

**CALIFORNIA STATE UNIVERSITY,
LONG BEACH**

PETERSON HALL ADDITION

Final Report

September 2, 2005

CONSTRUCTION PROJECT EVALUATION
CALIFORNIA STATE UNIVERSITY, LONG BEACH
PETERSON HALL ADDITION PROJECT

September 2, 2005

Prepared by:



KPMG LLP
801 Second Avenue, Suite 900
Seattle, WA 98104

This report and all associated analysis contained herein are based upon information made available to KPMG LLP. KPMG LLP is not responsible for incomplete or inaccurate information provided during the preparation of this report. This report only presents and summarizes factual data and does not represent an opinion or attestation to the position, approach or representation of information made by any other party involved with this evaluation.

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EXECUTIVE SUMMARY

Summary of Findings

Based upon our evaluation, the CSU Long Beach Peterson Hall Addition Project is being administered consistent with governing Trustee policies and procedures. No significant control or process weaknesses that would expose CSULB to major unnecessary risks within governing regulations came to our attention during our review. We did, however, observe that the Project was not completed on time, financial losses were suffered and additional costs incurred by CSULB compared to what was anticipated at time of bid. Changes in policies and procedures or updates to interpretations of regulations may have helped prevent or mitigate these circumstances.

Our evaluation was limited due to the inadequate documentation maintained by the contractor and the fact that the project as of the date of our field work was not yet closed out due to the ongoing legal settlement.

Our observations, associated risks and recommendations are outlined below:

	Observation	Risk	Recommendation
1.	The Architect performed a significant amount of services without a fully executed standard A/E Agreement in place	Having the Architect perform work without an executed contract puts CSULB at contractual risk. In addition, having vendors to perform work, but not having them invoice and or receive payment for their services, is generally not viewed as a fair business practice.	In the future, do not have vendors commence work without a fully executed standard A/E Agreement. (Ownership: CSULB)
2.	Signature authorization requirements were not consistently followed by CSULB.	Inadequate authorization of change orders is in violation of Trustee policy.	On future contracts, adhere to system signature authorization requirements on all change orders. (Ownership: CSULB)
3.	No detail analysis of actual losses in the Contractor settlement file or documentation discussing how the final proposed settlement amount was arrived at was evidenced by KPMG.	Not completing a thorough analysis of actual losses prior to entering into a final settlement agreement may result in less favorable terms for CSULB.	Subsequent to field work a mediated settlement agreement was finalized and executed by Skidmore and CSULB. <i>No recommendation.</i>
4.	Accounting reports for the Project were limited; it could not be determined whether contracts were disencumbered appropriately.	Not having the most useful tools in evaluating project cost variances may impact future project budgeting efforts and contribute to overruns and inefficiencies. It also limits third parties from gaining easy insight to project costs.	Subsequent to field work, CSULB submitted an accounting report where contracts and encumbrances were appropriately presented. <i>No recommendation.</i>

INTRODUCTION

Purpose

KPMG LLP ("KPMG") was retained by California State University's ("CSU") Office of the University Auditor on October 29, 2004 to perform an independent project evaluation of California State University, Long Beach's ("CSULB") Peterson Hall Addition project ("the Project").

The overall objective of the construction evaluation was to assess construction management practices for the Project and to substantiate that it was managed in accordance with law and Trustee policy.

This report provides conclusions and recommendations addressing potential recovery of project costs and process improvements to the extent they were uncovered as part of our work. Recommendations are listed and numbered sequentially throughout this report.

Scope

While the basic scope of our work matches that required by the Request for Proposal ("RFP") and that which KPMG has performed in years past, we also included additional tasks we believe may provide value to CSU. KPMG identified specific areas within the scope listed below that present potential for substantive loss or liability for the CSU Long Beach Peterson Hall Addition Project. The various scope categories are outlined in CSU's Request for Proposal, dated July 14, 2004 and KPMG's Proposal, dated July 27, 2004 and contains the following sections:

- Project Background (*included for information, contains no recommendations*)
- Design Cost
- Construction Bid Process
- Construction Change Orders
- Project Management Inspection Services
- Major Equipment/Materials
- Close-Out Documentation
- Liquidated Damages
- Accounting

