

INTERNAL AUDIT REPORT

Operational Audit – Capital
Terminal 117 Sites 23 – 25 Restoration Project Closeout



January 2020 – August 2024

Issue Date: November 12, 2024

Report No. 2024-18

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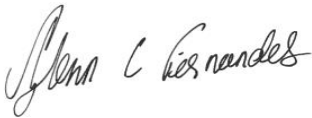
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Executive Summary

Internal Audit (IA) completed an audit of the Terminal 117 Sites 23 – 25 Restoration Project Closeout (Project) for the period January 2020 through August 2024. The audit was performed to provide an independent assessment of performance, with the purpose of determining how goals and objectives were achieved and to determine if there were opportunities for improvement in future projects.

This Project was executed as a Heavy Civil General Contractor/Construction Manager (GC/CM) delivery method. The Port of Seattle (Port) entered into an Agreement with Scarsella Brothers Inc. with a Maximum Allowable Construction Cost (MACC) contract in the amount of \$14.2 million. Upon completion of the Project, the Port performed a final cost reconciliation and resolved open change orders resulting in the final contract being reduced to \$13.6 million. We noted the Port's Construction Management Department's Standard Operating Procedures (SOPs) are thorough and address the highest risks usually seen in the closeout phase of construction projects.

We found that the Port's process during the closeout of this Project was effective and met industry standards. We do not have any reportable issues.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Karen Goon, Deputy Executive Director
Sofia Mayo, Acting Director of Central Procurement Office
Brian Sweet, Director of Engineering – Construction Management
Janice Zahn, Chief Engineer

Background

Between 1937 and 1993, the Duwamish Manufacturing Company and Malarkey Asphalt Company used the site for asphalt shingle manufacturing which left the site with contaminated soil and sediments. The Port acquired the land in 1999, which was designated as an Early Action Area (EAA), as part of the Lower Duwamish Waterway Superfund site by the U.S. Environmental Protection Agency (EPA). The Port and the City of Seattle worked together to conduct multiple large-scale cleanups with EPA oversight.

The large-scale cleanups were done in two phases. The first phase was for the uplands and sediments cleanup, which included the removal of pavement, derelict structures, and about 60,000 tons of soil and sediment. Following that, another round of cleanup was done for streets and stormwater. This work included storm drainage pipes under the streets, sidewalks, environmentally friendly landscaping, installation of art, signage, and rain gardens which will improve the stormwater quality. These two phases were completed in 2015 and 2016, respectively.

Beginning in 2020, the Port broke ground on the Duwamish River People's Park, with the purpose of restoring 14 acres of habitat and shoreline access on the west bank of the Lower Duwamish Waterway in South Park, Seattle. This Project contributes to salmon recovery in the region, which can also support the endangered Southern Resident Orca population. This area along the river is also used by tribal fishers to harvest chinook, coho, pink, chum, and steelhead salmon as they practice their Treaty Fishing Rights during salmon migration season.

This Project was unique in that it established the Port's first "habitat credit bank", which enabled third parties to invest in habitat projects, as mitigation credits to comply with the Clean Water Act and the Endangered Species Act. Any revenue generated by the Port will help fund additional habitat restoration projects in the Green-Duwamish Watershed and Elliott Bay. In addition, the site serves as a learning lab for environmentalists seeking skills training and hands-on experience with careers in habitat restoration and marine wildlife conservation.

Some of the park's features include:

- Pathway and bridge to 275-foot-long pier
- Gathering area, seating, and entrance to shoreline pathways and viewpoints
- Public art and interpretive features
- Interpretive trail to half acre restored marsh and riparian area
- Marsh platform and steppingstone pathway
- Hand-carried boat launch
- Five and a half acres of restored marsh and native riparian shoreline
- Seven hundred and fifty feet of lighted pathway to viewpoints and interpretive information
- Access stairway to 35-foot-high waterway and habitat viewing platform

The Port contracted with Scarsella Brothers Inc. as the GC/CM of the project in August of 2020. The original contract amount was \$14.2 million. The final contract amount was \$13.6 million, including the executed change orders and the closing of open change order trends.

Source: [Duwamish River People's Park | Port of Seattle \(portseattle.org\)](https://portseattle.org/duwamish-river-people-s-park)

Audit Scope and Methodology

We conducted the engagement in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. These standards require us to plan and execute the engagement to obtain sufficient, appropriate evidence to support our findings and conclusions based on the engagement objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions.

The period audited was January 2020 through August 2024 and included the following procedures:

Process Review

- Obtained and reviewed the audit report written by Branch, Richards & Co., P.S.
- Obtained an understanding of the closeout process through interviews with the Construction Management team
- Reviewed closeout process Standard Operating Procedures
- Verified that the Port performed a cost reconciliation
- Reviewed and compared the GC/CM job cost ledger with the final pay application
- Reviewed self-performed work items for risks associated with lump sum self-performed work
- Reviewed Water Treatment bid calculation details

Appendix A: Risk Ratings

Observations identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for an observation to be rated High, Medium, or Low. Low rated observations will be evaluated and may or may not be reflected in the final report.

Rating	Financial/ Operational Impact	Internal Controls	Compliance	Public	Commission/ Management
High	Significant	Missing or partial controls	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
Medium	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Moderate probability for external audit issues and / or negative public perception	Requires attention
Low	Minimal	Functioning as intended but could be enhanced	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention