GREGORY C. HARRELL
CLERK OF COURT AND COMPTROLLER – MARION COUNTY, FLORIDA

Interim Construction Audit of

Silver Springs Shores Phase II Septic to Sewer Project

Report No. 2026-04

July 15, 2026

Issued To:
The Honorable Board of County Commissioners
Mounir Bouyounes, County Administrator

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REPORT ABBREVIATIONS AND TERMS

Terminology	Abbreviation
American Rescue Plan Act	ARPA
Application for Payment	AFP
Board of County Commissioners	County
Certificate of Insurance	COI
Capital Improvement Program	CIP
Davis-Bacon Act	Davis-Bacon
Guaranteed Maximum Price	GMP
Kimley-Horn and Associates, Inc.	Kimley-Horn
Master Agreement for Progressive Design-Build Services for Silver Springs Shores Phase II Septic to Sewer Project, including First and Second Amendments	Agreement
Silver Springs Shores Phase II Septic to Sewer Project	Phase II
State and Local Fiscal Recovery Fund	SLFRF
Talson Solutions, LLC	Talson
Utilities Department	Utilities
Wharton-Smith, Inc.	Wharton-Smith

EXECUTIVE SUMMARY

Pursuant to the Capital Improvement Program (CIP) Governance Review and Risk Assessment conducted by Talson Solution, LLC (Talson), an independent construction auditing and advisory firm, Internal Audit, with the guidance and support of Talson, completed an interim construction audit of Silver Springs Shores Phase II Septic to Sewer Project (Phase II).

Wharton-Smith, Inc. (Wharton-Smith) was competitively selected to serve as the General Contractor for Phase II, managed by Utilities Department (Utilities), while Kimley-Horn and Associates, Inc. (Kimley-Horn) assisted Utilities by providing ongoing field inspections and American Rescue Plan Act (ARPA) compliance support throughout the project.

The Board of County Commissioners (County) executed a *Master Agreement for Progressive Design-Build Services for 22P-173 Silver Springs Shores Phase II Septic to Sewer Project* with Wharton-Smith on September 20, 2022. Also on September 20, 2022, the First Amendment established the not-to-exceed amount for design work at $1,156,320, which Wharton-Smith completed for $1,125,556. The County approved a Guaranteed Maximum Price (GMP) of $25,696,865 for construction services in the Second Amendment on May 21, 2024 (collectively, the Agreement). The GMP included a contractor contingency amount of $1,000,000. Phase II was funded entirely through grants from the American Rescue Plan Act (ARPA), State and Local Fiscal Recovery Funds (SLFRF) program, and the Florida Department of Environmental Protection (FDEP).

We concluded that Wharton-Smith and Utilities demonstrated effective communication, and satisfactory project oversight resulting in no schedule or budgetary risks and no indication of disputes or claims. Wharton-Smith generally met its contractual obligations and Marion County procurement processes were properly followed. We did, however, identify certain areas for improvement relating to the administration of Phase II.

The audit focused on construction-related cost activity for Phase II through Wharton-Smith's Application for Payment (AFP) No. 17, covering the period ending December 25, 2025. Through AFP No. 17, Wharton-Smith had billed 77% of the GMP amount, including $974,394 of the $1,000,000 contractor contingency, leaving a remaining balance of $25,606. Utilities informed Internal Audit and Talson that Wharton-Smith issued credits for unused materials, which increased the available contractor contingency to $914,659 as of AFP No. 22.

The County plans to expand the geographic boundary of Phase II and indicated that any unused contractor contingency as well as owner contingency will be applied to additional water connections within the expanded boundary. Construction activity related to the expanded area has not been formally approved and is therefore outside the scope of this audit.

As of March 2026, the overall Phase II projected cost was $28,158,300 with a breakdown as follows:

Phase II Projected Costs			
Phase II	**Design (actual)**	**Construction (budget)**	**Total**
Wharton-Smith	$ 1,125,556	$ 25,696,865	$ 26,822,421
Kimley-Horn	52,108	451,200	503,308
County Contingency		832,571	832,571
Total Phase II Cost	**$ 1,177,664**	**$ 26,980,636**	**$ 28,158,300**

Although Phase II was executed as a GMP contract type—where pricing is typically based on actual costs plus a fee—this GMP was built on fixed unit-based prices and lump-sum costs, which did not provide the level of cost transparency typically expected with GMP contracts. According to the documentation provided by the Assistant County Administrator on June 11, 2026, the previous Utilities management team negotiated with Wharton-Smith and reduced the original proposed GMP by more than $3,000,000. The information provided indicates that Utilities management negotiated to a lump-sum/unit-based pricing structure to provide cost savings for the County.

The audit did identify certain areas for improvement relating to the administration of Phase II and opportunities for process enhancement:

- There is no county-wide CIP policy or framework to guide project managers in managing and reporting on CIP projects uniformly, which contributed to some of the issues identified below:
    - The documentation provided was insufficient to substantiate the cost of General Conditions or the sales tax amount.
    - There was no regular cadence to discuss regulatory compliance issues among relevant parties, leading the Project Manager to be unaware of Davis-Bacon Act (Davis-Bacon) issues.
    - The Project Manager signed in the Architect certification area of the AFP as an indication of review and approval. Although the Project Manager struck the word “Architect” at the signature line, it did not align with the certifying language.
- Certain provisions of the Agreement were not fully adhered to:
    - Wharton-Smith billed General Conditions at 10% per AFP rather than actual project progress as required by the Agreement, resulting in front-loading of costs and reducing the accuracy and reliability of cost tracking and reporting.
    - The Certificate of Insurance (COI) did not reflect that all insurance requirements were met as required by the Agreement. Additionally, the County did not maintain certain records; however, Wharton-Smith subsequently provided documentation demonstrating compliance.

- Some components of the Agreement lacked clarity.
- Wharton-Smith created a Risk Register during GMP negotiations to support development of the contractor contingency but did not maintain the Risk Register as an active project tool. Instead, Wharton-Smith used contractor contingency as needed, without accounting for the identified or emerging risks.

As this is an ongoing project, we strongly recommend reconciling projected costs against actual costs, including the use of contingencies, and ensuring Wharton-Smith's compliance with the Davis-Bacon requirements prior to issuing final payment. Final project closeout is expected to occur in August 2026.

The two (2) tables below summarize the areas reviewed in this audit, and the identified opportunities for improvement.