Methodology

KPMG's approach to this engagement incorporates a work plan shared with the University Auditor's office as outlined in our Agreement with CSU. During the course of our work we expanded on tasks related to scope sections with the highest potential risk exposure. The work performed by KPMG was conducted in accordance with our aforementioned Methodology, but is not limited to, the following tasks:

- Examine financial records, reports, written CSU procedures, University contract documents and other material related to the Project and compare current practices and procedures with CSU requirements;
- Conduct a preliminary review to determine project emphasis;
- Interview key individuals involved in the project;
- Identify significant deficiencies, if any;
- Recommend changes that may result in streamlining the design/construction process, helping to assure adequate project controls and reducing costs; and
- Prepare a written report of our findings and recommendations.

Exclusions

The services, fees and delivery schedule for this Engagement are based upon the following assumptions, representations or information supplied by CSU (“Assumptions”).

1. KPMG is not responsible for and will not make management decisions relating to this Project or any other aspect of CSU’s business. CSU shall have responsibility for making all decisions with respect to the management and administration of its real estate and capital projects.
2. CSU management accepts responsibility for the substantive outcomes of this engagement and, therefore, has a responsibility to be in a position in fact and appearance to make an informed judgment on the results of this engagement.
3. Our work under this did not include technical opinions related to engineering, operations and maintenance.
4. KPMG’s work under this engagement did not include a review, audit or evaluation of financial statements, tax services, or other services of KPMG not listed in the above methodology.
5. We have, and will continue to consider the effect of this Engagement on the ongoing, planned and future audits, as required by *Government Auditing Standards* and have determined that this engagement will not impair KPMG’s independence.

PROJECT BACKGROUND

The Peterson Hall Addition Project at CSU Long Beach, also known as the New Science Building Project No. LB 603, involved the construction of a new three-story 93,400 square foot educational science building, including a basement and associated site work. The building consists of a structural-steel frame on slab foundations with exterior brick masonry and modified plaster with aluminum windows and a curtain-wall system.

The project has been under construction since January of 2001. The General Contractor, Skidmore Contracting Corporation ("Skidmore"), did not complete work in a timely manner and made several decisions that hindered project completion, according to CSULB. Due to Skidmore's inability to complete the work by the contractual completion date, liquidated damages of \$5,000 per day started on January 25, 2003.

CSULB generated and issued a punch list to Skidmore sometime between December 2003 and January 2004. Completion of the punch list was monitored by CSULB until approximately the end of February 2004. Skidmore had made little or no progress correcting punch list items as of March 2004, at which time CSULB initiated discussions directly with various subcontractors in order to facilitate timely progress and completion of the work. The discussions were not held without the knowledge of Skidmore. CSULB did not feel that the benefits of termination at any point outweighed the disadvantages. Enough progress was made for CSULB to take beneficial occupancy on March 3, 2004 at which point liquidated damages were contractually reduced to \$2,500 per day.

Between March 2004 and May 2004, progress on completion of punch list items slowed down considerably and it became evident to CSULB that Skidmore would not complete the remaining items. It was determined by CSULB that termination and assumption of the remaining items would not be in its best interest, primarily due to the complexity of the systems within the building, such as fume hoods, environmental controls, fire alarm and mechanical systems.

Lack of progress by Skidmore to complete the remaining work lead to a settlement meeting on June 8, 2004. A tentative settlement agreement was drafted and signed by all parties, including CSULB and Skidmore. However, as of February 23, 2005, the obligations set forth in the settlement agreement had not yet been met by all parties. At the time of our field work, CSULB was considering what action to take against Skidmore, if any, in light of Skidmore having become insolvent.

At the time of KPMG's review, CSULB was holding \$1.4M of Skidmore's billings, which included accumulated retainage and the amount invoiced in the latest application for payment.

Field Work Overview

During the week of February 7 – 11, 2005, KPMG conducted its field work and reviewed project records from the following entities involved with the project:

General Contractor	Skidmore Contracting Corporation (documents obtained through Benchmark Consulting)
Architect	A.C. Martin Partners
Inspection	Cummings LLC (PM) Twining Laboratories
Project Management	Cummings LLC (PM) Long Beach Campus, Physical Planning & Facilities Management

Follow-up discussions to clarify issues and supplement supporting documentation were conducted through the completion of this report.

