



Construction Contract
Closeout Audit of
Terminal Building Rehabilitation Ph. II
Project No. 22302

for

City of Corpus Christi



FINAL REPORT: FEBRUARY 28, 2025

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EXECUTIVE SUMMARY

Talson Solutions, LLC (Talson), an independent construction auditing and advisory firm, conducted a Construction Contract Closeout Audit of the City of Corpus Christi's (the City) Terminal Building Rehabilitation Phase II Project No. 22302 (Project)¹. SpawGlass Contractors, Inc. (SpawGlass) is the general contractor under a Lump Sum Agreement (Contract) with a current value of \$18.3 million. Engineering design and construction administration services are being provided by Garver LLC. (Garver). The Project is 90% funded through the Federal Aviation Administration and 10% through airport revenue.

The closeout audit primarily focused on contractual compliance by SpawGlass but also included assessing the City's construction and engineering management of capital program areas including construction cost and change management, project administration, progress status, and cost reporting. Talson's audit objectives were to verify SpawGlass' compliance with the Contract, adherence to established controls and procedures, and assess the completeness and allowability of construction costs. The audit focused on the City, SpawGlass, and Garver's activities from Project commencement through November 2024.

Audit activities revealed that the Project schedule has been impacted by longer than expected lead times for finalization of installed electrical equipment, specifically generator and switchgear. These delays are a direct result of the impact of COVID 19 production issues being experienced throughout the construction industry. The equipment is expected to arrive in February 2025. The electrical scope is the last significant work activity to be completed on the Project and represents the remaining 20% of the Contract to be billed. The City anticipates issuing Substantial Completion by the modified contractual milestone date of June 5, 2025 and is currently working with Spawglass to reconcile unspent allowances totaling \$67,869.

The audit resulted in no findings of non-compliance and one (1) observation. Talson found that SpawGlass is compliant with the terms of the Contract and the City is adequately managing the Project. Communication of Project details and administration of financial controls between the City, SpawGlass, and Garver was deemed adequate, timely and transparent. Based on the documentation sampled, there were no financial, schedule or contractual risks at the time of the audit nor was any reference to fraud, illegal acts or ethical violations noted. Talson found a Project Risk Assessment had not been conducted as required per the City's Risk Management Procedure QA2 nor had the Corpus Christi International Airport (CCIA) project management staff received training on Risk Management Procedure QA2. The City's Engineering Services provides oversight of the CCIA construction projects. Through continued training and implementation of Procedure QA2, CCIA staff will benefit from the early identification and management of project risks, and mitigation strategies.

The audit included a detailed review of various Project documents and interviews with representatives of the City, SpawGlass, and Garver. The City Auditor's Office, CCIA, and Engineering Services Department were accessible and provided beneficial support to the audit.

¹ On June 27, 2023, The City of Corpus Christi, through a board motion, approved execution of Amendment No. 1 to Talson's professional services agreement to conduct co-sourced construction audits. Talson's fee for performing this Construction Contract Closeout Audit is \$49,520.

PROJECT BACKGROUND

The Project scope of work features the renovation of public restrooms, improvements to the building envelope, HVAC and Energy Management systems, Fire Alarm system, addition of a Service Animal Relief Area (SARA) in compliance with FAA Advisory Circular AC 150/5360-14A and located in the sterile area of the terminal, addition of a nursing mother room in compliance with the FAA Reauthorization Act of 2018, the addition of an outdoor patio located off the mezzanine level in the sterile area, replacement of the terminal building roof systems, replacement of the generator and switchgear located in the west parking lot and the addition of EV Charging Stations.

On January 11, 2023, the City of Corpus Christi entered into an agreement with SpawGlass for construction services at a lump sum of \$17.9 million. Substantial completion was to occur within 540 calendar days from the Notice to Proceed date of March 13, 2023. The current Substantial Completion date has been extended to June 5, 2025, which is an increase of 275 calendar days.

The City issued four (4) change orders increasing the contract value by \$361,261 to \$18.3 million and adding 275 calendar days for a total of 815 calendar days. As of Payment Estimate No. 20 for the period of August 1 to August 31, 2024, Spawglass has invoiced approximately eighty-percent (80%) of the adjusted contract value and the City is withholding \$560,390 of retainage. The remaining westside generator and switchgear installation totals approximately \$3.5 million of contractual costs. *Appendix A* summarizes the Project's contractual cost disposition per Spawglass's August Payment Estimate No. 20.

AUDIT APPROACH

Talson conducted the audit in alignment with Generally Accepted Government Auditing Standards (GAGAS) and in accordance with Yellow Book guidance. Those standards and guidance require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, observations, and conclusions within a detailed audit plan based on the audit objectives. Talson believes that the evidence obtained provides a reasonable basis for our conclusions based on the audit objectives.

Talson utilized a comprehensive risk-based approach to assess compliance with contract provisions and identify any risks to successful Project completion, specifically within budget and on-time. Talson assessed Project Management's (e.g., City, general contractor, designers, and subcontractors) alignment with industry best practices throughout the engagement, facilitated knowledge-sharing discussions, and collaborated with the project teams to ensure transparency of the audit work but also maintained independence.

Talson's independence declares that an internal auditor, following the standards, is free from any conflicts of interest or influences that could impair our objectivity and ability to perform audit duties in an unbiased manner, ensuring the integrity of the audit process; and stating we are independent and can conduct the audit without bias.

WORK PERFORMED

Talson reviewed Project documents followed by fieldwork in the City's offices on November 11 & 12, 2024. Fieldwork consisted of a site visit, a review of documents, and Project team interviews. Specific audit activities included reviewing the following:

1. Lump Sum Agreement between the City and SpawGlass inclusive of terms and deliverables.
2. Owner Change Order Nos. 1, 2, 3, and 4 to confirm proper approval, reasonableness, and appropriateness of changes ensuring the work is not part of the original scope of work.
3. Contract-allowed costs and mark-ups, review of supporting documentation, and timely billing by SpawGlass
4. SpawGlass' Payment Estimate Nos. 1 and 20, inclusive of supporting documentation: Material on Hand and change order billing.
5. Project documentation: RFIs, submittals, meeting minutes, and a monthly schedule update to determine any potential risks that may warrant further review.
6. Professional Services Agreement between the City and Garver, including terms, conditions, Scope of Services, and task list with a billing breakdown by phase.
7. Project administration by the City, SpawGlass and Garver.

Talson's audit procedures included assessing CCIA project management staff and Spawglass compliance to contractual obligations and alignment with established policies and procedures. Talson specifically tested areas of prior audit results, including findings, observations and/or recommendations for process enhancements. Our analysis found there were no material concerns for this Project.

Notable examples of areas sampled include:

- Acceptable preparation and format of project meeting Minutes distributed by Garver are consistent with industry norms. The meeting minutes are compliant with General Conditions 20.04.B.2 Agenda Items for OAC meetings.
- Contractual allowance items were being adequately managed and approved in accordance with City procedures.
- Bid form schedule of values aligned with the application for payment prepared by Engineering Services.
- Contractual time extensions, including modifications to the contractual Substantial Completion date, were administratively processed within change orders correctly².
- Independent cost verifications performed by the City supported approved change orders and demonstrated that extra costs appeared fair and reasonable.
- Although only one responsive bid was provided for construction management services, CCIA provided adequate support and details of the solicitation and RFP responses included references to advertisements, pre-bid conferences and the volume of plan holders registered.

A complete list of documents reviewed and interviews conducted is listed in *Appendix B*.

² Talson did not assess, as part of the audit, the validity and reasonableness of the 275 schedule extension. Only the procedural and administration of the extension was tested.

