



## Amendment # 1 Finance & Procurement

Date: May 24, 2023

Agreement # 4594 – Capital Program Operational Risk Assessment

Contractor: Talson Solutions, LLC

Current Amount: \$28,200.00

- I. Section 2, Term, of the Agreement is deleted in its entirety and replaced with the following language: “This Agreement is for a term of approximately three years, beginning February 13, 2023, and continuing through February 28, 2026. The parties may mutually extend the term of this Agreement, provided, the parties do so by execution of a written amendment.”
- II. Section 3, Compensation and Payment, of the Agreement is amended by increasing the not-to-exceed amount by \$752,800.00; therefore, the revised total amount of the Agreement is \$781,000.00.
- III. Section 4, Contract Administrator, of the Agreement, is amended by deleting the contact information block and replacing it to read as follows:

George Holland, CIA, CISA, City Auditor  
City Auditor’s Office  
(361) 826-3660  
GeorgeH3@cctexas.com
- IV. Section 13, Notice, of the Agreement is amended by deleting the notification block for the City and replacing it to read as follows:

**IF TO CITY:**  
City of Corpus Christi  
Attn: George Holland, CIA, CISA, City Auditor  
1201 Leopard St.  
Corpus Christi, TX 78401
- V. Subparts (A) and (B) of Section 15, Termination, of the Agreement are amended by adding the phrase “or City Auditor” following the phrase “City Manager.”
- VI. Attachment A, Scope of Work, of the Agreement is amended by adding **Attachment A-1**, the content of which is attached and incorporated by reference into the Agreement as if fully set out here in its entirety. Attachment A-1, entitled “Statement of Work – May 2, 2023”, adds four identified construction audits from the City’s amended calendar year (“CY”) 2023 annual audit plan (dated as of April 11, 2023), with a possible fifth construction audit to be subsequently identified and completed, time permitting.
- VII. In addition to the Services to be performed pursuant to Attachment A-1, the Contractor is required to comply with and complete the following:





## Statement of Work – May 2, 2023

### City of Corpus Christi – Construction Audit Services

This Statement of Work outlines construction audit services proposed by Talson Solutions, LLC (Talsoln) that may be requested by the City of Corpus Christi (City). Talson provides capital project advisory services that assist clients in mitigating capital program risk by increasing contractor and owner transparency, enhancing project delivery, and improving financial and project controls. Since 2021, Talson has provided construction audit services including the facilitation of construction audit training specific to the City and the completion of a Capital Program Operational Risk Assessment.

#### Our Understanding

In September 2022, the City adopted a Capital Improvement Plan (CIP) that included the Bond 2022 Initiative and a dedicated 2023 capital budget totaling \$592.9 million. The CIP was amended in January 2023 to an increased budget amount of \$681.4 million. The City anticipates a significant capital improvement program over the next 3 – 5 years for projects in the following areas:

- Public Utilities
- Public Health & Safety
- Parks & Recreation
- Streets
- Storm Water
- Water
- Airport
- Gas
- Wastewater

The Projects (shown below for 2023 audit selection) are funded by various sources including revenue bonds, state and federal loans, grants, sales tax, property taxes, general funds, facility charges and others. The City wishes to engage Talson to provide construction audit services for the ongoing performance reviews of select project activities from in-house and external resources including engineering, finance, project management, general contractors and consultants. The four (4) projects below were selected for audit with a fifth project as an alternative (time permitting).

2023 Capital Project Selections					
	Audit No. 1	Audit No. 2	Audit No. 3	Audit No. 4	Audit No. 5 (Alternative)
<b>Project</b>	No. 21143 Williams Lift Stations	No. 18023 / 21088 Junior Beck Dr.	No. E10180 Greenwood WWTP Electrical	No. 21086 Police Academy	No. 21200 Packery Channel / Sidewalk Restoration
<b>Department</b>	Wastewater	Streets	Wastewater	Public Safety	Parks & Rec
<b>Construction Contract Value</b>	\$11.6 million	\$4.9 million	\$6.0 million	\$21.0 million (Bid)	\$14.9 million
<b>Reported Work Done</b>	\$2.4 million	\$2.3 million	\$5.8 million	\$0	\$1.5 million



### **Our Approach**

Talson's audit approach will ensure that our planning, execution, and deliverables, in coordination with the City are of the highest quality. Our engagement team will facilitate weekly communications (or as desired) to ensure potential risks are addressed promptly, and to ensure overall engagement objectives remain the primary focus. Upon receipt of the Notice to Proceed from the City, Talson will prepare a document request that commensurate with the contract type and audit phase (i.e., initial, interim, closeout) to enhance our understanding of the Project, and participate in an engagement kick-off meeting with key Project stakeholders. A summary of audit engagement activities is as follows:

- Conduct preliminary engagement planning and scheduling<sup>1</sup>
- Submit an initial request of documents for review
- Prepare the audit work plan and detailed activities required for the respective audit scope
- Prepare and submit draft Audit Reports (separate reports for each audit)
- Review draft reports with City and incorporate revisions and management responses
- Submit the final Audit Report
- Presentation to the City's Board / Audit Committee

### **Internal Audit Collaboration**

As part of our approach, Talson will collaborate and co-source with City Internal Audit staff during integral stages of the audit. The City Internal Audit staff will assist with logistical planning, document requests, participate in interviews and contribute to audit planning decisions specific to setting audit objectives and supplemental work activities. In turn, the City Internal Audit team will facilitate "knowledge sharing" sessions with other City staff (procurement, engineering, etc.) focused on providing insight to risk based and smart sampling reasoning throughout the audit. Talson will assist in the preparation of this presentation and/or lead as needed.

### **Audit Scope**

The audit will utilize a comprehensive risk-based approach to assess compliance to contract provisions and identify any risks to successful Project completion, within budget and on-time. Talson will assess Project Management's (e.g., City, selected General Contractor and subcontractors) alignment with industry best practices throughout the engagement, facilitate knowledge sharing discussions, and collaborate with the project teams to ensure transparency of the audit work but also maintain independence. Specific audit scope for the various construction phases shall include:

**Initial / Pre-Construction (0% – 20% contract invoiced):** Focus on verification and compliance of contract documents, and verification that the construction manager's and subcontractor's proposals is compliant with the City's standard contract terms and conditions, and that the proposed costs are reasonable, accurate, and in line with industry standards. Activities include:

- 1) Verify construction contract compliance to provisions, deliverables and obligations (e.g., "cost of work," reimbursable and non-reimbursable costs, change order management, fee calculation, reporting requirements, contingency and allowance management, insurance administration, etc.).

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<sup>1</sup> Prior to commencing any audit engagement activities, Talson will participate and fulfill any City security and system (i.e., e-Builder) virtual training sessions that will be facilitated by the City.



- 2) Assess the construction manager's processes for communication and reporting.
- 3) Review of the construction manager's professional and field labor staff hourly rates, including assessing base rate and burden components of the hourly rate build-up to identify accuracy, potential duplicate components and transparency of expected charges (e.g., bonuses, vacations, insurances, training, computers, phones, etc.).
- 4) Review the construction manager's general conditions forecast for reasonableness of anticipated construction activity and alignment with typical general condition spend values.
- 5) Review select subcontractor procurement activities (e.g., de-scoping analysis, bid score, pricing, sealed bids received and involvement of the City and the construction manager).
- 6) Verify that select executed subcontractor scope is reasonable and subcontract contains appropriate flow-down provisions.
- 7) Assess current insurance premium estimates and methodologies including assessing the enrollment and other aspects of other insurance administration (e.g., CCIP, OCIP, SDI, Builders' Risk, etc.)
- 8) Review the construction manager's monthly project reporting including all cost reports and logs (Asset Logs, Rental Tool Logs, etc.) - *as applicable*
- 9) Assess the construction managers cost accounting system and reporting for alignment with industry standards, including payment application formats.
- 10) Assess usage and monitoring of allowances, contingencies, holds and buyout savings
- 11) Review other project documentation (e.g., RFIs, submittals, OAC Meeting Minutes, schedule, etc.) to determine any potential risks that may warrant further review.

