
(GAO-04-952)

Introduction

The Department of State appreciates the opportunity to review and comment on the GAO Draft Report, “EMBASSY CONSTRUCTION: Achieving Concurrent Construction Would Help Reduce Costs and Meet Security Goals.” We believe the report is overall a fair and accurate representation of the issue. However, the Department offers the following observations.

Consistent Support for Concurrent Construction

As noted in the report, the Department has always preferred and planned to construct all components of a new embassy compound (NEC) concurrently as evidenced by the first Long-Range Overseas Buildings Plan (FY2002 – FY 2007). That Plan showed all USAID annexes being constructed at the same time as the rest of the NEC. However, due to funding restrictions the Department was required to move to a phased approach for construction. We appreciate the GAO’s acknowledgement of this fact.

Capital Security Cost Sharing is the Solution

As long as there are restrictions on the use of CJS appropriations for USAID facilities, and as long as USAID is unable to secure sufficient funding to complete the backlog of annexes, and as long as there is no full Capital Security Cost Sharing, we believe the path we are following is the most viable and most efficient. Delaying a NEC project exposes personnel to the continued risks of security deficiencies. OBO’s current plan includes 4 USAID annexes in FY 06. After FY06 there will only be 4 remaining backlogged USAID annexes. To add those to the FY06 list would seem to some of our stakeholders as a misuse of other agencies' cost sharing money in that new construction would be biased in favor of one agency (USAID). Furthermore, this strategy would still require reprogramming notification to the Congress.

See comment 1.

See comment 1.

The Department welcomes the report's two recommendations. The Department has every intention of updating the Long-Range Overseas Buildings Plan to achieve the concurrent construction of USAID facilities to the maximum extent if Capital Security Cost Sharing goes into effect. Furthermore, the Department will also be able to coordinate with USAID to consider incorporating USAID space into single office buildings in future compounds where this would be more appropriate.

Security Standards

See comment 2.

The first portion of paragraph 1 on page 21 of the report should be revised as follows to make the statement more accurate and complete:

Despite actions to mitigate the security risks of nonconcurrent construction, State and USAID officials remain concerned because interim facilities do not meet the security standards established by the Overseas Security Policy Board (OSPB). In addition to the Secure Embassy Construction and Counterterrorism Act of 1999, which requires a 100-foot setback and collocation of all USG employees at a new site, the OSPB security standards for new office buildings include anti-ram perimeter walls and barriers, construction to meet blast protection, forced entry/ballistic resistant protection for doors and windows, and controlled access points.

A Cooperative Effort

Throughout the course of the GAO review, the Department's Bureau of Overseas Buildings Operations (OBO) has been forthcoming in providing information and access to pertinent records, making its staff available to answer questions, and providing briefings. GAO staff members were also invited to observe monthly 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 OBO and GAO staffs has resulted in a report that we believe will benefit all parties concerned.

The following are GAO's comments on the State Department letter dated September 14, 2004.

GAO Comments

1. Our recommendations and matter for consideration are designed to bring about concurrent construction to the maximum extent regardless of the implementation of the Capital Security Cost-Sharing Program.
2. We have revised our statement accordingly.

Comments from the U.S. Agency for International Development

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



Assistant Administrator for Management

SEP 10 2004

Mr. Jess T. Ford
Director
International Affairs and Trade
U.S. General Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Ford:

I am pleased to provide the U.S. Agency for International Development's (USAID) formal response on the draft GAO report entitled *Embassy Construction: Achieving Concurrent Construction Could Help Reduce Costs and Meet Security Goals (GAO-04-952)*.

The report successfully attempts to address the rationale as well as many of the difficulties in achieving the goal of concurrent construction of New Embassy Compounds (NEC) and facilities to be occupied by USAID employees on those compounds. USAID agrees with both recommendations identified in the report and offers the following information to support the recommendations as well as explain USAID's unique requirements (see enclosure).

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

A handwritten signature in black ink, appearing to read "John Marshall".

John Marshall
Assistant Administrator
Bureau for Management

Enclosure: a/s

1300 PENNSYLVANIA AVENUE, NW
WASHINGTON, D.C. 20523

**USAID Comments on the draft GAO report:
EMBASSY CONSTRUCTION: ACHIEVING CONCURRENT
CONSTRUCTION COULD HELP REDUCE COSTS AND MEET
SECURITY GOALS (GAO-04-952)**

In the aftermath of the 1998 Africa bombings, USAID has been challenged to provide its field offices located outside embassy compounds with adequate security protection. Given the nature of USAID's work in many locations, our historical interests have been to locate outside of the embassy compounds in order to work closely with local government ministries, private voluntary and non-governmental organizations. With the advent of the 1999 collocation law, the manner in which USAID will be able to interact in the future with host country counterparts and customers has changed. New security standards for NEC restrict what was previously for USAID more of an open door to visitors. This is true now for locations in which USAID still remains outside of the embassy compound. Because of its development mission, USAID continues to function and relate to host countries in a manner different from many U.S. government organizations overseas, including the Department of State.

The first recommendation calls for the Secretary of State to direct the Bureau of Overseas Building Operations to achieve concurrent construction of facilities for USAID employees to the maximum extent possible. From a security perspective alone, USAID facilities face unavoidable vulnerabilities when located outside of NECs, primarily as softer targets, in relation to the more secure Embassy structures. Throughout the process of identifying short-term security remedies to long-term needs, USAID has worked closely with the Office of Diplomatic Security and OBO to find interim solutions. USAID has temporarily moved numerous office locations to enhance security protection or, at minimum, provided security upgrades in all locations.

By FY 2002, the only USAID annex project funded for collocation on a new embassy compound was Dar es Salaam. OBO had begun embassy construction in Nairobi and Kampala but not for the USAID annexes and our large staff presence. In FY 2003, funding was made available only for Nairobi. In 2004, funding was received for Kampala, Phnom Penh, and Conakry where, again, OBO had earlier initiated embassy construction. Congressional wrangling over funding responsibility for USAID annexes has delayed construction of facilities for USAID employees imposing added security risks and costs.

The Capital Security Cost Sharing Program, if approved in FY05, will place USAID on a parallel track with OBO NEC construction but not until FY 2007. For this reason, a joint review of opportunities that currently exist in which the construction of USAID facilities can begin in tandem with OBO should be explored immediately. The Department and OBO have done an excellent job of informing Congress of the need to unify the funding source for overseas construction. This will help guarantee concurrent construction in the future. However, in the intervening years, and until USAID is viewed as an integral and tandem part of current OBO construction planning and prioritization of construction activities, USAID offices not collocated with embassies will remain as softer targets in multiple overseas locations.

The second recommendation calls for incorporating USAID into single office buildings, where appropriate. GAO use of the language “where appropriate” is ambiguous and requires clarification to allow for the collaborative dialog between State and USAID in identifying potential cost saving opportunities. More to the point, the discussion to limit the number of separate annexes for USAID employees will need to reflect important factors other than simply costs.

USAID is the primary implementer of US foreign policy as it relates to development assistance abroad. USAID’s mandate, or mission, relies heavily on its ability to interact with a wide and varied assortment of organizations and individuals. Other critical and equally important factors include the physical security considerations necessary to protect all employees, and in deference to the taxpayer, additional costs required for construction. All three of these factors must be considered in the context of geographical locations, security profiles of countries, the size of the USAID presence, and the type of work USAID is engaged in, in order to appropriately determine if a separate annex is more beneficial to US foreign policy.

In certain circumstances a separate annex, although potentially more costly, may improve the overall security profile of the embassy compound by avoiding a single, large target. This is particularly true in larger USAID missions. Another consideration is that USAID utilizes a much higher ratio of local foreign national staff than many of our embassy counterparts. USAID annex buildings are unclassified allowing greater yet appropriate access for local staff and visitors. Unlike the Department of State, many of USAID’s professional staff include host country nationals. A single building constructed primarily for classified use limits USAID’s ability to interact with clients and staff. This is the case for the NEC in Kabul. USAID will not occupy the all-classified facility to be completed soon. Instead, in order to meet current USAID requirements an interim unclassified

See comment.

modular facility was constructed for USAID and other agencies. The life span of the interim modular facility (located on a leased property adjacent to the Embassy) is five years. However, the long-term requirements for USAID in Kabul, as in other locations, will likely require an unclassified building solution. For this reason, future construction planning for all single buildings that include USAID staff requires OBO to introduce design elements that allows both appropriate space for USAID to conduct its business, and appropriate access for staff and customers in unclassified areas.

USAID remains a staunch supporter of the collocation concept and will continue to work with OBO, GAO, and OMB to ensure USAID missions are collocated in both secure and functional facilities.

The following is GAO's comment on the U.S. Agency for International Development letter dated September 10, 2004.

GAO Comment

We agree with the U.S. Agency for International Development that many factors should be considered to determine whether housing USAID in a separate building or within the chancery building is beneficial to the U.S. government. We have added a brief description of some of these factors.

GAO Contact and Staff Acknowledgments

GAO Contact

John Brummet, (202) 512-5260

**Staff
Acknowledgments**

In addition to the individual named above, Omar Beyah, Janey Cohen, David Hudson, Bruce Kutnick, and La Verne Tharpes made key contributions to this report.

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