

**Internal Audit Report 13-11
Downtown River Greenway
July 2013**



City of Sioux Falls
Internal Audit Department
Carnegie Town Hall
235 W. 10th Street
Sioux Falls, SD 57117-7402
www.siouxfalls.org/council/internal-audit

DOWNTOWN RIVER GREENWAY INTERNAL AUDIT REPORT 13-11

INTRODUCTION

Part of the funding for this construction project came from a bond issue in 2011 which was referred to as a Quality of Life II bond. This bond funded a number of projects including the Downtown River Greenway. We audited this bond in 2012 and issued internal audit report 12-06 in August 2012. This current audit focused specifically on Phase One and Phase Two of the Greenway project and was done at the suggestion of elected officials when we prepared our Annual Audit Plan.

BACKGROUND

The Sioux Falls City Council approved the original Greenway Master Plan in 1975. This plan identified a bike trail loop around the city following the Big Sioux River. The twenty mile loop was completed in 2007.

As this original plan was nearing completion, community leaders and City officials saw the need for a more comprehensive plan. In 2003, the City of Sioux Falls and Forward Sioux Falls formed a partnership to develop a Greenway and Riverfront Master Plan. Design Studios West, Inc. with the assistance of community leaders, elected officials and City staff developed a plan which was approved by the City Council via resolution 95-04 in September 2004. A key to this plan was public participation. Public input identified the downtown portion of the bike trail for increased development. 94% of people surveyed would like to see a river walk connecting Falls Park to downtown. Top amenities requested by the public included such things as:

1. Riverside dining
2. Pedestrian river crossing
3. Amphitheater
4. Downtown river walk
5. Integrated sculpture
6. Attractive bridge treatment
7. Outdoor market
8. Bike trails
9. Entertainment arena
10. Urban river edge

Phase One of improvements was completed in 2012. Work focused on the east bank of the Big Sioux River between 6th street and 8th street. Improvements included a wider bike trail, pedestrian spaces, a small amphitheater and better access to the river. The total Phase one project cost was \$5.4 million. Phase Two began in 2012 and will be completed in 2013. Phase Two focuses on improvements going south from Phase One past 8th street. Most of the work is on the east bank but there are some improvements on the west bank as well. Total cost of Phase Two is expected to be \$3.8 million. Funding

for Phase One and Two is from a Quality of Life bond issue, the second penny sales/use tax, the Big Sioux River Environmental Trust Fund and private contributions.

Swift Contractors, Inc. is the general contractor for both Phase One and Two. Confluence is the design firm hired by the City for both phases and also provides construction administration services. Improvements to the Big Sioux River have spurred commercial development including a four-story Hilton Garden Inn expected to open in late 2013.

OBJECTIVES

We audited the Downtown River Greenway project with the following objectives:

1. Determine what was spent on Phase One and Two, where the funding came from, and if this project stayed within authorized budget appropriations.
2. Determine if appropriate internal controls are in place and functioning to mitigate risks.

SCOPE AND METHODOLOGY

The scope of this audit included Phase One and Phase Two of the Downtown River Greenway. We reviewed the Quality of Life bond issue audit report we issued in 2012. We performed a walk-thru of the project. We interviewed City managers responsible for this project as well as the consultant hired for construction administration. We reviewed budget documents, monthly financial reports and accounting records. We examined change orders and pay requests from Confluence and Swift Contractors, Inc. We examined insurance certificates and performance bonds.

RESULTS

AUDIT OBJECTIVE ONE-EXPENDITURES

We calculated the expenditures for Phase One and Phase Two by reviewing accounting records and compared our results with management.

Phase One detailed expenditures were:

<u>Contractor</u>	<u>Description</u>	<u>Paid</u>
Swift	Construction	\$4,413,046
Big R Bridge	New bridge	243,975
Holmes Murphy	Builder's risk insurance	8,000
Geotek	Various testing	45,669
Confluence	Design	291,919
Confluence	Modeling/permitting	193,309
Confluence	Construction administration	191,375
	Total Phase One Expenditures	\$5,387,293

Note: Phase One was completed in 2012.

Phase Two detailed expenditures are:

<u>Contractor</u>	<u>Description</u>	<u>Paid-to-Date 06/25/2013</u>
Swift	Construction	\$2,960,258
Confluence	Design	217,284
Confluence	Construction administration	53,152
Geotek	Various testing	<u>31,712</u>

Total Phase Two Expenditures-to-Date \$3,262,406

Note: Phase Two will be completed in 2013.

Total expenditures are expected to be \$3,779,482.

Challenges associated with this project

A number of challenges associated with this project contributed to increased costs. Because much of the construction takes place alongside a river, temporary construction was used so that work could proceed. Cofferdams were constructed to create a dry environment. These dams are dismantled when construction is complete. Additionally, the river bank in this area was a dumping ground in the early decades of the twentieth century resulting in contaminated soil. When dirt is removed in this project, it cannot be disposed of as ordinary dirt. All of it is assumed to be contaminated and is trucked to the sanitary landfill for proper disposal. Another challenge includes the necessity of making retaining walls thick enough to withstand the force of river currents, especially in times of flooding or high water. Epoxy coating is used throughout the project to protect against the effect of moisture on construction materials. The depth of bedrock varied considerably along the river bank creating additional challenges for construction. All of these factors resulted in increased costs.

Change orders

Change orders were used in both phases of this project. Change orders that increase a contract may come about for three reasons:

- Owner-initiated; the City (owner) may decide they want an additional feature not included in the original project design.
- Unforeseen circumstances; for example, changes in the subsurface material may require adjustments to the construction of retaining walls.
- Error or mistake in the design; this may require more work by the construction contractor than was bid.

Change orders for the two Swift construction contracts were as follows:

Phase One

<u>Contract number</u>	<u>Original award</u>	<u>Change order</u>
2010-1080	\$3,969,194	
	163,778	One
	22,954	Two
	203,030	Three
	75,927	Four
	<u>(20,837)</u>	Five
Adjusted contract	\$4,414,046	

Phase Two

<u>Contract number</u>	<u>Original award</u>	<u>Change order</u>
2012-1041	\$3,501,000	
	(83,746)	One
	24,790	Two
	(1,705)	Three
	<u>2,625</u>	Four
Adjusted contract	\$3,442,964	

NOTES: Change order one for contract 2010-1080 was due to bedrock issues that became evident once construction began. Change order three for contract 2010-1080 was partly due to approval of an alternate, namely a quartzite veneer retaining wall. This was funded by private donations of \$110,000. The original cost of contract 2012-1041 was decreased by use of “value engineering” to reduce costs yet accomplish the project design requirements. Value engineering is a process to analyze and remove unnecessary expenditures.

AUDIT OBJECTIVE ONE-FUNDING SOURCES

There are three primary sources of funding for Phase One and Phase Two of this project:

Sales/Use tax, (second penny)	\$2.1 million approximate
Culture Recreation Bond ¹	5.0 million
Big Sioux River Environmental Trust	1.9 million

An additional \$110,000 was received from various private donations.

Money from the Big Sioux River Environmental Trust is not taxpayer dollars. This money was held in trust and is the result of a fine imposed by a federal judge in the 1990s on John Morrell Company for polluting the Big Sioux River.

AUDIT OBJECTIVE ONE-BUDGET AUTHORITY

We determined that this project had sufficient budget authorization before construction began. When the original scope of the project expanded, construction was not authorized until sufficient budget authority was in place.

The City Council took three specific actions to increase the funding for the Downtown River Greenway besides that which was already approved in the City’s capital plan for this project. Those actions are as follows:

- Ordinance 47-09 \$4,997,737 Quality of Life bond issue
- Resolution 35-11 1,912,328 Authorized use of the Big Sioux River Environmental Trust
- Resolution 34-12 1,020,000 Supplemental appropriation using surplus capital funds

¹ Also known as the Quality of Life II bond issue

AUDIT OBJECTIVE TWO-INTERNAL CONTROLS

We performed a risk analysis for likely risks involved in a construction project of this type. We did audit work to determine if there were appropriate controls in place and functioning to mitigate these risks. We concluded that internal controls are in place and functioning correctly. For example, we reviewed documents to determine that the general contractor had the required insurance and performance bond in place. We examined a sample of change orders and a sample of pay requests from Swift and Confluence for proper approvals and mathematical accuracy. We reviewed the process by which Swift was awarded the contracts for Phase One and Two of this project for compliance with State law and City policy.

CONCLUSION

Internal controls are in place and functioning to mitigate risks associated with a construction project of this type. The scope of this project changed from the original proposal envisioned in 2004. However, as the scope of the project expanded, the City Council approved appropriations before construction was authorized to begin. We found no evidence that budget authority for Phase One and Two of the Downtown River Greenway was exceeded. We appreciated management's courtesy and cooperation as we audited this project.

AUTHORIZATION

The Sioux Falls City Council approved this audit by resolution in December 2012 as part of the 2013 Annual Audit Program. The Internal Audit division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

STATEMENT OF INDEPENDENCE

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

DISTRIBUTION OF REPORT

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

PERFORMED BY

Richard Oksol, CPA, CGAP
Internal Audit Manager