**Interim Audit (50% – 60% contract invoiced):** Focus on adherence to contract documentation, review and recalculations of insurances, fees, invoices, change orders, claims, and verification of continued compliance to the contractual terms. Activities include:

- 1) Conduct a detailed review of select construction manager's monthly payment applications, inclusive of supporting documentation for subcontractor direct and indirect work including: lien waivers, general conditions expenditures, insurance premium charges, fee calculations, taxes, and status of other schedule of value costs.
- 2) Verify that the construction manager's professional and trade hourly wage rates have been appropriately applied.
- 3) Review change orders including:
  - Agreement with the construction manager's invoicing and project reporting
  - Confirm proper approval
  - Reasonability of change is appropriate and not duplicative work
  - Includes subcontractor back-up documentation
- 4) Review the construction manager's monthly project reporting, including cost reports and notable logs.
- 5) Assess usage and monitoring of allowances, contingencies, holds and buyout savings.
- 6) Review other project documentation (e.g., RFIs, submittals, OAC Meeting Minutes, schedule, etc.) to determine any potential risks that may warrant further review.
- 7) Assess project administration by the construction manager and the City.
- 8) Assess status of open observations and management corrective actions.



**Closeout Audit (90% – 95% invoiced):** Continued focus on verification and compliance requirements of pricing of change orders, invoices, and claims. Assess status of subcontractor and construction manager’s closeout activities, inclusive of cost reconciliations and notable contract deliverables. Activities include:

- 1) Review construction manager’s closeout process of subcontractors to ensure reconciliation of final costs, allowances, deliverables, warranties, training, etc.
- 2) Verify reconciliation of anticipated final contract value including ongoing settlement of change orders, final subcontract values, reconciliation of allowances and contingencies, and determination of any contract savings, final contractor fees, etc.
- 3) Verify that all insurance reconciliations have been conducted or are in process, and any necessary credits have been provided to the City.
- 4) Review select construction manager and subcontractor monthly payment applications including approval process, costs/total expenditures to date, subcontractor back-up documentation, retainage release, general conditions expenditures, insurance premiums, fee calculations, final lien waivers, etc.
- 5) Assess final disposition of purchased assets and purchased equipment.
- 6) Review Project punch list to ensure completion of all obligations prior to disbursement of final payment and/or assessment of remaining retainage.
- 7) Assess project administration by construction manager and the City.
- 8) Assess status of open observations and management corrective actions.

In addition to the defined audit objectives and work scope, Talson will utilize its broad experience to assess relevant Capital Program internal policies and procedures and correlating processes adapted by the City for internal compliance and alignment to industry best practices and similar municipalities and/or industries. As part of our reporting, Talson will provide feedback regarding the audit benchmarking and the results of the on-going assessment.

#### **Audit Reporting**

Upon completion of each audit, Talson will submit comprehensive draft and final Audit Reports, which will include an executive summary, audit scope, detailed observations, recommendations, potential cost recoveries, and relevant supporting documentation (i.e., work papers). Talson’s audit reports are presented in a format suitable to include the City and construction manager’s management responses.

Talson will include, if applicable, potential City process improvement opportunities that may result in mitigation of future capital project risks. Talson will facilitate audit closeout meetings prior to preparing the draft report with City personnel to review preliminary observations, inherent risks, management responses, and proposed action plans.

#### **Proposed Fee and Schedule**

Talson proposes a total estimated fee of \$257,600 to fulfill the scope of services and deliverables herein, inclusive of expenses. Only incurred costs will be invoiced based on Talson’s professional hourly rates. Talson proposes four (4) audits plus an 5<sup>th</sup> audit as an alternative to be conducted within calendar year 2023 and is prepared to immediately commence audit activities upon notice from the City.

Activity	Type of Fee	Fee Total
Capital Program Audits (based on 5 audits)	Estimated Fee	\$238,400
Expenses	Actual Costs	\$19,200
		<b>\$257,600</b>



**Expenses:** Talson anticipates conducting one (1) onsite visit for each of the referenced audits and one (1) in-person presentation to the Audit Committee upon completion of the audit engagement for a total of six (6) trips to Corpus Christi. Expenses are estimated to be \$19,200<sup>2</sup>.