Contract Administration	Opportunity 1 Opportunity 2
Cost Management	Opportunity 5
Project Administration	Opportunity 3 Opportunity 7
Construction Management	Opportunity 4
Procurement	Opportunity 6
Change Management	No Exception
Claims & Disputes	No Exception

1	Strengthening capital project governance will ensure transparent GMP costing and cost controls.	Agreed with Reservations (Implementation in Progress)
2	Compliance with contractual billing requirements improves accuracy and transparency of payments.	Agreed with Reservations (Implemented)
3	Strengthening coordination and implementing a clear and proactive communication process will help ensure timely resolution of compliance items, including Davis-Bacon, and support an efficient project closeout.	Agreed with Reservations (Implemented)
4	Ongoing Risk Register maintenance enhances project risk visibility.	Agreed with Reservations (Implemented)
5	Requiring documents to substantiate costs ensures compliance with sales tax regulations, accurate calculations, and prevents overcharges.	Agreed with Reservations (Implemented)
6	Strengthening insurance documentation controls will reduce contract compliance risks.	Agreed (Implementation in Progress)

Overview of Opportunities for Improvement		
No.	**Summary**	**Management Response and Status**
7	Enhancing clarity in approval signatures strengthens legal and administrative consistency.	Agreed with Reservations (Implemented)

Please note that this audit does not guarantee that all areas for improvement were found. The audit used risk-based testing; therefore, areas of non-compliance or other irregularities could exist. Internal Audit or Talson did not review all records and actions related to Phase II.

Internal Audit and Talson would like to express our appreciation to Utilities and Procurement, as well as the representatives from Wharton-Smith and Kimley-Horn, for their cooperation throughout the audit process.

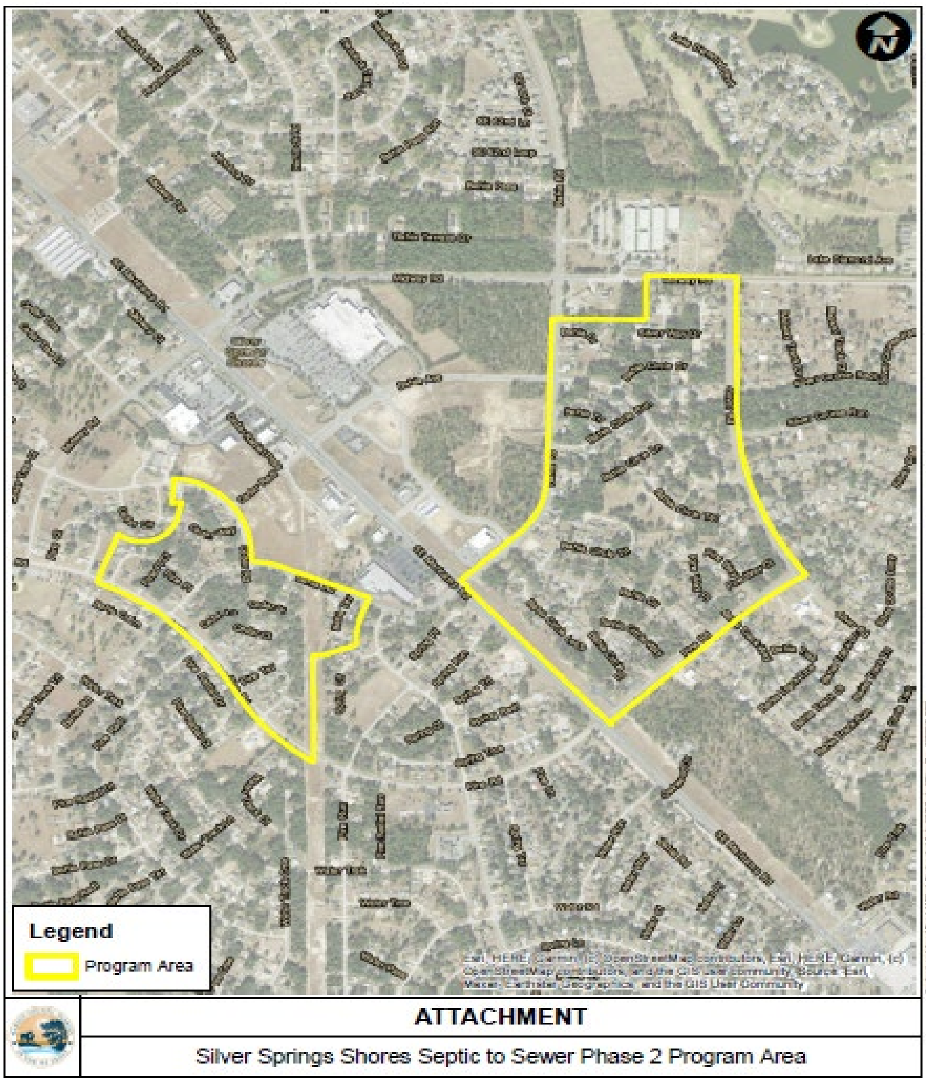

Figure 1. Phase II Project Area

In alignment with the County's goals to promote safe and effective use of reclaimed water and bio-solid residuals, and to protect public health and safety and the environment, Utilities has initiated a septic-to-sewer conversion program in the Silver Springs Shores areas to reduce the contamination of the County aquifer and waterways.

Phase II of the conversion program was selected for review based on the 2024 CIP Governance Review and Risk Assessment conducted by Talson, an independent capital project advisory firm, and incorporated into the Internal Audit annual plan.

Phase II includes the design and construction of a sewer collection system and drinking water distribution system to serve the subject project area and includes 406 residential lots, consisting of 229 occupied parcels with existing septic tanks and 177 vacant parcels.

Funding for Phase II is through a combination of ARPA, State and Local Fiscal Recovery Funds (SLFRF) and the Florida Department of Environmental Protection (FDEP). As a federally funded infrastructure initiative, the County must comply with Code of Federal Regulations (CFR) as outlined in 2 CFR Part 200 and ARPA SLFRF guidance and implement robust internal controls and effective monitoring to ensure compliance with the Cost Principles.

The County elected to use a Progressive Design-Build delivery method for Phase II. The *Master Agreement for Progressive Design-Build Services for 22P-173 Silver Springs Shores Phase II Septic to Sewer Project* was executed with Wharton-Smith, Inc., which was competitively selected for the project on September 20, 2022. The Master Agreement established Wharton-Smith's tasks and overall contract terms. The First Amendment, executed concurrently with the Master Agreement, established a not-to-exceed fee of $1,156,320 for design services. On May 21, 2024, the County approved the Second Amendment, which established a GMP of $25,696,865 for construction services. The GMP included a contractor contingency amount of $1,000,000.

In August 2024, The County approved Resolution 24-R-303 establishing mandatory sewer connections and voluntary connections to the water system for all properties within the Phase II service area.

The County issued a Notice to Proceed to Wharton-Smith on August 12, 2024, with the substantial completion anticipated on May 12, 2026, and a final completion estimated for August 11, 2026; based on current progress, the project is expected to remain on schedule.

Phase II is administered by Utilities, with Kimley-Horn providing supplemental field inspection services and ARPA oversight on behalf of the County.

As of December 31, 2025, the County has approved six (6) Change Orders, none of which affected the GMP; however, Change Order No. 2 established $832,571 as the owner contingency amount. As of AFP No. 17, for the period through December 25, 2025, Wharton-Smith has invoiced approximately 77% of the GMP value with $5,898,800 remaining to be billed.

At the closing of the application period in March 2026, 202 property owners have applied for sewer service connections and 183 for water connections to be paid by the grant funding. In June 2026, the County approved an extension of the application period to provide additional time for program participation and enable more property owners to take advantage of available grant funding. As a result, the number of connections is expected to increase.

Figure 2. Lift Station no. 51

OBJECTIVE, SCOPE AND APPROACH

The objectives of this interim construction audit were to assess the effectiveness, efficiency, and compliance of the construction management processes with the applicable internal policies, contractual requirements, and industry best practices. The audit aimed to identify control weaknesses and opportunities for process improvement within the project, focusing on risk areas that could impact project delivery, cost, and quality.

The scope of the audit included the risk-based assessment of: Contract Administration, Cost Management, Change Management, Project Administration, Construction Management, Procurement, and Claims & Disputes. It excluded technical assessment of design or engineering specifications, as well as evaluations of construction methods, material quality, or contractor technical performance. The audit concentrated on project management practices, contract compliance, and oversight controls, as applicable, during the construction process.

We conducted the audit in accordance with Generally Accepted Government Auditing Standards, ensuring that sufficient and appropriate evidence was obtained to support our findings, conclusions, and recommendations.

A risk-based methodology was employed, focusing on areas most likely to impact project cost and successful project execution. The following audit procedures were performed:

- Evaluation of key project documents, including the original agreement, two amendments to the agreement, approved budgets, payment applications, schedules, change orders, and progress reports.
- Interviews with Utilities project management staff, Procurement team, Kimley-Horn, and representatives from Wharton-Smith to gain an understanding of project oversight and governance practices.

Throughout the engagement, we maintained independence in accordance with applicable standards, remaining free from any conflicts of interest or influences that could impair objectivity or the ability to perform audit duties in an unbiased manner, thereby ensuring the integrity of the audit process

OPPORTUNITIES FOR IMPROVEMENT

Opportunity 1 – Strengthening capital project governance will ensure transparent GMP costing and cost controls.

The Agreement includes conflicting language as to whether the construction portion was going to be a lump-sum or GMP contract type. The Second Amendment clarified that the Agreement is a GMP for the construction phase; however, it incorporated a lump-sum methodology for General Conditions and General Requirements.

For example, when we noted that Wharton-Smith had applied an incorrect sales tax percentage to the General Requirements cost line, we requested supporting documentation to verify its accuracy (see Opportunity No. 5 for additional details). Wharton-Smith did not provide any documentation to substantiate the reasonableness of the General Requirements cost line or the accuracy of the sales tax calculations. Their email response was as follows:

> "General Conditions (GC)/General Requirements (GR) cost plus taxes were agreed upon by MCU during the GMP process as Lump Sum amount including the taxes that were included. These were both 'Estimated' amounts that we thought were needed to complete the project for the planned duration of the project as a 'Lump Sum' amount. The intent was we would get the entire amount by the end of the project for the planned duration. If we estimated GC/GR cost too cheap we would not have gone back to MCU to ask for more money. In the same sense, if we estimated the GC/GR cost too high, we would not give any money back to MCU."

We subsequently learned that the County does not possess any supporting documents to substantiate the amounts included in the estimate or any detailed cost breakdowns from Wharton-Smith used during the GMP development process.

(**Update:** The Assistant County Administrator provided Wharton-Smith's original proposed GMP on June 11, 2026, which indicates that Utilities management team negotiated unit cost/lump-sum pricing structure to potentially obtain better overall cost for the County.)

According to Article 20, Audit and Inspections Rights of the Agreement, "COUNTY may… audit, or cause to be audited, those books and records of CONTRACTOR which are related to CONTRACTOR'S performance under this Master Agreement. CONTRACTOR agrees to maintain all such books and records at its principal place of business for a period of five (5) years after final payment is made under this Master Agreement….or their representatives or those of any State or local authority, shall have the right of access to records (electronic or otherwise) of CONTRACTOR in order to conduct audits or other investigations."

Industry best practices for GMP contracts require full cost transparency to the project owner, including detailed support for labor, materials, equipment, and indirect costs. GMP contracting frameworks emphasize traceability and itemization so owners can validate reimbursable costs and ensure contractors do not rely on unsupported lump-sum amounts.
The cause for accepting a lump-sum amount—or for not obtaining supporting

documentation for that amount—is unknown because the key personnel involved in the negotiation are no longer with the County. Current management stated that the time constraints imposed by ARPA, including the need to execute the Agreement, complete the project, and expend the grant by December 31, 2026, likely also contributed to this decision.

Additionally, the absence of a county-wide framework or policy governing capital projects allowed for an inconsistent approach to developing the GMP.

The absence of detailed cost support for the General Conditions lump-sum amount prevents the County from determining whether Wharton-Smith's pricing was appropriate. As a result, the County faces a potential risk of overpayment or other unfavorable financial outcomes without the ability to detect or object. Even though this pricing structure supported the negotiation to a lower price for Phase II, the lack of documentation is inconsistent with the fundamental purpose of the GMP structure. A GMP should provide cost certainty supported by transparent and verifiable cost data. The use of this mixed contract type could potentially limit the County's ability to verify the use of public funds.

We recommend that the County:

- Improve Progressive-Design-Build contract template with more specificities.
- Implement a formal capital project management policy that defines roles, responsibilities, required documentation, and minimum due-diligence steps for all capital project negotiations.
- Require detailed cost substantiation as a condition of GMP approval, including itemized General Conditions and General Requirements, supporting schedules, tax calculations, and underlying assumptions.
- Create a GMP review checklist that must be completed and approved before finalizing any GMP amendment, ensuring consistency and documentation across projects.
- Provide training for project managers and procurement staff on GMP best practices, cost transparency requirements, and contract risk mitigation.

Management Response: We agree with reservations.

Utilities will continue collaborating with Procurement and County Administration to strengthen documentation supporting future Progressive Design-Build procurements, including documentation associated with General Conditions negotiations where appropriate. Management supports development of standardized guidance that promotes consistency while preserving the flexibility necessary to successfully administer Progressive Design-Build projects and other alternative delivery methods.

Utilities will also continue utilizing existing project oversight processes to monitor financial performance throughout project execution, ensuring negotiated contractual values remain consistent with project progress and contractual intent.

Implementation Status: Implementation in Progress.

Implementation Target Date: June 2027.

Management Comments: Management agrees that comprehensive documentation supporting Guaranteed Maximum Price (GMP) negotiations enhances transparency and provides additional value for future contract administration. MCU supports continued collaboration with Procurement to strengthen documentation expectations and procurement guidance for future Progressive Design-Build projects.

Management believes it is important to recognize the operational context under which this project was delivered. The SSS – Septic to Sewer (Phase II) project was developed under significant schedule constraints associated with ARPA funding requirements while utilizing a Progressive Design-Build delivery method requiring extensive collaboration, negotiation, and professional judgment among the Owner, Designer, Contractor, and Procurement.

While opportunities exist to further strengthen documentation supporting future GMP negotiations, Management believes the overall procurement and contract administration process successfully achieved the intended project objectives. The project was negotiated, executed, and administered within the established procurement framework, resulting in a competitively negotiated Guaranteed Maximum Price (GMP), successful project delivery without claims, litigation, or contract disputes, and responsible stewardship of public resources.

Throughout project development and execution, Utilities maintained continuous oversight of project costs, negotiated contract modifications, reviewed contractor proposals, coordinated with Procurement, and monitored contingency utilization and overall budget performance. Financial oversight continued throughout construction, allowing management to evaluate negotiated values against actual project progress and expenditures while supporting informed project decisions.

The audit identified opportunities to further document the basis supporting certain General Conditions cost negotiations associated with the GMP. Management agrees that additional documentation will further strengthen future procurement files and improve transparency.

At the same time, Management notes that the negotiated GMP resulted from an extensive collaborative process involving Utilities, Procurement, the Design Professional, and the Contractor. Throughout project execution, Utilities continued monitoring contract performance, financial activity, and contingency utilization rather than relying solely upon documentation generated during procurement.

Management believes this opportunity represents an enhancement to procurement documentation rather than an indication of ineffective project management. The project demonstrates that existing management practices provided effective financial oversight, coordinated project administration, and responsible stewardship of public resources while successfully delivering the project.

OPPORTUNITIES FOR IMPROVEMENT

Opportunity 2 – Compliance with contractual billing requirements improves accuracy and transparency of payments.

Wharton-Smith billed General Conditions at a fixed 10% on each pay application rather than basing the charges on actual project progress as required by the Agreement. Utilities approved the billings without adjusting for actual progress. Even though this is a lump-sum line per the Agreement, this approach front-loaded the General Conditions line in the Schedule of Values and led to early overbilling. By AFP No. 11, the General Conditions line reached 100% billed while overall project progress was only 62% at that time.

The Second Amendment states: "General Conditions will be billed as a percentage of base contract cost complete until the final billing."

The Project Manager indicated that the issue stemmed from an oversight during the review of the amendment language.

Wharton-Smith front-loaded $879,241 based on 62% progress at AFP No. 11, reducing the accuracy and reliability of cost tracking and reporting. The practice did not comply with the Agreement and caused billings to diverge from actual project progress. Frontloading also increases the risk of quality compromise or schedule delays if the contractor experiences resource constraints in later phases.

We recommend that:

- Utilities strengthen processes and controls to ensure billing practices align with contractual requirements.
- The County enhance future contract language by including more detailed General Conditions breakdowns and billing requirements to improve price accuracy and alignment between project progress and payments.

(***Update*****:** The Project Manager required Wharton-Smith to issue monthly credits of $100,000 starting with AFP No. 19 until the General Conditions percentage aligns with actual project progress.)

Management Response: We agree with reservations.

MCU will continue utilizing its established milestone financial review process as a key component of project oversight. Management will also continue coordinating with Procurement to improve future contract language describing the administration and billing of General Conditions to further reduce the potential for differing contractual interpretations.

In addition, MCU will continue documenting significant financial reconciliations identified during project execution to enhance transparency and provide a more complete administrative record supporting management decisions.

Implementation Status: Implemented.

Management Comments: Management agrees that contractual language and supporting documentation governing the billing of General Conditions should be sufficiently clear to promote consistent contract administration throughout the life of a project. MCU supports strengthening future contract language and documentation practices that reduce the potential for differing interpretations.

Management respectfully reserves, however, that the circumstances described in this observation also demonstrate the effectiveness of the department's existing financial oversight processes. The billing progression identified in the audit was not discovered at project closeout or through an external review. Rather, it was independently identified by Utilities during its established financial review process while the project remained active, allowing meaningful corrective action before final completion.

MCU manages Capital Improvement Program projects through continuous oversight rather than relying solely on project closeout activities. Throughout construction, project managers routinely monitor contract administration, pay applications, change orders, schedule performance, regulatory compliance, construction progress, and financial status.

As part of this management philosophy, Utilities performs a comprehensive milestone review during the latter stages of construction, generally when the project is approximately 70 to 75 percent complete. This review evaluates overall project health, verifies contractual compliance, reconciles financial activity, assesses contingency utilization, and identifies issues while contractual, financial, and administrative remedies remain available.

During one of these milestone financial reviews, Utilities identified that General Conditions were being billed to 100 percent completion based on an interpretation that differed from Utilities' understanding of the contractual billing provisions.