Delivery Methodology

The project was delivered using a Design-Bid-Build, Lump Sum contract.

Project Timeline

The design process started in October 1997 by A.C. Martin Partners with bid drawings completed by late 2000. The construction work was bid in December 2000 and construction started in January 2001 (Notice to Proceed). The construction was carried out by Skidmore Contracting Corporation. With approved contract extensions, the contract completion date was January 18, 2003. Skidmore failed to meet this date as well as other contractual obligations and at the time of KPMG's field work, Notice of Completion has not yet been issued.

Project Costs

The entire project was initially funded at \$34,374,000 including design, construction, Furniture, Fixtures and Equipment ("FFE"), and CPDC Administrative fees and contingency. The total actual expenditures on the project were close to the funded amount per CSULB, \$32,890,404.

DESIGN COSTS

Through a competitive process, A.C. Martin Partners were selected and retained for the design work. A.C. Martin Partner's contract, a standard CSU Architect/Engineering Agreement, was entered into as of October 31, 1997, however it was not signed until April 9, 1998. The original contract was for a do-not-exceed amount of \$1,495,605, including Schematics & Preliminary, Working Drawings, and Bidding & Construction. The contract also denotes that funding was obtained for only \$493,000 for the Schematics & Preliminary Phase, which is the amount CSULB treated the contract to be from an accounting standpoint. The other two phases were formalized through extra service agreements ("ESA's"), although the scope was known at the time the contract was executed. The Contract was amended by 13 ESA's reaching a final contract value of \$2,051,262. The architectural contract language allows for three categories of costs: Basic Services, Additional Services and Reimbursables.

The following is a summary of the basic contract and extra services, all of which was billed at 100% and paid by CSULB as outlined in the following table:

Date	Description	Amount
<i>Original Contract</i>		
10/31/97	Schematics & Preliminary	\$ 493,550
10/31/97	Working Drawings	-
10/31/97	Bidding & Construction	-
10/31/97	Total Original Agreement	\$ 493,550
<i>Amendments</i>		
06/29/98	Preliminary & Working Drawing Phase	\$ 776,567
01/22/01	Bidding and Post Construction Phase	430,883
09/06/01	Construction Admin. & Sculpture Relocation Footing Design	7,426
07/11/02	Slab Elevation	4,730
07/19/02	Viability of Added Magnet at the Third Floor	2,195
10/14/02	Additional Fees for Design Services	14,450
03/18/03	Extended Work and Reimbursables	142,461
09/10/03	Extended Work	69,000
11/18/03	Extended Work	60,000
01/26/04	Extended Work	20,000
04/19/04	Extended Work	10,000
05/20/04	Extended Work	10,000
06/09/04	Extended Work	10,000
Total Extra Services		\$ 1,557,712
Total Contract Value		\$ 2,051,262

Over \$500K of architectural services was incurred by the Architect prior to April 30, 1998 (at which time the contract with A.C. Martin was in effect). The Architect's first invoice notes they are billing for work that started back in October, 1997, but they were unable to invoice for this amount earlier as no contract was yet in place. CSULB executed the work under a letter of understanding prior to finalizing the contract agreement, however the letter could not be located for KPMG's review.

Observation:

The Architect performed a significant amount of services without a fully executed standard A/E Agreement in place.

Risks:

Having the Architect perform work without an executed contract puts CSULB at contractual risk.

In addition, having vendors perform work, but not having them bill and or receive payment for their services, is generally not viewed as a fair business practice.

Recommendation:

1. In the future, do not have vendors commence work without a fully executed standard A/E Agreement. (Ownership: CSULB)

Campus Response:

1. We concur. We will not have vendors commence work without an executed A/E Agreement. Management has issued a written directive to Physical Planning and Facilities Management staff to ensure that no work/project is started without an executed contract. Corrective action on this issue is complete.

CONSTRUCTION BID PROCESS

The construction bidding process for this project was administered through the Office of Physical Planning and Facilities Management at CSULB.

The project was constructed under the standard CSU design-bid-build approach. A complete set of specifications, general conditions and drawings were made available to all bidders in accordance with Trustee policy. Prior to bid opening, four addendums were issued, all addressing bidder questions and clarifying scope, drawings and specifications and changing the bid opening date.

