

**Management Assistance Report: Execution of the New Embassy Compound London Construction Project Offers Multiple Lessons, AUD-CGI-20-36, July 2020**  
**Summary of Review**

The Department of State (Department) broke ground on the new embassy compound (NEC) London, the United Kingdom, in November 2013. The former embassy property, located at Grosvenor Square in London's Mayfair district, was being replaced with NEC London in large part because it did not meet current physical security standards. NEC London was erected in the Nine Elms district of London, a revitalized industrial neighborhood close to the center of the city. The construction project was widely hailed by the Department's Bureau of Overseas Buildings Operations (OBO) for its "Design Excellence" concept.

The budgeted cost of NEC London was approximately \$1.022 billion, and OBO chose a delivery method known as Early Contractor Involvement (ECI) to execute this construction project. ECI is a form of collaboration by which the contractor works to assist the U.S. Government and the design team during the design and construction phases of the work. By employing the ECI delivery method, the construction contractor for NEC London, B.L. Harbert International, LLC (BLHI), provided preconstruction services concurrent with the design of the project by the Architect and Engineering (A&E) firm Kieran-Timberlake, PLC (KT).

The timely construction of NEC London was particularly important because of a lease-back arrangement for the former embassy property. Specifically, the Department sold its former embassy property located at Grosvenor Square to Qatari Diar with an original lease-back agreement until February 2017, after which the Department would owe additional rent every 6 months. Because construction was not completed by February 2017, as contracted, the Department had to extend the lease-back option of the former embassy property for an additional year at a cost of \$34 million. Moreover, approximately \$19.8 million rent would have been assessed for an additional 6-month period had the Department not vacated by the end of February 2018. This created an obvious financial incentive to occupy NEC London as quickly as possible.

OBO certified that construction of NEC London was substantially complete in December 2017 and occupancy followed in January 2018. Substantial completion is the point when the OBO project director (PD) determines that work is sufficiently complete and satisfactory to occupy the structure with only minor items remaining to be completed or corrected. However, the Office of Inspector General (OIG) found that inadequate attention to major systems design and local building requirements present challenges that have—or will require—additional financial outlays to remedy. Specifically, OIG found major building systems that were either abandoned or had to be modified to function properly. For example, the Wastewater Treatment Plant (WWTP) for NEC London cost approximately \$2 million to install but was abandoned when it did not function as intended. In another example, the Combined Heat and Power (CHP) system was not completed under its original contract, in part because of design deficiencies. As a result, a separate contract was issued to ENGIE Urban Energy Limited (ENGIE) for \$1.6 million in September 2019 to complete installation of the CHP system. Furthermore, OIG learned that the natural gas internal piping system installed at NEC

London did not comply with local building standards. This occurred because OBO officials applied U.S. standards for the natural gas internal piping system instead of local standards. Finally, the semicircular pond located on one side of the NEC London, which serves partly as a security barrier, had design flaws, and NEC London officials had to replace the piping and pumping system as a result.

OIG also found that certain decisions and inadequate installation, among other issues, resulted in building deficiencies that will require continuous attention. Specifically, ground water is seeping into the lower levels of NEC London because a decision was made following a value engineering study not to include an additional floor “slab” and a perimeter masonry wall. In addition, interior stone tiles have cracked, and exterior stone pavers have deteriorated to the point that vehicle traffic in certain areas has been limited to avoid additional damage. Furthermore, portions of the roof at NEC London were improperly installed and will require continuous attention to avoid leaks and water damage. For example, in October 2018, a third-party contractor identified more than 700 defects with the exterior façade covering NEC London, including missing restraint lugs and improperly installed, missing, or damaged gaskets.

Furthermore, OIG found that, even though 2 years have passed since OBO declared NEC London “substantially complete,” final acceptance of the NEC London construction project remains pending as of February 2020. According to OBO’s “Construction Management Guidebook,” the construction contractor has 6 months to complete all outstanding items after substantial completion is reached. However, in October 2019, OIG found that 274 identified defects or “punch list” items were still awaiting remediation. A punch list item is typically a minor defect that needs to be corrected, adjusted, or replaced before a Certificate of Final Acceptance for the construction project can be issued. OIG determined that the extensive time it has taken to address the punch list is due, in part, to the failure by OBO officials to follow prescribed procedures for preparing a consolidated punch list. Specifically, during OIG’s audit of OBO’s construction closeout process, which is currently underway, OIG found that OBO did not prepare a consolidated punch list but instead provided the contractor with 14 separate “Notices of Deficiencies.”

This Management Assistance Report is intended to provide early communication of the deficiencies OIG identified at NEC London during its audit of OBO’s construction closeout process. OIG made seven recommendations to address the deficiencies identified during the project. In response to a draft of this report, OBO concurred with the recommendations offered and stated that it had taken, or planned to take, action to address them. On the basis of OBO’s concurrence with the recommendations and actions taken, OIG considers six recommendations closed and one resolved pending further action. A synopsis of OBO’s responses to the recommendations offered and OIG’s reply follow each recommendation in the Results section of this report. OBO’s response to a draft of this report is reprinted in its entirety in Appendix A.