

## MEMORANDUM THRU Deputy Commander, Seattle District

## FOR Commander, Seattle District

SUBJECT: Coastal Engineering Studies, Internal Review Audit Report No. NWS-IR-2002-09

1. Introduction.

a. Background. Seattle District has the jurisdictional responsibility for navigation projects on the Pacific coast of Washington State. Impediments within the project channels can cause delay to commercial navigation that can have a significant economic impact upon the commercial navigation industry and generate negative national public interest. Failure to maintain the projects can result in navigation accidents. NWS conducts feasibility studies on the Coast to determine the best way to control and prevent navigation hazards. NWS receives congressional funds for these projects and may partner with coastal counties, cities, or ports. In the NWS Operating Division, the chief of the technical support branch provides the policy, guidance and assistance to ensure proper operation and maintenance of Seattle District coastal navigation projects. The chief of the navigation section is responsible for the overall management and quality control of navigation projects to include program management of navigation funds. This person also supervises navigation project managers, hydro-survey teams, and floating plant personnel that execute the navigation function, and is responsible to ensure that they are staffed, trained, and budgeted to carry out navigation projects. The chief of the Engineering/Construction division is responsible for ensuring that shore protection projects are adequately designed. Coastal engineers in the civil soils section provide this support.

Scope  
adequacy

b. Objective. The purpose of this Commander directed audit was to determine if: (i) the O&M funds for coastal studies was being used properly, (ii) projects were sufficiently documented, (iii) appropriate decisions were being made about whether to conduct work in-house vice using the Hydraulics Coastal Laboratory or an outside contractor, and (iv) there is appropriate competition when contracting for services from Pacific International Engineering (PIE).

2. Scope and Methodology

a. Scope. The audit was conducted in the Operations Division (OP-TS-N) and the Engineering/Construction Division (EC-DB-CS) of the Seattle District Headquarters from 21 May through 26 July 2002. I also assessed and reported on the adequacy of overall management controls as required.

b. Methodology. Applicable policies, regulations and procedures that pertained to coastal navigation projects were reviewed. Project files and source documentation was reviewed. Information was also gathered from interviews with responsible project management and supervisory personnel in the Operations, Engineering/Construction divisions and the Contracting and Office of Counsel offices. This audit was performed in accordance with auditing standards issued by the Comptroller General of the United States.

3. Report on Internal Controls and Results of Audit.

a. Summary. The audit objectives determined that (i) justification for the use of O&M funds was not always adequately documented, (ii) project files were not sufficiently documented and Project Management Plans (PMPs) used, (iii) more consensus needs to be realized before determining how to accomplish engineering studies and design work, and (iv) there appears to be a conflict of interest concerning the roles PIE plays in obtaining funding, receiving multiple contracts/amendments without sufficient competition, and influencing government decision making. \*

b. Internal Controls. Management controls were not in place and functioning adequately. The Operations Division had not adequately adopted the Project Management Business Process (PMBP) in consonance with USACE policy and had not developed specific procedures on how to implement PMBP policy/guidance. If the recommendations made in this report are implemented then operational and inherent risk in this functional area should be substantially reduced.

c. Results of Audit.

(1) Title: Administration and Monitoring of Coastal Engineering Studies

Reference: (a) ER 1110-2-1403

Finding: Seattle District Operations Division did not adequately administer and monitor coastal engineering feasibility studies, especially ones that were contracted through the Engineering Research and Development Center (ERDC).

Discussion: A principle of a local engineering firm appeared to have excessive influence in the financing and awarding of coastal engineering feasibility contracts for projects in the Seattle District. Mr. Harry Hosey started a company named Pacific Engineering International (PIE). Mr. Hosey apparently has a close personal relationship with Washington State Congressman Norm Dicks and is able to get his support to fund engineering studies by providing congressional add money that PIE uses to finance the work in their proposals. NWS office of Counsel stated that in depositions Mr. Hosey had refused to answer questions about his relationship with Congressman Dicks. Mr. Hosey submits his proposal under CHL's Broad Agency Announcement (BAA) contracting authority with the Corps of Engineers Engineering Research and Development Center (ERDC) Coastal Hydraulics Laboratory (CHL) in Vicksburg, Mississippi. The proposal is accepted and a scope of work is jointly prepared by ERDC and PIE, and the contract is let without further competition under the BAA contracting procedures. A favorable evaluation of the proposal is required and the proposals under BAA are to be subject to peer or scientific review. However, ERDC has not been responsive to questions or input that NWS has made to their draft scope of works (SOWs). This does not constitute peer or scientific review (by the customer). In one instance ERDC was using PIE's services and committing money before NWS had even approved the SOW. There was also concern expressed about PIE

getting a proposal accepted at one price and then having multiple large amendments added. In the past PIE has conducted many engineering studies for various communities on the Washington Coast and has represented them in their attempts to obtain funding for their projects. Mr. Hosey appears to act as a lobbyist to find a sponsor for a project for the Washington coastal communities and then obtains financing using his relationship with the state Congressman. Also, his wife is a lobbyist and owns a real estate company in the Coastal area called Pharos Corporation Joint Venture Consultants. She has an interest in the land development and protection of coastal properties from erosion. PIE has received unfavorable press coverage in the local coastal newspapers and by coastal engineering experts in recent years. Some of the comments made are: Hosey acts as a lobbyist for the coastal communities both in Washington DC and Olympia; is under contract with various governments; Hosey is coordinating all of the responses and solutions for coastal erosion in Southwest Washington; the future of coastal management is completely controlled by a single contractor who is financially motivated and comes up with costly solutions; it is disturbing when an engineering firm packages lobbying with its other services; city of Ocean Shores has 6 signed agreements with PIE and only 1 went through a competitive contracting procedure. The North Coast News stated that PIE received all 8 State grants; there are regular noncompetitive awards being made; payments to PIE may actually be made for lobbying activities. Also, during the audit I found that Mr. Hosey had influenced the decision to remove a project manager at CHL and that he tried to have a project manager at NWS removed from a project. Recently NWS received a FOIA asking for all requests for proposals and BAAs in Grays Harbor County for 1998-2002, all contract modifications and amendments, and all documentation of transfer of funds between NWS and ERDC. ERDC seems to have an overly familiar working relationship with PIE. Mr. Hosey has been instrumental in having project managers removed or attempting to influence their removal. A Conflict of Interest is a relationship or situation where an offeror, subcontractor, or consultant has past, present or current financial interest that may diminish the ability to give impartial objective assistance or result in it being given an unfair competitive advantage. Some potential types of conflicts of interest are: 1) subcontract performance involving the preparation and furnishing of complete or essentially complete specifications which are to be used in competitive acquisition for the furnishing of services, 2) subcontract performance involving the preparation and furnishing of a detailed plan for specific approaches or methodologies that are to be incorporated in a competitive acquisition, and 3) subcontractor performance involving the furnishing of advice to the Corps in a technical area where the subcontractor is also providing consulting assistance in the same area to any other organization. To distance itself from these apparent or even actual conflicts of interest, the Seattle District should first exercise the option to let and administer the contracts for coastal engineering feasibility studies. The projects are in the NWS District and the money is O&M funds directed to NWS. The physical modeling portion of a project could be contracted out to ERDC as usual and the data collection and other tasks could be awarded to a contractor by competition. According to ER 1110-2-1403 paragraphs 8 and 9, the initiating district can prepare a scope of work that contains statements of purpose, necessity and description of the study. A request for quotation can then be solicited from interested parties.

Recommendation: For the Seattle District Engineer

A. NWS should no longer routinely funnel money to ERDC to pay for coastal engineering feasibility studies in NWS under ERDC's BAA contracting procedures. NWS should first exercise its option to let and administer these contracts. For future coastal engineering studies and design projects, representatives from Operations and Engineering/Construction Divisions should meet to discuss whether or not the work should be conducted in-house or by contract. If the work is to be conducted partly or in whole by contract, the same parties should consult with the Contracting Division to develop an acquisition strategy for the contract work. Before any work is initiated, the project manager from Operations Division should provide a clear statement of the problem that is to be addressed by the work, the purpose of the work, and the authority under which the work is to be conducted. For any engineering study or design work to be contracted, NWS-EC should be given the opportunity to review and comment on the proposed contract Statement of Work prior to negotiations being initiated with the contractor.

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**Management's Response:**

**Concur.** Seattle District needs to consider developing a more complete range of alternatives for coastal engineering studies. Research and development is appropriately done by the Coastal Engineering Research Laboratory. Feasibility studies and designs can be accomplished in-house or by contract. I will meet with the Chiefs of Operations and of E&C to discuss acquisition planning for coastal engineering.

(2) Title: Project Files

Reference: (a) ER 5-1-11

**Finding:** Project files did not contain all the information necessary to document the decision making, milestones and results of coastal engineering studies.