Through a competitive bid process, seven general contractors submitted bids; Bernards Bros. Construction, Douglas E. Barnhart, Inc., Nielsen Dillingham Builders, S.C. Anderson, S.J. Amoroso Construction Company, Inc., Skidmore Contracting Corporation, and Swinerton & Walberg Builders. The lowest responsible and responsive bidder was Skidmore Contracting Corporation at \$24,027,000 (less than a \$100K difference from the next closest bidder).

KPMG reviewed CSULB's bid files and bid process and found the Project Administrative Team in compliance with requirements related to Pre-bid Meeting, Advertising for Bids, Distribution of Project Plans and Specifications, Review of Bid Proposal Package, Addenda During Bidding, Pre-qualification of Bidders, Obtaining Required Documentation from the Successful Bidder, and Award of Contract.

Skidmore's bid files were limited and KPMG cannot draw a conclusion on Skidmore's compliance with governing bid process regulations.

Subcontractor Compliance

Skidmore submitted an Expanded List of Subcontractors as well as a required Subcontract Status Report to demonstrate compliance with the Subletting and Subcontracting Fair Practices Act. KPMG attempted to compare the submitted list of subcontractors to Skidmore's actual vendor cost information, but no subcontractor history reports could be located among Skidmore's limited records.

KPMG discussed the issue with CSULB and reviewed CSULB's file on subcontractor substitution correspondence. The limited test work indicated several instances of subcontractor substitution. Review of CSULB's files showed that appropriate approval documentation was obtained, except in one case, as outlined below:

Listed Subcontractor	Substitution Subcontractor	Reason for Substitution	Date of CSULB Letter of Approval
Karlison Constr.	Grove House Constr	Sub has no resources to get work done, causing delays	May 29, 2003
A&M Marble	Karlison Constr.	Sub failed to execute agreement	June 10, 2002
Cameray Point Roofing	Pro-Tech Weatherproofing	Retraction of bid due to mistake in estimating	March 21, 2001
Overland Mechanical	Additional work-men brought in by Skidmore	Additional work-men brought in by Skidmore to stay on schedule; no formal request for substitution was made	None

Skidmore also made a request for augmentation of Franklin Reinforcing for Reavis Construction due to a reported clerical error in their subcontractor list, but this request was later retracted.

KPMG found a potential issue with the augmentation of Overland Mechanical's work force. CSULB questioned Skidmore's subcontractor change whereby Skidmore brought in additional workmen to accelerate the subcontractor's work, which had fallen behind. CSULB reported concerns as it was not clear whether this was a legal arrangement or not. Skidmore submitted a letter from an outside law firm indicating no formal request for substitution would be necessary, as the subcontractor's contract allowed for this type of arrangement under governing code. CSULB did not believe this interpretation was correct and checked with CPDC on this issue. CPDC agreed with CSULB's interpretation of the code. By then, CSULB had already been informed that Skidmore was becoming insolvent.

Skidmore's records did not turn up anything to support or refute the findings including Overland Mechanical's subcontract. Only limited correspondence on the issue of subcontractor substitution was found.

CONSTRUCTION CHANGE ORDERS

One hundred fourteen change orders had been executed on the project at the time of KPMG's review with change amounts totaling \$771,012. Due to Skidmore's limited cost records, KPMG was unable to evaluate the reasonableness of the agreed upon change order amounts and trace subcontractor estimates to the actual subcontractor change orders and corresponding actual costs.

Eight change order files in the aggregate amount of approximately \$354,000 were sampled. All of the sampled change order files contained all expected change order documentation by CSULB. CSULB kept track of their negotiations of the amounts of each change, which is a useful way of illustrating how the final change amount was arrived at.

All sampled change orders followed the change order mark-up requirements as outlined by the General Conditions.

All sampled change orders followed the signature authorization requirements, with the exception of change order #96 (CP 197) in the amount of \$134,000 which lacked the Vice President of Administration's signature, as required for changes over \$100,000.

Observation:

Signature authorization requirements were not consistently followed by CSULB.

Risk:

Inadequate authorization of change orders is in violation of Trustee policy.

Recommendation:

2. On future contracts, adhere to mandated signature authorization requirements on all change orders. (Ownership: CSULB)

Campus Response:

2. We concur. On future contracts, all mandated signature authorization requirements will be adhered to. Management has issued a written directive to Physical Planning and Facilities Management staff to ensure that signature authorization requirements are met without any exceptions. Corrective action on this issue is complete.