Utilities immediately initiated discussions with the Contractor to reconcile the billing methodology. Although the total authorized General Conditions amount established by the Contract was never exceeded, Utilities determined that the timing of the billings should more accurately reflect project progress. As a result, the Contractor agreed to provide credits through subsequent pay applications, reducing previously billed amounts by approximately $260,000 before project closeout.

Management believes this observation demonstrates the value of proactive project oversight rather than the absence of effective controls. The department's established financial review process identified the condition during project execution, allowing corrective action to be implemented while meaningful contractual remedies remained available. The resulting reconciliation protected County resources, preserved the integrity of the negotiated Guaranteed Maximum Price, and reinforced Utilities' commitment to responsible stewardship of public funds.

Opportunity 3 – Strengthening coordination and implementing a clear and proactive communication process will help ensure timely resolution of compliance items, including Davis-Bacon, and support an efficient project closeout.

We observed that the discrepancies identified by Kimley-Horn between the Davis-Bacon interviews conducted on December 10, 2025, and the certified payrolls for the same period remained unresolved as of April 10, 2026. Kimley-Horn indicated that delays in receiving certified payrolls are common and that this situation was not an isolated incident. Although Kimley-Horn initially communicated the certified payroll discrepancies to Utilities, it did not continue providing status updates or notifying Utilities when Wharton-Smith failed to submit corrected payroll information. As a result of the lack of follow-up communication, Utilities assumed that no discrepancies or outstanding compliance issues remained and was unaware that the matter had not been resolved. As of April 10, 2026, Wharton-Smith had not submitted the corrected certified payrolls despite multiple requests made through Kimley-Horn.

According to the Kimley-Horn agreement, “KH will be responsible for overall coordination and oversight of the project execution”, “Advising staff for ARPA program compliance”, “KH will perform the required document review and coordination with the contractor for Davis-Bacon compliance.”

The Agreement requires that weekly payroll shall be delivered by the contractor and subcontractor, within seven (7) days after the regular payment date of payroll period to a representative of County in charge. (Page 76) (Exhibit B, ARPA Contract Clauses, Section 9.B.3)

Florida Statute 218.735 (2) states that “If a payment request or invoice does not meet the contract requirements, the local governmental entity must reject the payment request or invoice within 20 business days after the date on which the payment request or invoice is stamped as received as provided in s. 218.74(1).” The rejection must be written and must specify the deficiency and the action necessary to make the payment request or invoice proper. (Local Government Prompt Payment)

Best practices:

- Conduct an initial meeting to establish expectations, responsibilities, and communication protocols for compliance process.
- Provide timely alerts to the owner when documents are missing, or when there are unresolved issues.
- Ensuring the owner has visibility into documentation and results related to outstanding compliance issues.

There was no structured or standardized process among Wharton-Smith, Kimley-Horn, and Utilities to communicate compliance concerns, documents required, or follow-up actions to Utilities.

With final completion scheduled for August 2026, continued delays in resolving these issues increase the risk that subcontractor documentation will not be obtained in time. This may hinder project closeout activities and extend the final reconciliation process.

We recommend that Utilities:

- Hold a meeting with all relevant stakeholders to identify and address any remaining compliance issues that may affect or delay full compliance.
- Consult with the Legal Department regarding the appropriate process for withholding contractor monthly payments until outstanding contractual obligations are resolved per the Local Government Payment Act.
- Develop and implement a formal process to communicate, track, escalate, and resolve compliance issues throughout the project lifecycle.

(***Update*:** On April 23, 2026, Wharton-Smith resolved the payroll report issue for the week ending on December 14, 2025.)

Management Response: We agree with reservations.

MCU will continue utilizing qualified compliance specialists, such as Kimley-Horn, for projects subject to federal labor requirements, including ARPA-funded projects or other federally assisted construction contracts where specialized compliance expertise is warranted.

Management will reinforce communication protocols among Utilities, compliance consultants, Contractors, and Procurement to promote timely resolution and documentation of compliance-related observations. Utilities will also continue utilizing existing project oversight practices, including contractual retainage and routine project coordination meetings, to facilitate resolution of outstanding compliance items before final completion.

Implementation Status: Implemented.

Management Comments: Management agrees that timely communication, documentation, and resolution of Davis-Bacon compliance matters contribute to effective project administration and project transparency. MCU supports continued refinement of communication protocols to ensure compliance-related issues are consistently documented, communicated, and resolved in a timely manner.

Management believes it is also important to recognize the compliance framework already established for this project. Because the SSS – Septic to Sewer (Phase II) project was funded through the American Rescue Plan Act (ARPA), Utilities retained Kimley-Horn, a nationally recognized engineering consultant with specialized expertise in ARPA compliance and Davis-Bacon administration, to perform independent compliance reviews on behalf of Marion County Utilities. Management believes the matters identified during the audit demonstrate that the compliance review process functioned as intended. The opportunity presented by this observation relates primarily to strengthening communication and documentation rather than establishing a new compliance program.

MCU recognizes that Davis-Bacon compliance requires specialized expertise due to the complexity of federal labor requirements and associated reporting obligations. Accordingly, Kimley-Horn performed ongoing reviews of certified payroll submissions and supporting labor documentation throughout construction. Compliance observations were communicated to the Contractor for correction while Utilities coordinated resolution through routine project oversight, consultant coordination, and contractual retainage, providing an effective mechanism to encourage timely resolution before project closeout.

During project execution, Utilities worked collaboratively with Kimley-Horn and the Contractor to improve communication and reduce delays in resolving outstanding compliance documentation. Management agrees that formalizing these communication practices will further strengthen future projects. However, the compliance review process itself was already established, functioning throughout construction, and successfully identifying matters requiring correction before project closeout.

Management believes this opportunity represents an enhancement to communication and documentation practices rather than evidence of deficiencies within the project's compliance program. By retaining specialized compliance expertise, coordinating corrective actions, and maintaining appropriate contractual mechanisms, Utilities demonstrated its commitment to regulatory compliance and responsible administration of federally funded projects.

Opportunity 4 – Ongoing Risk Register maintenance enhances project risk visibility.

Wharton-Smith had prepared an initial Risk Register to support and justify the contractor's $1,000,000 contingency during the negotiation phase. The register identified potential events that could generate additional costs and assessed the likelihood of those events (e.g., weather delays, etc.). However, neither Utilities nor Wharton-Smith updated or maintained the register after its creation.

After adopting the contingency, Wharton-Smith drew from it as needed without confirming whether new risks had emerged or whether previously identified risks remained valid or had been mitigated. Instead of updating the Risk Register, Wharton-Smith monitored only the contingency balance through the Schedule of Values in AFP.

According to the Construction Management Association of America (CMAA), best practice requires treating the Risk Register as a continuous process. Project teams should monitor risks throughout the project lifecycle and regularly update the register as threats evolve, subside, or arise.

The Wharton-Smith Senior Project Manager stated that he developed the Risk Register solely to calculate the contingency amount.

Using contingency funds without validating current project risks increases the likelihood that the remaining contingency will not be adequate if identified risks materialize.

We recommend that:

- Utilities reconcile the risks listed in the Risk Register to ensure all open, closed, and emerging risks are accurately accounted for.
- For future projects, Utilities, or its designee, develop and maintain a Risk Register as an ongoing process, updating it periodically to reflect current project risks. Maintaining an up-to-date Risk Register will support effective risk management throughout the project.

(***Update*****:** On April 23, 2026, Utilities advised that they discussed this issue with Wharton-Smith and requested an updated Risk Register by the next scheduled progress meeting in May 2026. Utilities also stated it will continue to emphasize the importance of maintaining an updated register for proper recordkeeping.)

Management Response: We agree with reservations.

MCU will continue managing project risks through comprehensive project oversight and professional judgment throughout the project lifecycle. For future projects, Utilities will ensure that any risk management documentation specifically required by the Contract is maintained in accordance with contractual requirements.

Where appropriate, Utilities will evaluate the use of project management tools, including Risk Registers, based upon the complexity of the project, delivery method, contractual obligations, organizational needs, and the professional judgment of the Project Manager.

Management believes that the selection of project management tools should remain flexible to accommodate the unique characteristics of each project rather than adopting a one-size-fits-all approach.

Implementation Status: Implemented.

Management Comments: Management agrees that effective risk management is a fundamental component of successful project delivery and supports documenting contractual expectations whenever a specific risk management deliverable is required by the Contract.

Management respectfully reserves, however, that this observation should distinguish between the management of project risks and the use of a particular project management tool. A Risk Register is one of many recognized tools available to support effective risk management; however, no single tool should be considered the exclusive measure of sound project risk management. Its use should be based on project-specific circumstances, contractual requirements, organizational practices, and the professional judgment of the Project Manager.

Management does not believe that the absence of an actively maintained Risk Register, where none was contractually required, should be interpreted as evidence that project risks were not actively identified, evaluated, monitored, and managed throughout construction.

Throughout project execution, Utilities continuously managed project risks through routine project management activities including progress meetings, schedule reviews, financial monitoring, change order evaluations, field observations, contractor coordination, regulatory compliance reviews, utility conflict resolution, and ongoing stakeholder communication. Rather than relying upon a single document, risk management was integrated into day-to-day project oversight and continuously evaluated as project conditions evolved.

During negotiation of the Guaranteed Maximum Price (GMP), the Contractor developed a Risk Register as a planning tool to support discussions regarding contingency and allowance amounts. The Risk Register fulfilled that purpose during negotiations but was not incorporated into the executed Contract as a contractual deliverable or ongoing reporting requirement.

During the audit process, the audit consultant expressed a preference that the Risk Register continues to be updated throughout construction. Although no contractual obligation existed, Utilities voluntarily requested that the Contractor prepare an updated Risk Register in the interest of cooperation, transparency, and continuous improvement. While the Contractor expressed concerns regarding work beyond the contractual requirements, Utilities believed accommodating the request supported a collaborative audit process.

Management believes this opportunity provides an important distinction between project management methodology and contractual compliance. MCU supports clearly defining contractual expectations for future projects whenever specific risk management documentation is required. At the same time, Management believes the selection and application of project management tools should remain a matter of professional judgment, allowing Project Managers the flexibility to select the methods most appropriate for the project, delivery method, contractual framework, and associated risks.

OPPORTUNITIES FOR IMPROVEMENT

Opportunity 5 – Requiring documents to substantiate costs ensures compliance with sales tax regulations, accurate calculations, and prevents overcharges.

We found that Wharton-Smith applied a flat 7% sales tax rate to the total General Requirement line instead of applying the correct Florida sales tax structure, which includes a 6% state sales tax plus a 1% Marion County discretionary surtax applied only to the first $5,000 of the taxable amount. In addition, Wharton-Smith incorrectly combined non-taxable items with taxable material costs when calculating the sales tax rate.

Because there are no supporting documents on file on how Wharton-Smith estimated the General Requirements when the GMP was established, there is no transparency to the purchases within the category. Internal Audit, therefore, cannot determine the exact applicable sales tax amount as well as Marion County surtax amount. Our estimate assumed Wharton-Smith invoiced materials in aggregate during 2024. We also note that the Marion County surtax increased to 1.5% effective January 1, 2025, which may further impact tax calculations for subsequent periods.

Under Florida Statutes Chapter 212 (Sales and Use Tax), a 6% sales tax applies to taxable transactions. County's discretionary sales surtax pursuant to Section 212.055 is applicable only to the first $5,000 of the taxable value of each individual item. Non-taxable items should be excluded from the sales tax calculation when properly segregated from taxable goods.

Article 6.17 "Sales Tax" of the Agreement requires Wharton-Smith to be responsible for paying all applicable sales, consumer, use, and similar taxes in accordance with Florida laws and regulations.

Additionally, under Article 13.3(F) Overhead/Indirect/General and Administrative Costs, any claims for multipliers, including fringe benefits, overhead, indirect, or general and administrative costs, must be supported by an audit. If unsupported rates exceed audited amounts, Wharton-Smith is required to reimburse the County within 15 days of written demand, with interest charged on the excess amount.

The Senior Project Manager from Wharton-Smith asserted that the parties agreed to treat General Conditions and General Requirements costs as a lump-sum during the GMP process. He explained that they based the lump-sum on estimated amounts for the planned project duration and intended the agreed amount to cover the work without adjustments for overestimation or underestimation.

The application of a flat 7% rate and the inclusion of non-taxable items in the taxable base resulted in an estimated sales tax overcharge of $4,357.

We recommend that:

- Utilities and the County enhance internal review procedures to ensure price estimations, including sales tax calculations, are supported and comply with applicable requirements.