**Discussion:** Project managers were not formally appointed to projects in writing. Delegation of authority is needed for accountability. Project files were not systematically organized and adequately documented. By reviewing documents in the project files I was not able to determine when and how much money was received or expended. Congressional add money is not always identified by project. The PM needs to show in the project files how much money is received/obligated for a project. The navigation section chief inputs money for contract payments into CEFMS using PR&Cs. These expenditures need to be periodically summarized and placed into the PM's project folder. Also, labor costs for projects were not tracked for projects. The chief of the navigation section is responsible for management of quality control of navigation projects and supervises navigation project management. The section chief is also responsible to ensure that the section is adequately staffed, trained, budgeted and that performance measures for navigation operations are accurately reported. On the administrative side, it was not always clear who was on the project delivery team (PDT). PDT members that provided input concerning some issue or problem did not always get satisfactory answers to their input or questions. The PM should make sure that team members understand the importance of continuously keeping in contact to resolve important issues. The PM is the person

responsible for scheduling meetings, maintaining and sharing project information, encouraging participation, and keeping everyone focused. PMs should keep the team informed of resource allocations, project status and quality issues. The PM needs to take more decisive action to resolve problems as they occur and document them in the project folder. The results of important meetings and decisions need to be documented in the project file. Also, more and better coordination with the Engineering Division needs to be accomplished and documented. Project Management Plans (PMPs) were not being used. The scope of work (SOW) from ERDC was being used as a PMP. Reference (a) states that the Project Management Business Process (PMBP) applies to planning, development, and the management of programs as well as projects and is to be used at all echelons of USACE. PMBP is project-focused teamwork that utilizes multi-disciplined PDTs to deliver quality products and services. A formal acceptance letter should be signed by NWS before work is started on a contract and funds are submitted to ERDC. A PMP needs to be used to document major milestones in a project's life. Communications and teamwork are more effective when a project has a good PMP. At a minimum the PMP should include the scope of work, a list of team members, team member responsibilities and commitments to the project, the project schedule and the budget. The PMP should be updated as the project progresses to document the history of the project. The Planning, Programs, and Project Management Division can provide templates that may be used for PMP. The business/work process associated with coastal engineering studies needs to be identified and documented. Procedures should be developed and documented with sufficient detail to ensure that actions are performed correctly and completely each time. Quality should also be built into the process and managed through use of the Plan-Do-Check-Act cycle from ER 5-1-11 with special emphasis on the check phase. Checking consists of performing independent technical review, management oversight, and verification to ensure that quality objectives documented in the PMP are met. Team members should periodically check performance against the plan to verify sufficiency of the plan and that actual performance meets or exceeds agreed-on objectives. After action reviews should also be conducted to facilitate sharing of lessons learned and then findings shared with the project team and other personnel to facilitate continuous improvement. Monitoring of project files and documentation needs to be conducted on a routine and continual basis. The threat of monitoring usually increases compliance with controls and in effect becomes a preventive control.

**Recommendation:** For the Chief of Operations

B. Identify and document the methodology/business process to be used in managing coastal engineering feasibility studies. Include standards for project files, format for PMPs, and methods of quality control.

Management's Response: **Concur**. For all studies, coastal or otherwise, an independent Funded Work Item will be henceforth created. Funding and expenditures will be tracked using the CEFMS database. A formal PMP will be filed in a separate binder, along with other required documentation, such as that needed to document major milestones in the study. Funding documentation will be provided by listing the CEFMS report screens that contain the needed data. The PMP will be a "living document" and include scope of work, list of the PDT team members, team member responsibilities and commitments to the project, project schedule,

Subject: Audit Report No. CENWS-IR-2002-09, Coastal Engineering Studies

budget, and the acquisition method, if contracting is required. The PMP will be used to monitor work progress for quality control and for adherence to the schedule. Project Managers will keep and maintain project files to document work progress and actions taken. The Section Chief will provide QC by monthly review of the PMP file, including searching CEFMS for the proper reports. An after action meeting will occur that will include the supervisors of the PDT sections.

Auditor's Comments: Management's reply is considered responsive. They should also summarize funding and expenses to include labor costs against each project on a monthly or quarterly basis.

4. **Coordination.** The audit required access to documents and interviews with personnel from the Engineering Division, Operating Division, Contracting office, and the Office of Counsel. The cooperation of personnel in some of these offices was appreciated during the audit. As required, the IR office will perform a follow-up within 180 days on open recommendations.

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