SCHEDULE OF FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

The audit yielded zero Findings and one (1) Observation. For reference, the following classifications are provided to ensure alignment within our approach and methodology. For this audit, the definition of a ***Finding*** and an ***Observation*** are as follows:

- ***Finding*** is an issue where a party (the City or other) is non-compliant with a contractual provision, a stated policy, or procedure. A finding may also be identified in situations of impact to the schedule or budget, or an immediate control risk has been identified. Corrective action must be taken, and a management response provided.
- ***Observation*** does not mean there is an issue of non-compliance; however, the auditor has determined that the issue poses a potential risk of becoming a finding in the future and ***may*** require a management response. An observation might also be a process enhancement that can be incorporated in a project going forward or on future capital projects.

The following observation has been previously mentioned in the audit report Capital Program Operational Risk Assessment issued June 15, 2023 and has remained an open observation as of the issuance of this report with one exception. As a result, a correlating management response from City Engineering Services should be provided to include corrective actions and/or applicable management statements to address the noted observation.

Observation No. 1

A Risk Assessment, per Risk Management Procedure QA2, had not been performed nor had the CCIA team received training on the QA2 Risk Management Procedure from Engineering Services for this Project. The lack of implementation for training represents a gap in oversight exposing the City to potential unforeseen events, increasing the risk of negative impacts on a project budget and/or schedule. Talson did note the creation of a “Lessons Learned Summary” that included references to internal collaboration and discussion about contingency planning and mitigating Project concerns. It also referenced the lack of a formal risk assessment and acknowledged future CCIA projects will have a dedicated risk assessment phase.

Recommendation

Engineering Services should provide, as recently done with other project managers, adequate training for CCIA project management staff to ensure risk assessments are conducted during the design and construction phases of projects. Additionally, Engineering Services should oversee the Project Management staff's adherence to the QA2 Risk Management Procedure by monitoring the creation and maintenance of a risk register, the completion of the risk analysis spreadsheet, documentation from risk meetings and workshops, and the monthly updates to project risks until they are fully mitigated or retired.

Observation No. 1 Management Response:

Engineering will invite CCIA to the next training seminar on Project Risk Management and the Engineering Services Risk Management Procedure. This in not yet scheduled but should take place before the end of FY25.

~ End of Audit Report ~

Closeout Audit of Terminal Building Rehabilitation Phase II
Appendix A: Spawglass August Payment Estimate No. 20

PROJECT NAME:

PROJECT NO:

CONTRACTOR:

ENGINEER:

RESIDENT PROJECT MGR:

UNIFORM PROJECT MGR:

CITY PROJECT MGR:

Corpus Christi International Airport (CCIA) Terminal Building Rehabilitation (Phase 2)

22302

SpanGlass Contractors, Inc.

Gavett LLC

Tim Varborough

Brent McClenahan

Brent McClenahan

VENDOR ID#:

CONTRACT ID#:

PO#:

140499

4284

215055-1 CP#

DATE:

APPLICATION NO.:

BILLING PERIOD:

9/26/2024

20

AUGUST 2024

CITY OF CORPUS CHRISTI - ENGINEERING SERVICES

PROJECT SUMMARY

TOTAL CONTRACT TIME

845

BILLED:

REMAINING:

537

308

63.55%

36.45%

CONTRACT AMOUNT

PREVIOUS PERIOD

THIS PERIOD

TOTAL TO DATE

52.14%

\$ 1,027,362.19

\$ 843,888.23

\$ -

51.87%

\$ 1,441,349.47

\$ 74,580.00

\$ -

100.00%

\$ 3,083,154.06

\$ 3,083,154.06

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100.00%

\$ 3,125,736.27

\$ 3,125,736.27

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100.00%

\$ 2,069,432.62

\$ 2,069,432.62

\$ -

21.40%

\$ 4,412,320.49

\$ 944,375.94

\$ -

100.00%

\$ 809,981.40

\$ 809,981.40

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100.00%

\$ 1,779,077.68

\$ 1,779,077.68

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100.00%

\$ 1,230,179.47

\$ 1,230,179.47

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85.68%

\$ 255,774.99

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\$ 167,984.03

SUBTOTAL:

\$ 17,941,848.64

\$ 13,964,405.67

\$ 167,984.03

\$ 14,132,389.70

TOTAL CONTRACT

\$18,301,610.03

BILLED:

REMAINING:

79.15%

20.81%

CONTRACT AMOUNT

PREVIOUS PERIOD

THIS PERIOD

TOTAL TO DATE

87.18%

\$293,526.34

\$ 293,526.34

\$ -

12.82%

\$ 140,349.47

\$ 74,580.00

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\$ 293,526.34

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\$ 74,580.00

\$ 89,789.07

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Closeout Audit of Terminal Building Rehabilitation Phase II

Appendix B: Documents Reviewed & Interviews Conducted

From City of Corpus Christi:

- 1) Request for Bid Solicitation Documents and Addendums
- 2) Bid Tabulation
- 3) Notice of Award Letter
- 4) Notice to Proceed
- 5) Execute Contract / Agreement, including all exhibits between the City and the Contractor
- 6) Conformed Plans and Specifications
- 7) Certificates of Insurance
- 8) Payment and Performance Bonds
- 9) Most recent Construction Status Report (CSR) for the Project
- 10) Initial and most recent Payment Estimate
- 11) Initial and most recent Approved Change Order, including supporting details
- 12) Most recent Owner / Architect / Contractor (OAC) Meeting Minutes
- 13) Most recent Daily Activity Reports
- 14) Executed Professional Services Agreement with Architectural and Engineering Firm
- 15) Most recent invoice from Architectural and Engineering Firm
- 16) Lessons Learned documentation
- 17) General Ledger Report of Project costs including Design, Construction and Soft Costs
- 18) Executed Change Order No. 2 with support documents
- 19) Executed Change Order No. 3 with support documents

From General Contractor:

- 1) List of Subcontractors and Suppliers received
- 2) Subcontract Status Report (listing all initial subcontract values, change orders, and payments)
- 3) Most recent Certified Payroll for each Subcontractor
- 4) Most current Monthly Job Cost Report
- 5) Most current Project Schedule Update
- 6) Most Recent RFI / Submittal Logs
- 7) Change Order / Potential Change Order

From Engineer of Record:

- 1) Quality Assurance (QA) Plan for design documents
- 2) Most current Engineer's Opinion of Cost (OPC) Estimate

Project Management Team Interviews:

City of Corpus Christi

- Jeff Edmonds – Director of Engineering Services
- Joe Johnson – Assistant Director of Engineering
- Claudia Fernandez – Assistant Director, Engineering Services
- Melinda Cantu-Martin – Project Controls, Engineering Services
- Victor Gonzales, Project Manager, Corpus Christi International Airport
- John Johnson, Assistant Project Manager, Corpus Christi International Airport

SpawGlass

- Will Berzins – Project Manager
- Justin Zamora – Superintendent

Garver

- Derek Mayo – Project Manager

February 28, 2025

George H. Holland
City Auditor
Corpus Christi, Texas

Re: Construction Contract Closeout Audit Report
Terminal Building Rehabilitation Phase II Project No. 22302

We have carefully reviewed the issues presented in the audit report referenced above, and our plans to correct the issues are described here within.

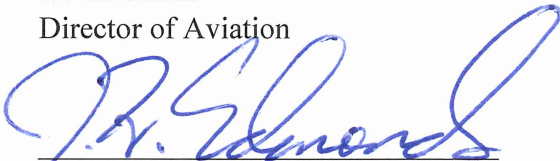
We are committed to correcting the issues in the audit report by implementing the action plans in a timely fashion.

Sincerely,



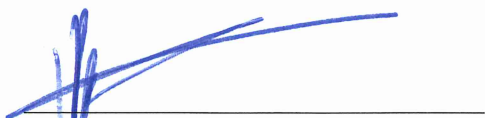
Kevin Smith
Director of Aviation

3-13-25
Date



Jeffrey H. Edmonds
Director of Engineering Services

3/13/25
Date



Heather Hurlbert
Assistant City Manager

3/13/25
Date



Peter Zanoni
City Manager

3.13.25
Date