(***Update*:** Utilities initiated cost recovery from Wharton-Smith on the sales tax overcharge. Wharton-Smith agreed to issue a credit of $4,357, which was included in AFP #20 for the March 2026 billing period.)

Management Response: We agree with reservations.

MCU will continue utilizing its established financial reconciliation practices throughout project execution and will continue coordinating with Procurement to strengthen documentation supporting negotiated cost components incorporated into future Guaranteed Maximum Price contracts.

Management will also continue documenting significant financial reconciliations identified during project execution to provide a more complete administrative record supporting management decisions and negotiated contract adjustments where appropriate.

Implementation Status: Implemented.

Management Comments: Management agrees that documentation supporting negotiated cost components within a Guaranteed Maximum Price (GMP) contract should be sufficiently organized and retained to promote transparency, facilitate future contract administration, and provide a complete record supporting procurement decisions.

Management believes it is important to recognize that this observation also reflects the effectiveness of Utilities' existing financial oversight processes. The financial discrepancy referenced in this observation was not identified through project closeout activities or external review. Rather, it was independently identified by Utilities during its established financial reconciliation process while the project remained active, allowing corrective action before final completion.

MCU incorporates continuous financial oversight into the management of every Capital Improvement Program project. Financial management extends beyond contract execution and includes ongoing review of pay applications, change orders, negotiated cost components, contingency utilization, schedule impacts, and overall budget performance. As part of this process, Utilities performs milestone financial reconciliations intended to verify contractual compliance, evaluate negotiated values against actual project conditions, and ensure County resources continue to be managed responsibly throughout project execution.

During one of these financial reviews, Utilities identified an inconsistency associated with a negotiated sales tax calculation incorporated into the executed Guaranteed Maximum Price Agreement. Although the negotiated amount had been accepted by all parties and the Contractor was contractually entitled to payment under the Agreement, Utilities initiated discussions in the interest of protecting County resources and requested that the Contractor voluntarily provide a credit corresponding to the identified discrepancy.

The Contractor agreed to provide the requested credit, and Utilities documented the reconciliation through a detailed financial summary supporting the adjustment prior to project closeout.

Management believes this chronology demonstrates responsible stewardship of public resources. Rather than accepting the discrepancy as contractually unavoidable, Utilities exercised professional judgment, negotiated a voluntary resolution that benefited Marion County, and protected public funds while maintaining the integrity of the contractual relationship.

Management supports strengthening documentation for future negotiated cost components while recognizing that this project demonstrates the effectiveness of Utilities' existing financial oversight processes in identifying issues, evaluating available options, and implementing timely corrective actions before project closeout.

Opportunity 6 – Strengthening insurance documentation controls will reduce contract compliance risks.

Our review of the insurance requirements of the Agreement and the COI on file at Procurement identified some compliance gaps, including expired policies, incorrect Certificate Holder name, and missing required endorsements. Upon inquiry, we found that Wharton-Smith had renewed the expired policies and the required endorsements were in place but did not forward the COI to Procurement.

The Agreement requires that Wharton-Smith provide COI which validates and is consistent with the policy requirements. Continuous compliance with these provisions is a condition of the Agreement.

According to Procurement, the oversight occurred because the Agreement was developed using a template from another municipality rather than the County's standard contract template. Procurement staff used County's standard insurance compliance checklist during their review process but did not thoroughly evaluate the Agreement's specific insurance requirements.

Incomplete or outdated insurance records on file may delay timely verification of compliance and reduce assurance that project-related risks are being effectively monitored and managed.

Additionally, this issue could potentially expose the County to financial and legal risk if an incident occurs while insurance coverage did not meet the requirements. These issues may also limit the County's ability to enforce contractual protections or pursue claims when necessary.

We recommend that Procurement establish procedures to review, verify, and maintain insurance documentation in accordance with each contract's specific requirements and strengthen its oversight to track expiration dates and conduct periodic reviews of insurance files to ensure ongoing compliance.

(***Update*****:** Wharton-Smith subsequently submitted corrected COI and supporting documents to Procurement, which resolved the identified compliance issues within the project file.)

Management Response: We agree.

Procurement will update its insurance review procedures to ensure contract-specific requirements are evaluated alongside standard County requirements. Procurement will explore mechanisms to better track renewals and endorsements and reinforce communication expectations regarding updated insurance documentation.

Implementation Status: Implementation in Progress.

Implementation Target Date: December 2026.

Management Comments: Management agrees that complete and well-organized insurance documentation is an essential component of effective contract administration. Maintaining accurate administrative records promotes transparency, facilitates future audits, and supports consistent compliance with County procurement requirements throughout the life of a project.

Management recognizes this opportunity as an administrative improvement intended to strengthen documentation practices and supports the recommendation to ensure that required insurance records are consistently maintained within the official project files.

MCU administers construction contracts in coordination with Procurement and relies on established County procedures governing contractor insurance requirements before contract execution and throughout project performance. Utilities' responsibilities include confirming that contractual requirements are satisfied while coordinating with Procurement regarding documentation maintained within the official procurement and contract administration records.

During the audit, Internal Audit identified opportunities to improve the organization and retention of insurance documentation within the project files. Management agrees that strengthening these administrative practices will further enhance the completeness of future contract records and facilitate subsequent reviews.

Management notes, however, that this observation relates to documentation management rather than the existence or adequacy of insurance coverage. At no time during project execution was there evidence that required insurance coverage was absent or that project activities proceeded without the protections required under the Contract.

Management considers this opportunity an enhancement to administrative documentation practices rather than an indication of ineffective contract administration. MCU supports these improvements while recognizing that the project was performed with the required contractual protections in place and that the recommendation is directed toward strengthening administrative recordkeeping for future projects.

OPPORTUNITIES FOR IMPROVEMENT

Opportunity 7 – Enhancing clarity in approval signatures strengthens legal and administrative consistency.

We observed that the Project Manager signed in the Architect's Certificate for Payment section of the AIA G702 form to indicate review and approval of the AFP. This section is intended specifically for the architect to certify to the owner that the progress of the work and the amount billed by the contractor are accurate. Although the Project Manager crossed out the word "Architect" on the signature line, the term appears multiple times within the certification section, and the Project Manager serves as a representative of the Owner. As a result, the certification language did not align with the authority or role of the individual signing.

