

TALSON

— SOLUTIONS LLC

Construction Audit Oso WRP Process Upgrades Project No. 20084A



November 4, 2025

Project Summary

The Project features the construction of secondary treatment improvements, such as retrofitting existing aeration basins with fine bubble aeration equipment, a new blower building, the addition of a new train with a 6 million gallon per day capacity, and a chemical treatment process conversion to Biological Nutrient Removal (BNR) system. This conversion enables the City to decommission the Breakpoint Chlorination (BPC) system and maintain permit compliance by removing ammonia more efficiently and safely.

Engineer of Record:	Ardurra Group, Inc.
Construction:	CSA Construction awarded \$109.9 million, including \$18.7 million of allowances
Notice to Proceed:	June 11, 2024
Substantial Completion:	June 15, 2028 (1,456 calendar days after NTP)
August 2025 Status:	<ul style="list-style-type: none">• CSA has invoiced 13% of the contract• No change orders have been issued

Audit Scope & Work Performed

Scope:

- Assess CSA (general contractor) compliance with contract requirements, applicable regulations, and deliverables
- Evaluate project administration practices of CSA, Ardurra and the City
- Identify risk(s) to successful project completion
- Recommend process enhancements to strengthen oversight and controls

Work Performed:

- Reviewed contract documentation including general and supplemental conditions between the City and CSA and project documentation (e.g. Payment Estimates, RFIs, submittals, meeting minutes, monthly schedule, etc.)
- Conducted site visit and project team interviews
- Reviewed Change Order Requests (COR), specifically testing compliance of allowable costs and application of prevailing wage rates
- Reviewed Professional Services Agreement between the City and Ardurra including Scope of Services, and task list with a billing breakdown by phase



Audit Results

Results:

- 2 Findings and 2 Observations
- The City agreed with 1 Finding and 1 Observation, and disagreed with 1 Finding and 1 Observation
- Recommendations have been provided for consideration by the City for implementation and corrective actions
- Noted enhancements in areas of previous audit results

For the purpose of audit, the definition of a *Finding* and an *Observation* are:

Finding: an issue where the City or other is non-compliant with a contractual provision, a stated policy or procedure. A finding may also be identified as an impact to the schedule or budget, or an immediate control risk.

Observation: the auditor has determined that the issue poses a potential of becoming a finding. An observation might also be a process enhancement.



Audit Finding No. 1

Finding No. 1 - Time Extension Requests:

CSA is non-compliant with the requirements for requesting a time extension to the Contract duration. COR Nos. 7R1, 8R1, 9 & 10 were missing a time impact analysis as required by Article 13.02.F.2. Although Engineering Services approved time extensions for 98-day extension through these CORs, a formal change order to amend the substantial completion date of June 6, 2028 to August 2028 has not been issued.

This finding is consistent with previous FY24 audits. Engineering Services noted in earlier responses that revised schedules aren't submitted with time extension requests, but are included in change orders issued to adjust the contract duration, and staff will receive additional training.

Recommendation:

The City should issue a change order amending the contract duration at its earliest opportunity.

Management Response: Agree

Corrective Action: Management is working with the contractor to incorporate all proposed changes into Change Order No. 1 and amend the contract duration.

Audit Finding No. 2

Finding No. 2 – Excessive Mark-Ups Within CORs:

CSA's subcontractor, Big State Electric, is calculating overhead and profit markups for a combined total of 20%, which is 5% greater than the contractually allowed 15% markup on changes for self-performed work per Article 15.01.E.3.c.1. This was noted in COR Nos. 7, 10, and 15, valued at \$208,025 and the overcharges totaled \$9,623.

Recommendation:

Engineering Services should consider developing a COR review checklist to be completed and signed off by the City's Project Manager indicating that the pricing has been reviewed, is fair and reasonable and all the contract allowed mark-ups have been applied correctly.

Management Response: Disagree

Corrective Action: The CORs noted were negotiated as lump sum. Article 15 does not apply to lump sum change orders. The loading is part of the discussion and negotiation of change orders. Article 15 is utilized when the City is unable to reach agreement on a lump sum change order. In that case, the City is assuming more of the cost risk. That would justify a lower loading rate for the contractor.

Audit Observation No. 1

Observation No. 1 – “Non-approved” Change Order Reference on Pay Estimates:

Pay Estimate Nos. 1 through 8 included a reference to approved Change Order No. 1 as a “no cost change”, however Change Order No. 1 has not been approved and/or issued for signature.

Recommendation:

The City should remove any unapproved change orders from future Pay Estimates.

Management Response: Agree

Corrective Action: All approved CORs will be turned into Change Orders and included in the pay estimates.

Audit Observation No. 2

Observation No. 2 – Retainage on Subcontractors

CSA is withholding 10% retainage from all subcontractor billings, except for Big State Electric and Dana Industrial Group. This percentage is 5% greater than the City's withholding from CSA's billing. The 10% retainage withheld by CSA from the subcontractor payments conflicts with the flow-down provisions of the City's contract with CSA into the subcontracts and with the Texas Government Code 2252.032 Retainage and totals approximately \$38,534 for four of six active subcontractors.

This observation was previously included in the Williams Lift Station Audit (January 2024), being constructed by Associated Construction Partners, Ltd.

Recommendation:

CSA should adjust the percentage of retainage being withheld and pay the subcontractors for any amount withheld above the contractually allowed 5%.

Management Response: Disagree

Corrective Action: Contractors should consult with their own attorneys about following State Law.



Continuous Process Improvements

Observed Business Process Enhancements by Engineering Services:

- 1) Bid form schedule of values aligned with submitted pay estimates.
- 2) The City and Ardurra are actively engaged with the identification of project risk and regularly discussing mitigation efforts through the use of a risk assessment and risk register.
- 3) eBuilder is being used for the processing of Requests for Information(RFIs), Submittals, and document control archival.
- 4) Meeting minute content and level of project details recorded is a more complete representation of the project progress.



OPEN DISCUSSION

**Thank you to the Engineering Department
and the guidance provided by the City of
Corpus Christi Internal Audit**

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