Change Order Report Analysis

CSULB provided a change order log reflecting the source of each change order. The following table summarizes the data:

Type Of Change		Amount	% of Total CO	% of Orig. Contract
4.1	Error in or omission from the contract documents	\$708,227	91.86%	2.95%
4.2	Unforeseeable job site condition	\$88,382	11.46%	0.37%
4.3	Change in the requirements of a regulatory agency	(\$6,274)	-0.81%	-0.03%
4.4	Change originated by CSULB	\$165,862	21.51%	0.69%
4.5	Changes in specified work due to the unavailability of specified materials	\$ 3,193	0.41%	0.01%
4.6	Other	(\$188,378)	-24.43%	-0.78%
Total Change Orders		\$771,012	100.00%	3.21%
Original Contract Amount		\$24,027,000		
Total		\$24,798,012		

In addition to the approved change orders outlined above, Skidmore was at the time of KPMG’s field work disputing an additional \$1,041,453. KPMG understands that the global settlement agreement that was being finalized at the time of our review will waive these claims.

Change orders attributable to Architect's errors and omissions exceeded 90% of the total net change order costs. These errors and omissions comprise less than 3% of the total contract amount, which is normal.

Recommendation:

None

Labor and Fringe Burden

The subcontractor's labor rates were not made available through a third party keeper of Skidmore's documents related to this Project, Benchmark Consulting. As a result, labor rates and fringe burden could not be audited by KPMG. However, the majority of the work on the job was performed by subcontractors and as such, the risk for cost overruns on labor and fringe burden by the subcontractor's own forces as they apply to change orders may not be significant.

Recommendation:

None

PROJECT MANAGEMENT INSPECTION SERVICES

Independent project management and inspection services were provided by Cummings Laboratories LLC and Twining Laboratories. CSU Long Beach entered into an initial agreement with Cummings on November 15, 2000 for \$11,025 using a Standard Service Agreement. Although the contract was not signed until January 24, 2001, no invoices were processed prior to this date.

A second more comprehensive agreement was entered into with Cummings effective January 22, 2001 for a do-not-exceed amount of \$949,295. This contract was not signed until April 2001, however no Cummings invoices were processed prior to this date. Seven amendments were issued to the contract for a total revised contract amount of \$1,628,855 as shown below.

Effective Date	Description	Amount
<i>Original Contract</i>		
11/15/2000	Provide Bid and Construction Management Services (Agreement No. P000392)	\$ 11,025
1/22/2001	Provide Bid and Construction Management Services (Agreement No. P00692)	949,295
<i>Amendments</i>		
4/15/2002	Revised Fee Schedule (Agreement No. P00692 changed to Agreement No. 0000000830)	72,000
1/17/2003	Revised Fee Schedule (Agreement No. 0000000830)	200,680
8/22/2003	Revised Fee Schedule (Agreement No. 0000000830)	218,860
12/15/2003	Revised Fee Schedule (Agreement No. 0000000830)	143,320
3/1/2004	Extended Time of Completion (Agreement No. 0000000830)	no cost change
4/19/2004	Revised Fee Schedule (Agreement No. 0000000830)	33,675
5/25/2004	Extended Time of Completion (Agreement No. 0000000830)	no cost change
Total		\$ 1,628,855

Seven invoices were reviewed dating to the relevant period. Each invoice contained appropriate signature authorization personnel, and included support for the payment amount. However, on two occasions the invoiced hourly rate was inconsistent with the rate provided by the respective contract/amendment. Discussions with CSULB explained these discrepancies as instances where individuals performed tasks associated with different billing rates. The amounts in question were not material. The entire contract amount of \$1,628,855 was paid, less \$7,225, which was appropriately disencumbered. Nothing came to KPMG's attention indicating that Project Management Services were unreasonably invoiced.

Recommendation:

None

MAJOR EQUIPMENT/MATERIALS REVIEW

The Peterson Hall Addition was an active building at the time of KPMG's review and equipment and materials for review was selected partially based on accessibility in order not to disturb faculty and students.

