SUBJECT: Review of Sonoma State University, Head Start Family Literacy Grant

Introduction

Sonoma State University (SSU) is one of the 23 campuses in the California State University system, the largest university system in the nation. SSU was founded in 1960 as a teacher education center and has since grown into a multifaceted university. In fiscal year 2005-2006 direct expenditures totaled over $26 million. A majority of SSU’s sponsored projects (nearly $16.6 million expenditures) had post award financial, procurement, and some human resources activities administered by the California Institute on Human Services (CIHS), an academic center at SSU. CIHS was created in 1979 to work in concert with SSU faculty, staff, and students in developing and testing research in the field of education and related human services.

Due to concerns regarding payroll, procurement and questionable cost transfers, on February 12, 2007, SSU removed CIHS’s delegation authority to administer post award grants and reassigned them to the Administration and Finance Division. The two senior administrators for CIHS were placed on administrative leave with pay until the State of California audit is completed.

Head Start Family Literacy Grant Award

The Office of Head Start awarded SSU $3 million per year for fiscal years 2006 and 2007. An additional $1.5 million per year was approved for award in 2007 to expand the literacy program, but is on hold. On February 14, 2007, the
SFGate.com reported SSU suspended the two senior administrators for allegedly mishandling millions of dollars in grants. In response to the allegation, we conducted a site visit at SSU to determine if the Head Start Family Literacy Center grant funds were used appropriately and assess the adequacy of controls.

Scope

During our site visit (April 30 through May 4), we interviewed the State Auditor, Associate Vice President for Administration and Finance, Deputy Controller, Human Resources Director, Provost and Vice President for Academic Affairs, Chief of Police, and others. We also reviewed KPMG’s Costing Compliance Review (a report on CIHS) and accounting records.

Review Results

Our review disclosed that grant funds were inappropriately used and internal controls were inadequate. There was a lack of management oversight and policies and procedures were not followed. As a result, unallowable payroll expenses and procurements were charged to the grant. The issues are discussed below:

Inappropriate Use of Funds

Personnel costs were inappropriately charged to the grant for employees assigned to other grants which did not comply with OMB Circular A-21, Cost Principles and Circular A-110, Administrative Requirements. This occurred because the principal investigator did not always receive and review personnel reports. The principal investigator stated in an interview that she did not receive payroll reports from CIHS Administrators. As a result, approximately $624,277 was inappropriately charged to the grant.

Also, contracts were awarded without regard to SSU’s procurement policy because the principal investigator was told by a CIHS Administrator to award the contract. The principal investigator stated she was not aware of the University’s policies and procedures. In accordance with the Department of Health and
Human Services Grants Policy Statement, grantees should follow their policies and procedures for awarding contracts. For example, a contract was awarded for $150,000 to produce videos without competitive bidding or sole source justification. Another contract was awarded for $86,800 for supplies without any justification. During our visit, the Associate Vice-President asked us if the costs associated with these contracts could be allowable. Since the University failed to follow its own contracting policies, we considered these costs unallowable.

According to the Associate Vice President, the unallowable costs were reversed and adjustments were made in the general ledger for $624,277 thousand. With regard to the contracts that were awarded without following the University’s policies and procedures, additional adjustments will be made for approximately $235,800 thousand. The University’s total adjustments for the Head Start grant are approximately $857,770 thousand.

Inadequate Controls

Controls over the grant were inadequate because there was minimum oversight by the University over CIHS’s operations. As a result, the grants were not aligned with the University’s mission and not profitable. CIHS acted as an autonomous entity and did not adhere to the University’s policy and procedure. In an interview with the Provost for Academic Affairs, we were told that the CIHS Administrator attended meetings, but conceded there was no oversight over CIHS operations.

The University took corrective actions by abolishing CIHS’s delegation authority and transferring the responsibility for CIHS from Academic Affairs to the Administration and Finance Division. Policies and procedures were enhanced and the principal investigators were provided training on grant administration and requested to sign confirmations acknowledging their responsibilities and understanding of post grant administration.

Other Matters of Interest

- The University’s Chief of Police is conducting a criminal investigation for fraud, theft or conspiracy. In our interview with him the Chief, he advised
us that the investigation should be completed soon. If warranted, the investigation's findings will be presented to the District Attorney.

- The final Financial Status Report, SF-269 for fiscal year 2006 was not submitted. We brought this to management's attention and contacted the grants specialist. The grants specialist plans to send a letter to the SSU regarding the late SF-269.

- The State of California required SSU to contribute approximately $900,000 for post retirement benefits for employees who had worked at least five years and were at least fifty years old. This was retroactive to July 2006; as a result Academic Affairs discontinued indirect cost sharing with CIHS which had an adverse financial impact.

Recommendation

We recommend that SSU continues the Head Start Literacy Family grant for the following reasons:

- The University acknowledged and reversed the disallowed charges to the grant, approximately $857,770 thousand.

- The Administration and Finance Division has oversight responsibilities for the grant and implemented stringent internal controls.

- The principal investigator is being held accountable for charges to the Head Start Literacy Family grant.

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