Talson and City Internal Audit will determine the audit commencement with each audit timeframe lasting approximately 90 days. We acknowledge that the proposed audit schedule is subject to change based on actual construction activity and/or at the discretion of City Internal Audit.

The following professional hourly rates by staff members, as stated below, are for construction audit services. Talson proposes fixed hourly rates for 2023 and then utilize an annual 3% escalation for all professional hourly rates commencing in January 2024. Anticipated hours by individual are also estimated and projected below:

Name & Position	2023 Hourly Rate	Audit Allocation/ Participation %
Robert S. Bright, Engagement Director	\$350	5%
Kenneth J. Brzozowski, CCA, CCP, Sr. Eng. Mgr.	\$315	20%
Yvette Suarez, CCA Manager	\$285	25%
Robert Farrow, CCA, CIA, CFE, CPA, Manager	\$285	25%
Emily Olinsky, Senior Associate/Cost Engineer	\$255	15%
Associate	\$205	35%
Administrative	\$75	1%
City Internal Audit	n/a	+/-10%

Talson shall submit invoices on a monthly basis. In addition to the proposed fee, if applicable, Talson will invoice the City for reasonable expenses (e.g., express mail, travel, etc.), which are typical of this type of engagement. If additional services or attendance to meetings are needed outside the agreed-upon scope, Talson shall notify the City prior to any fee increase. Terms of payment shall be within 30 days of submission by Talson.

**Benefits of Talson and Co-Sourcing**

As a result of the continuing relationship and anticipated collaboration and co-sourcing, Talson was able to reduce the proposed overall Capital Program Audit fee by 3%. Other benefits include:

- Weekly communication during periods of audit engagements.
- Talson’s scope includes on-going assessment of established internal processes and controls that will be evaluated and compared against other likable client peers and similar projects.
- The proposed engagement team has consistency in auditing capital projects across varying industries (i.e., infrastructure, transportation, commercial real estate, healthcare, education, etc.) which will lead to efficiencies in communicating and working with the City procurement and engineering teams as well as City contractors and consultants.

<sup>2</sup> Travel expenses are inclusive of three (3) Talson auditors traveling for three (3) nights and would include airfare, hotel/lodging and associated daily meal charges. All incurred expenses would be in accordance of the City of Corpus Christi’s travel policy.



- Talson’s staff maintains professional certifications in construction auditing and more. Our staff engages in continuing education and teaching activities through regular attendance at regional and national conferences with organizations such as ALGA, IIA and NACA.
- Through collaborative co-sourcing, Talson will utilize City audit staff to offset audit engagement costs and ensure efficiencies in planning communicating and delivering audit objectives. Knowledge sharing of City processes as they relate to assessing control environments and various lines of defense and governance structures will be on-going throughout the audits with City Internal Audit staff. Talson estimates that of 10% of the audit (approximately 20 hours) will be allocated to City Internal Audit participation.
- As additional audits are completed, City Internal Audit participation may increase to allow for further efficiencies and reduced consultant manhours.
- While maintaining independence Talson will prepare deliverables, including committee presentations, collectively with City Internal Audit staff thus allowing for enhanced knowledge sharing opportunities.
- During the course of the four (4) proposed audits, Talson will facilitate a summary “Knowledge Sharing” discussion with City Internal Audit to further discuss audit observation trends, potential enhancement of best practices and identification of future audit scope opportunities.

Most notably, Talson will leverage its invaluable information gained during the recent facilitation of the Capital Programs Risk Assessment. Robert S. Bright will lead Talson’s team serving as Engagement Director, providing engagement oversight and, on an as-needed basis, will participate in select meetings, personnel interviews, and project documentation reviews. Kenneth J. Brzozowski will serve as Senior Engagement Manager and facilitate audit coordination, work plan development, and participate in virtual and onsite audit activities with the audit team as well as assign supplemental support staff to assist as needed. Yvette Suarez, Manager, will manage day to day audit activities and regularly communicate via bi-weekly meetings with City Internal Audit throughout the term of this engagement. Talson will ensure that all key personnel are 100 percent available for the planned work and that they have the capacity to perform post-audit follow-up and generate detailed reports for timely submission.