

CITY OF SIOUX FALLS INTERNAL AUDIT

CAPITAL IMPROVEMENT PROGRAM

25-03

Audit Highlights



Background

- The City of Sioux Falls has several construction projects occurring through each year to support the goals of the City.
- Each project must be presented to the City Council for consideration.
- Once projects are approved by the City Council, the Departments of Engineering and Finance work together to collect appropriate project support.
- A policy for change orders has been established requiring approval by the City Engineering up to \$100,000. Change orders greater than or equal to \$100,000 require approval by the Mayor and must be included as part of the City Council consent agenda.

Background

- Policies for monitoring the progress of construction projects and obtaining approval for change orders are the responsibility of the City Engineering Department.
- Policies for monitoring budget versus actual costs for construction projects are the responsibility of Finance.
- **Overall, Department personnel appear to be following policies for change orders.**

Objective & Scope

Objective:

Review a sample of recently completed Capital Improvement Program (CIP) projects and compare the original contract price with any change orders or other changes. Review change orders for compliance with applicable CIP policies and procedures.

Scope:

Review of processes utilized by City Engineering and Finance Departments when obtaining change orders for CIP projects and monitoring spend. The population of data sampled was selected from CIP projects completed in FY2024 and from January through May 2025.

What we found

Finding 1: Policies and Procedures should be reviewed regularly and updated as needed. Each policy document should include an effective date, as well as a date of last review to evidence that the policy is current.

Opportunity for Improvement 1: Language for change order approvals in the Procurement Procedures and Policy Manual should be clarified.

Recommendations

Recommendation 1: We recommend establishing a formal process for periodic updates to all policy and procedure documents. Policies and procedures should be reviewed regularly with changes being made as needed. Each document should include an effective date as well as a last reviewed date and be reviewed for consistency.

Management's Response: *Public Works' internal policies are updated on an as needed basis. These internal documents are used by project managers to coordinate internal procedures only. Most recently the Contract Change Order Procedures policy was updated and effective September 19, 2025. Along with this update, the Project Manager's Manual and Project Closeout procedures have been under review and are expected to have an update completed by 12/31/25.*

City Engineering will continue to update these policies on an as-needed basis. Updates to state law and project management requirements are infrequent and management agrees that these policies do not need to be updated more frequently than current practices.

Management Representative Responding: *Andy Berg, City Engineer*

Date of expected implementation: *12/31/25*

Opportunity for Improvement

Opportunity for Improvement 1: We recommend the verbiage in the Procurement Procedures and Policy Manual section regarding contract change orders be updated to clarify that requirements for mayoral approval and city council notice are only required for increases to contract budgets. Additionally, all policies and procedures derived from the City ordinance related to change orders should be reviewed to verify consistency across the available documentation.

Management's Response: *The Procurement Procedures Policy currently states "Contract change orders may be approved by the City Engineer up to \$100,000. The Mayor's approval is required for any contract change order over \$100,000 and shall be noticed on the City Council Consent Agenda. All contract change orders shall have funding identified prior to approval."*

While Management agrees that the current language in the Procurement Procedures Policy is clear that only change orders that are positive and increase the project costs over \$100,000 require the Mayor's signature and notice to Council, additional language can be added that all negative change orders do not require notice to Council or Mayor's signature, in compliance with existing ordinance. Additionally, Management has already updated the Contract Change Order Procedures to update the amount required for Mayor signature from \$25,000 to \$100,000. Management will review all other policies to ensure consistency with current ordinance and procedures in practice.

Management Representative Responding: *Janelle Zerr, Finance Manager*

Date of expected implementation: *12/31/25*

Conclusion

- Areas of success included the completeness of project files provided as well as the formal process for monitoring budget to actual spend for projects in process.
- Internal Audit believes existing policies and processes could be enhanced by establishing a formal process to regularly review and update documents as needed. Each policy should include an effective date and a date of last review to evidence the policy is current.
- Verbiage in the Procurement Procedures and Policy Manual should be updated to clarify that change order approval requirements only apply to contract increases.
- The recommendations provided are based on leading practices and will help enhance the CIP and change order process.
- We would like to thank the Engineering and Finance departments who we worked with on the audit for their assistance provided.