CSULB allowed full and complete access to drawings, specifications and submittals, including revisions, which were organized in a fashion easy to locate and contained all sufficient information. The equipment judgmentally selected based on cost and location was verified in the field against performance specifications issued, drawings and engineering calculations available.

The following equipment items and specific model data were approved and visually confirmed as installed on the project:

Division	Drawing No.	Brand	Model No./ Capacity	Description
14212	A04	Schindler	2,500 lbs, 150FPM	Elevator Machinery
16100	E04	Magnum	MDS630	Main Switchboard, MSB
16100	E04	Cutler Hammer	ND50K	Distribution System Board, Building B
02730 15400	WU4	Flygt	CP-3085LT	Lift Station
15400	P02	Raypak	175 Gallons Cat No. 400021G	Hot Water Heater HWT1

All equipment conformed to the specifications above, based on a visual inspection of equipment labeling.

Recommendation:

None

CLOSE-OUT PROCESS

To the extent possible KPMG verified that project close-out requirements established by the Contract General Conditions and State University Administrative Manual were adhered to. Since the Project was still contractually under way at the time of KPMG's field visit, no Notice of Completion had yet been filed and As-Built drawings were still being completed.

KPMG reviewed Punch List, Operating Permits, Operation and Maintenance (O&M) Manuals, Warranties, Inspection Reports (less items not yet completed), and other relevant project close-out documentation, which was filed and retained at CSULB. We observed no discrepancies.

Final payment to Skidmore had not yet been processed at the time of KPMG's review, as there were ongoing project close-out discussions under way between CSULB and Skidmore.

Recommendation:

None

LIQUIDATED DAMAGES

Skidmore was granted a contract extension through January 24, 2003 but did not complete their work by this date. As a result, liquidated damages began on January 25, 2003 in the amount of \$5,000 per day. Damages were reduced to \$2,500 per day after CSULB took beneficial occupancy of the new building on March 3, 2004, which is in accordance with the contractual provisions. A total of \$2,907,500 in liquidated damages had been contractually incurred as of February 23, 2005, following KPMG's field work.

Liquidated Damages	Amount
At \$5,000/day for 403 days (1/25/03 – 3/3/04)	\$ 2,015,000
At \$2,500/day as of February 23, 2005 (3/3/04 – 2/23/05)	\$ 892,500
Total	\$ 2,907,500

CSULB incurred additional costs as a result of completing portions of Skidmore's contractual obligation. CSULB also incurred extra costs to keep the Architect, the construction management firm, and inspectors on the project for longer than planned. Lastly, CSULB incurred other direct and indirect costs as a result of extending the construction schedule, such as costs for utilities and maintenance, CSULB staff, and legal.

Due to Skidmore's insolvency, liquidated damages and other additional costs may not be recoverable. At the time of our review, CSULB was holding approximately \$1.4M of Skidmore's billings, which included both retainage and the latest application for payment.

In June 2004 CSULB, Skidmore and Skidmore's Bonding Company (St. Paul Fire & Marine) met and drafted a settlement agreement. The agreement outlined specific work to be completed by Skidmore, including a \$765,000 credit change order against the agreed contract balance of \$1.4M. At the time of KPMG's field visit, the obligations outlined by the settlement agreement had not been completed by Skidmore. The settlement agreement did not include an express deadline for the work to be completed. During follow-up discussions with CSULB, it was reported that renewed settlement talks were underway to reach a final settlement date and close-out the project.

At the time of KPMG's field work there was no documentation of how the \$765,000 amount was arrived at. No detail analysis was available for KPMG to capture the actual losses suffered on this project. CSULB later gave an account of the general methodology behind the settlement amount:

- Estimated Out-of-Pocket Expenses: \$1.1M
- Prepare Case for Review Board: \$90K
- Potential Legal Costs for going to Court: \$400K

Given the conditions above, CSULB calculated a favorable outcome for would have left approximately \$610K (\$1.1M – \$90K – \$400K). It was decided it would be in CSULB's best interest to avoid litigation and settle for the \$765,000 credit.

Since Skidmore has become insolvent and funds to pay any liquidated damages and other damages to CSULB may not ultimately be available, CSULB may not litigate this case at all, as a business decision. Costs of litigation may outweigh the likelihood of any cost recoveries.

Observation:

KPMG found no documented analysis of actual losses in the settlement file or documentation discussing how the final settlement amount was arrived at.

