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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



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FOR RELEASE ON DELIVERY
Expected at 9:30 a.m.
Tuesday, May 20, 1986

STATEMENT OF

JOAN M. McCABE

ASSOCIATE DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL
AFFAIRS DIVISION

U.S. GENERAL ACCOUNTING OFFICE

BEFORE THE

LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

ON

PROBLEMS IN CONSTRUCTING EMBASSY FACILITIES

IN CAIRO, EGYPT

Mr. Chairman, Members of the Subcommittee:

I am pleased to be here to discuss our recent report to you on Overseas Construction: Problems in Constructing Embassy Facilities in Cairo, Egypt. That report describes the activities of the State Department's Foreign Buildings Office (FBO) in constructing the ambassador's residence in the Giza area and the new chancery.

Our work disclosed serious deficiencies in FBO's activities on these two projects. Specifically, we found that (1) design problems and changes caused delays and added costs, (2) FBO contracted with builders without adequately evaluating their

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financial and technical capabilities, (3) FBO headquarters staff did not adequately monitor the activities of the site project manager, and (4) the project manager did not monitor construction closely, reject materials and workmanship which did not comply with the contract, or report problems to his supervisors. In addition, the Department did not follow the appropriations committees' notification procedures for its reprogramming of nearly \$1 million to cover cost overruns on the residence construction.

These deficiencies have resulted in delays, shoddy work, and cost overruns. The ambassador's residence, which was to have been completed in 1981 at a cost of almost \$2 million, had not been completed as of March 1986 after expenditures of \$3.5 million. An estimated \$930,000 would be required to repair poor workmanship and complete the building. Instead, FBO has decided to abandon the project and sell the land. At the time we completed our work, FBO had received an offer and was waiting for final approval from the Egyptian government to sell the property.

The chancery building, which was to have been completed in January 1986 at a cost of \$27.6 million, was only one-third complete in March 1986. About \$16 million had been spent. In January 1985, FBO terminated the contract because the contractor failed to maintain progress toward completion of the building. At the completion of our work, FBO had just awarded a contract for completion of the chancery and estimated that total costs would be about \$45 million, partly because of recent security requirements.

I would like to briefly describe the problems we found with design deficiencies and changes, evaluation of builders' financial and technical capabilities, and construction oversight, as well as the need for the Department to decide on facility requirements in Cairo.

BUILDING DESIGN DEFICIENCIES
AND CHANGES

The costs and completion dates of both projects have been affected significantly by deficiencies and changes in the designs.

FBO officials did not follow the Department's criteria requiring the use of U.S. industry building specifications and standards in the design of the ambassador's residence. As a result of using less stringent Egyptian standards, numerous deficiencies occurred. An example of one of the more serious was the failure to require pipe chases, which are channels through which pipes or wiring is passed. Instead, the contractor embedded the plumbing pipes directly in the masonry. This made correction of plumbing leaks extremely difficult and expensive and was responsible for most of the cost of remedial work performed on the residence. A listing of design deficiencies pertaining to the residence project is included as appendix II to our report.

As for the chancery, indecision on the number of floors the chancery should have and recent State security requirements caused several design changes. The chancery was originally designed to have 20 floors; however, the number was reduced to 16 floors because some post officials felt a 20-story building would

symbolize a growing role of the United States in Egypt. Subsequently, a 17th floor was added, and at the time we completed our work a decision was pending on whether to add an 18th and 19th floor.

BUILDERS' FINANCIAL AND TECHNICAL
CAPABILITIES NOT EXAMINED THOROUGHLY

FBO officials did not thoroughly investigate the Egyptian contractors' financial and technical capabilities prior to awarding the contracts. The projects subsequently failed, and the U.S. government incurred unnecessary costs in trying to correct construction problems and complete the buildings.

FBO accepted the lower of two bids to build the ambassador's residence in Giza, even though the project manager questioned whether the project could be successfully completed at that cost. FBO did not require a pre-award survey or financial reports on the contractor because he had performed remedial work on the U.S. Embassy and subcontract work on staff apartments in Cairo. A State Department inspection report concluded that a cursory examination of the contractor would have disclosed that he was merely a construction broker who subcontracted virtually all of the trade work, that he was not financially sound, and that the quality of previous work performed at the embassy was poor. Shortly after the contract was signed, the contractor began to experience financial problems. As construction progressed, a number of serious problems with defective materials and workmanship surfaced.

After FBO realized that the contractor was incapable of finishing the project, arrangements with other contractors were

made to remedy mechanical and electrical problems and complete the construction. As the corrective work progressed it became apparent that the problems were more serious than anticipated. Significant problems were discovered in the plumbing, air conditioning, and electrical systems. The corrective work was continued until funds were exhausted. In total, about \$925,400 was spent to correct the construction problems.

Similarly, in the case of the chancery, FBO awarded the contract to a firm with limited construction experience without an in-depth analysis of the firm's financial condition. In addition, key technical construction personnel left the firm prior to award of the contract.

We found that although FBO collects some financial data on potential contractors, it has no written procedures for interpreting or analyzing the data or for evaluating financial capabilities relative to the work under consideration. The two officials who evaluated the chancery contractor told us that they rely on their past experience in evaluating contractors because each situation is different.

CONSTRUCTION OVERSIGHT PROBLEMS ON THE AMBASSADOR'S RESIDENCE

Oversight of construction of the ambassador's residence by both headquarters personnel and the on-site project manager was inadequate. FBO headquarters personnel did not properly support the project manager with technical advice and staff and follow up on problems reported to them by sources other than the project manager. The project manager did not monitor construction closely, reject unsatisfactory materials and workmanship, and

report problems fully to headquarters. He told us that he was unable to do so because of his heavy workload.

NEED TO DECIDE ON FACILITY REQUIREMENTS

FBO has made numerous costly and time-consuming changes to its construction plans for an ambassador's residence and for acquiring office space in Cairo during recent years. Some changes were unavoidable because of enhanced departmental security requirements, while others reflected the preferences of officials assigned to the mission. These changes have been made without an overall plan for facilities needed in Cairo.

At this time, we believe there is a need to make future decisions--on both the residence and the chancery. As is, when we completed our work the U.S. government owned three ambassador residences in Cairo. The residence in Giza is the one which we discussed in our report and in this testimony. In addition, FBO owned a residence in the El Maadi section of Cairo, which was purchased in November 1975 and renovated but never occupied. A third residence is where the ambassador has lived since 1973. That residence was originally purchased as a residence for the Deputy Chief of Mission. At the time we completed our work, efforts were underway to sell two of the residences--the one in Giza and the one in El Maadi. Also, a decision is needed on the chancery project. The plans for the new chancery have changed from an initial 20-story design, to 16 stories, to 17 stories, with a decision pending on whether to add an 18th and 19th story. The chancery was originally designed as a 20-story structure to accommodate all personnel at post; however, the design was

changed to a 16-story building because some officials at post believed such a tall building would be too ostentatious and symbolize a growing role of the United States in Egypt.

Subsequently, because of space needs, a 17th story was added. At the time we completed our work a decision was pending on whether to add an 18th and 19th floor.

CONCLUSIONS AND RECOMMENDATIONS

FBO officials did not follow State Department policies and regulations in building the ambassador's residence and the chancery, resulting in excessive costs and delays. Previous experience and problems in constructing facilities in Cairo should have made these officials more cautious.

Because our work was limited to the two construction projects in the Cairo area, we did not make overall recommendations to the Department of State. However, we recommended several specific actions relating to facilities in Egypt. Regarding the broader problems discussed in our report, we have initiated, at your request, a review of FBO's overall management.

This concludes my prepared remarks. I will be happy to respond to any questions you may have.

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Our work disclosed serious deficiencies in FBO's activities on these two projects. Specifically, we found that (1) design problems and changes caused delays and added costs, (2) FBO contracted with builders without adequately evaluating their

financial and technical capabilities, (3) FBO headquarters staff did not adequately monitor the activities of the site project manager, and (4) the project manager did not monitor construction closely, reject materials and workmanship which did not comply with the contract, or report problems to his supervisors. In addition, the Department did not follow the appropriations committees' notification procedures for its reprogramming of nearly \$1 million to cover cost overruns on the residence construction.

These deficiencies have resulted in delays, shoddy work, and cost overruns. The ambassador's residence, which was to have been completed in 1981 at a cost of almost \$2 million, had not been completed as of March 1986 after expenditures of \$3.5 million. An estimated \$930,000 would be required to repair poor workmanship and complete the building. Instead, FBO has decided to abandon the project and sell the land. At the time we completed our work, FBO had received an offer and was waiting for final approval from the Egyptian government to sell the property.

The chancery building, which was to have been completed in January 1986 at a cost of \$27.6 million, was only one-third complete in March 1986. About \$16 million had been spent. In January 1985, FBO terminated the contract because the contractor failed to maintain progress toward completion of the building. At the completion of our work, FBO had just awarded a contract for completion of the chancery and estimated that total costs would be about \$45 million, partly because of recent security requirements.

I would like to briefly describe the problems we found with design deficiencies and changes, evaluation of builders' financial and technical capabilities, and construction oversight, as well as the need for the Department to decide on facility requirements in Cairo.

BUILDING DESIGN DEFICIENCIES
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After FBO realized that the contractor was incapable of finishing the project, arrangements with other contractors were

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Similarly, in the case of the chancery, FBO awarded the contract to a firm with limited construction experience without an in-depth analysis of the firm's financial condition. In addition, key technical construction personnel left the firm prior to award of the contract.

We found that although FBO collects some financial data on potential contractors, it has no written procedures for interpreting or analyzing the data or for evaluating financial capabilities relative to the work under consideration. The two officials who evaluated the chancery contractor told us that they rely on their past experience in evaluating contractors because each situation is different.

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CONCLUSIONS AND RECOMMENDATIONS

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