AIA Document G702, Application and Certificate for Payment, establishes that the Architect is the designated party responsible for reviewing the contractor's payment application and completing the "Architect's Certificate for Payment."

Because the certification language is written expressly for the Architect and includes use of the terms tied to the Architect's professional role, an Owner representative does not have the authority to sign this section unless formally delegated in writing and the certification language is modified accordingly.

The Project Manager was unaware that striking through the word "Architect" within the signature field did not sufficiently mitigate the legal risk associated with signing a certification intended for a different professional role. The intent was to sign in the capacity of the reviewer and approver of the payment.

Signing in a certification section not intended for the signer's role on a legally binding document may create a potential legal risk. In the event of a dispute, inconsistencies between the signer's authority and the language of the certification may cause legal concerns for the County.

To mitigate this risk, **we recommend** that Utilities continue refining and standardizing its AFP review and approval practices. Options include using a customized approval stamp, attaching a reviewer slip note, or further modifying the AIA template for more generic use when architect involvement is not applicable. Ensuring signature fields accurately reflect the signer's role will help maintain clarity and reduce legal risk.

*(**Update:*** The Project Manager has designed a revised payment application form that aligns with current practices and is better suited for projects that do not use an architect. Utilities has implemented the newly designed form immediately in place of the AIA G702 for Phase II.)

(***Update:*** Procurement will present the revised form to County Administration for consideration as a standard County-wide form to be used for all non-vertical and road CIP projects where an architect is not utilized to promote consistency.)

Management Response: We agree with reservations.

Utilities will continue utilizing the revised payment application format implemented during the current project and will coordinate with Procurement to evaluate standardized payment application procedures for future projects where no Architect of Record is contractually assigned.

Management will also continue reviewing administrative forms and procedures to ensure they accurately reflect contractual responsibilities, clearly identify approving authorities, and provide transparent documentation supporting payment approval decisions.

Implementation Status: Implemented. County-wide evaluation by December 2026.

Management Comments: Management agrees that payment application documentation should clearly identify the appropriate approving authority and support consistent contract administration throughout the life of a project. MCU supports continuous improvement of administrative forms and documentation where such improvements enhance clarity and reduce the potential for future misunderstanding.

Management believes it is important to recognize the chronology of events and the professional diligence exercised by Utilities in evaluating the existing approval process. The practice utilized during this project reflected Utilities' interpretation of the American Institute of Architects (AIA) payment application when no Architect of Record was involved in the project.

Utilities reviews contractor payment applications through a structured process that includes verification of completed work, review of quantities, evaluation of contract modifications, confirmation of project progress, and coordination among the Project Manager, inspection personnel, engineering consultants, and other appropriate stakeholders. For projects utilizing the AIA Application and Certificate for Payment where no Architect of Record is contractually assigned, Utilities historically modified the Architect certification block to identify the County representative responsible for reviewing and approving payment applications.

During the audit, questions were raised regarding this practice. Rather than relying solely upon its internal interpretation, Utilities sought guidance directly from the American Institute of Architects, the organization responsible for developing the industry-standard payment application. The AIA confirmed that modifying the Architect certification block to identify the appropriate approving authority was an acceptable practice when no Architect of Record serves in that contractual role. Management believes that seeking guidance directly from the organization responsible for developing the standard form demonstrates appropriate professional diligence when questions arise regarding industry-standard contract documents.

Although MCU believed its existing practice to be appropriate based upon the AIA's guidance, Management also recognized the opportunity to further improve administrative clarity. Accordingly, MCU implemented a revised payment application cover sheet that more clearly identifies the County's approving authority while preserving the integrity of the payment review and approval process.

Management believes this opportunity exemplifies the department's philosophy of continuous improvement. Rather than simply defending an existing administrative practice or modifying it without evaluation, Utilities validated its approach through authoritative industry guidance and then implemented an enhancement to further improve clarity and transparency. This outcome demonstrates that continuous improvement includes not only correcting deficiencies, but also evaluating established practices and strengthening them where practical.

APPENDIX A – DOCUMENTS REVIEWED & INTERVIEWS CONDUCTED

Documents from Utilities:

- Agreement between the County and Wharton-Smith, inclusive of all exhibits and amendments
- Wharton-Smith Application for Payment No. 16
- Wharton-Smith Application for Payment No. 17
- Marion County Utilities Change Order No. 5
- Marion County Utilities Change Order No. 7
- Marion County Utilities Change Order No. 14
- Daily Project Tracking
- Daily Reports of Construction
- Incident Reports
- Project Progress Meetings

Documents from Kimley-Horn:

- Davis Bacon Interviews
- Certified Payrolls
- Master Tracking Log

Documents from Wharton-Smith:

- Subcontractor Subledger Report
- Subcontractors Awarded Agreements
  - Commercial Industrial Corp
  - Modica & Associate, Inc
  - Xylem Water Solutions USA, Inc
- Contractor Certificate of Insurance
- Contractor Policies and Procedures
- Contractor Daily Reports

Interviews Conducted:

- Tony Cunningham, Utilities Director
- Alejandro Rad, Utilities Assistant Director of Construction (Project Manager)
- John Corneilson, Utilities Fiscal Manager
- Jennifer Heckman, Kimley-Horn Project Administrator
- Richard McLean, Kimley-Horn Civil Engineering Inspector
- Alan Garri, Kimley-Horn Vice President (via Teams)
- Kenneth Marcell, Wharton-Smith Vice President
- Scott Guerin, Wharton-Smith Senior Project Manager
- Erik Anderson, Wharton-Smith Director of Collaborative Delivery
- Susan Olsen, Procurement Director
- Becky Jayne, Financial and Contract Manager (via Teams)
- Jodi Shoemaker, Procurement & Contract Analyst Coordinator

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The Honorable Gregory C. Harrell	Clerk of Court and Comptroller
The Honorable Craig Curry	District 1 Commissioner
The Honorable Kathy Bryant	District 2 Commissioner
The Honorable Matt McClain	District 3 Commissioner
The Honorable Carl Zalak, III	District 4 Commissioner
The Honorable Michelle Stone	District 5 Commissioner
Mounir Bouyounes	County Administrator
Angel Roussel	Assistant County Administrator
Tony Cunningham	Utilities Department Director
Susan Olsen	Procurement Director
Kenneth Marcell	Wharton-Smith Vice President
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