Risks:

Not completing a thorough analysis of actual losses prior to entering into a final settlement agreement with Skidmore may compromise CSULB's negotiation position and result in less favorable terms for CSULB.

Subsequent to Field Work:

Subsequent to field work a mediated settlement agreement was finalized and executed by Skidmore and CSULB.

Recommendation:

None

ACCOUNTING

KPMG reviewed the accounting process for the project with CSULB, including invoice processing and accounts payable. The accounting reports tracked all funded items and expenditures against each, however they were prepared in excel format only, from which it could not be determined if any amounts were encumbered unnecessarily. A system generated accounting report was not produced, however KPMG believes the capabilities to generate such a report is similar for CSULB as it is to other Campuses. KPMG has viewed such reports in the past, which contained information on expenditures and status of encumbrances. The report is normally called the "Project/Grant by Fund by Account Detail Report."

No final accounting for the project or a Project Close-Out Review had been conducted at the time of KPMG's field visit, as the Project was not yet closed-out.

Observation:

Accounting reports for the Project were prepared in excel format only; the "Project/Grant by Fund by Account Detail Report" (or similar report) was not utilized by CSULB.

Risks:

Not having the most useful tools in evaluating project cost variances may impact future project budgeting efforts and contribute to overruns and inefficiencies. It also limits third parties from gaining easy insight to project costs.

Subsequent to Field Work:

Subsequent to field work, CSULB submitted an accounting report where contracts and encumbrances were appropriately presented.

Recommendation:

None



CALIFORNIA STATE UNIVERSITY, LONG BEACH

DIVISION OF ADMINISTRATION AND FINANCE

RECEIVED
UNIVERSITY AUDITOR

NOV - 4 2005

THE CALIFORNIA STATE
UNIVERSITY

October 28, 2005

Mr. Larry Mandel
University Auditor
California State University
401 Golden Shore
Long Beach, California 90802

Re: Response to Construction Project Evaluation - Peterson Hall Addition Project

Dear Larry:

Please find enclosed California State University, Long Beach's response to the above report. The campus is committed to addressing and resolving the issues identified in the audit report.

Please let me know if we can provide you with any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "William H. Griffith".

William H. Griffith
Vice President for Administration and Finance

Enclosure

cc:

Robert C. Maxson, President
Robyn R. Mack, Associate Vice President, University Services and Chief of Staff
Scott R. Charmack, Associate Vice President, Physical Planning and Facilities Management
Aysu Spruill, Director, Internal Auditing Services

CONSTRUCTION PROJECT EVALUATION
CALIFORNIA STATE UNIVERSITY, LONG BEACH
PETERSON HALL ADDITION PROJECT

DESIGN COSTS

Recommendation:

1. In the future, do not have vendors commence work without a fully executed standard A/E Agreement. (Ownership: CSULB)

Campus Response:

1. We concur. We will not have vendors commence work without an executed A/E Agreement. Management has issued a written directive to Physical Planning and Facilities Management staff to ensure that no work/project is started without an executed contract. Corrective action on this issue is complete.

CONSTRUCTION CHANGE ORDERS

Recommendation:

2. On future contracts, adhere to mandated signature authorization requirements on all change orders. (Ownership: CSULB)

Campus Response:

2. We concur. On future contracts, all mandated signature authorization requirements will be adhered to. Management has issued a written directive to Physical Planning and Facilities Management staff to ensure that signature authorization requirements are met without any exceptions. Corrective action on this issue is complete.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

November 10, 2005

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor

A handwritten signature in black ink that reads "Charles B. Reed".

FULLERTON

HUMBOLDT

SUBJECT: KPMG Draft Final Report on the *Peterson Hall Addition*
Construction Project at California State University, Long Beach

LONG BEACH

In response to your memorandum of November 10, 2005, I accept the response as submitted with the draft final report on the *Peterson Hall Addition* construction project at California State University, Long Beach.

LOS ANGELES

MARITIME ACADEMY

CBR/amd

MONTEREY BAY

Enclosure

NORTHRIDGE

cc: Ms. Erika Alvord, KPMG
Mr. William H. Griffith, Vice President, Administration and Finance
Dr. Robert C. Maxson, President
Ms. Elvyra San Juan, Assistant Vice Chancellor, CPDC
Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS