

SPECIAL INVESTIGATION – CIHS

SONOMA STATE UNIVERSITY

**Investigative Report 07-91
September 17, 2007**

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The California State University
OFFICE OF THE CHANCELLOR

Office of the University Auditor

401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210
Telephone: (562) 951-4430
Fax: (562) 951-4955
E-mail: lmandel@calstate.edu

September 17, 2007

Report #07-91

Dr. Charles B. Reed
Chancellor
The California State University
401 Golden Shore
Long Beach, CA 90802

Dear Dr. Reed:


Pursuant to a request from your office on February 12, 2007, the Office of the University Auditor has conducted an investigation in response to allegations made by Sonoma State University (SSU) campus administration that senior administrators within the California Institute on Human Services (CIHS) at SSU made improper labor cost charges of over \$600,000 against a federal grant, and allowed the award of a \$300,000 contract under the same grant without following competitive bidding requirements.

To investigate the allegations, we reviewed work completed by the campus related to the questionable costs as well as reports prepared by external auditors. We also reviewed accounting records, service agreements, personnel records, employees' email and other electronic files, as well as public records pertaining to other relevant outside entities. Further, we interviewed several employees, although the executive director, senior director, and another employee declined to meet with us.

Included within the report are the results of the investigation of the initial allegations plus ancillary findings, along with specific recommendations which, we believe, would benefit the campus' fiscal and operational management.

The president and certain key administrators had knowledge of many of the allegations and claims prior to the start of our investigation. As a result, various organizational and operational changes coincided with the investigation.

Sincerely,



Larry Mandel
University Auditor

CSU Campuses

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Channel Islands
Chico
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East Bay

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Fullerton
Humboldt
Long Beach
Los Angeles
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Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

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ABBREVIATIONS

AVP	Associate Vice President for Administration and Finance
CIHS	California Institute on Human Services
CSU	California State University
CSUCI	California State University, Channel Islands
CTE	Career Technical Education
EO	California State University Chancellor’s Office Executive Order
Family Literacy grant	Grant from HHS for the National Head Start Family Literacy Center
GPS	Grants Policy Statement
HHS	Department of Health and Human Services
MIS	Managing Information Systems
NCF	National Continuity Foundation
NCOE	Napa County Office of Education
NCP	National Continuity Program, Inc.
OMB	Office of Management and Budget

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PI	Principal Investigator
PI/PD	Principal Investigator/Project Director
RFI	Resources for Innovation
SSU	Sonoma State University
VP	Vice President for Administration and Finance

EXECUTIVE SUMMARY

INITIAL ALLEGATIONS

- ▶ Senior administrators within the California Institute on Human Services (CIHS) at Sonoma State University (SSU) made improper labor cost charges of approximately \$605,000 against a federal grant.
- ▶ Senior administrators within the CIHS at SSU allowed the award of a \$300,000 contract under the same grant without following competitive bidding requirements.

INVESTIGATION RESULTS – INITIAL ALLEGATIONS

Unapproved Labor Costs

- ▶ Labor costs of \$624,277, which had not been approved by the principal investigator, were charged to the Family Literacy grant.

Failure to Follow Competitive Bidding Requirements

- ▶ Competitive bidding requirements were not followed when a \$300,000 contract under the Family Literacy grant was awarded.

INVESTIGATION RESULTS – ANCILLARY FINDINGS

Non-Billable and Questionable Costs

- ▶ Labor costs of \$20,771 and contractual services, supplies, and other expense costs of \$403,160 were either questionable or non-billable to the Family Literacy grant and two other grants administered by CIHS.

Expenses Incurred Without Identified Funding Sources

- ▶ Over \$1 million in additional costs were, or will be, incurred by CIHS that either did not have identified funding sources or are needed to pay increased interest costs and costs related to an internal review/audit.

Conflict of Interest

- ▶ CIHS administered a project at a property owned by the executive director where his family member resided in a care facility called My Home, Inc.
- ▶ The executive director and senior director of CIHS misappropriated funds from various grants to pay an employee who was actually performing work at My Home, Inc.

- ▶ The executive director channeled CIHS funds to an entity he helped create, the National Continuity Program, Inc., and from which he received payment for acting as its executive director.
- ▶ CIHS awarded paid work to the executive director's supervisor at the Napa County Office of Education (NCOE), where the executive director had secondary employment.
- ▶ The executive director participated in making decisions to move CIHS grants to the NCOE, where he had secondary employment.
- ▶ Two CIHS employees may have violated conflict of interest provisions when a company they worked for/owned was awarded contract work by CIHS.

Improper Contracting

- ▶ The CIHS executive director signed both a contract with a federal agency and memoranda of understanding with another California State University campus without the authority to do so.
- ▶ Administration of several CIHS service agreements was below acceptable standards.
- ▶ CIHS improperly allowed grant funds to be administered outside of the State Treasury.

Refusal to Perform Duties

- ▶ The executive director and senior director refused to meet to answer questions related to this investigation.
- ▶ The executive director refused to answer any questions relative to a Statement of Economic Interests form he was required to complete.

INTRODUCTION

INITIAL ALLEGATIONS

Senior administrators within the California Institute on Human Services (CIHS) at Sonoma State University (SSU) made improper labor cost charges of approximately \$605,000 against a federal grant. Senior administrators also allowed the award of a \$300,000 contract under the same grant without following competitive bidding requirements.

BACKGROUND

CIHS

CIHS was established in 1979 and is part of SSU. The CIHS works with SSU faculty, staff, and students to deliver a wide range of services – program planning, evaluation, resource development, and training and technical assistance – that are designed to improve educational, social, and health-related programs throughout the state and country. Areas of focus include family violence prevention, early childhood education, language development, and literacy, among others. The main source of funding for CIHS is sponsored projects (e.g., grants and contracts) from federal, state, and local governmental agencies, as well as private sources.

CIHS has approximately 125 employees and is housed in the division of academic affairs. During fiscal year 2005-06, CIHS administered a grant volume of nearly \$18.5 million. The executive director of CIHS, who is also the associate vice president of the office of research and sponsored programs, reports directly to the provost. There is also a senior director who reports to the executive director and several principal investigators (PIs) and a business manager who report to the senior director.

Delegation of Authority

For several years, CIHS had both written and verbal delegations of authority from SSU related to post-award grant administration in the areas of accounting, financial procurement, and human resource activity. According to the vice president for administration and finance (VP), he and the president met with the executive director in 1998 where this delegation was orally reaffirmed at the request of the executive director with the understanding that CIHS would follow all appropriate campus, California State University (CSU), state, and federal policies in these areas. The delegation was also affirmed with the clear understanding that the office of the provost would provide direct oversight and supervision of these aspects of post-award administration.

Over the last few years, SSU administrators began to have concerns about CIHS operations, in part, because it had experienced a large amount of rapid growth. In spring 2005, SSU's administration and finance division hired a sponsored project manager to facilitate fiscal review for the large sponsored project departments, including CIHS. The fiscal review showed that in some cases, expenditures were incurred before contracts were fully executed and letters of intent were not on file; a number of contracts were coded as state awards that should be federal; and certain contracts were being administered without appropriate operating agreements. As a result, also in spring 2005, SSU administrators withdrew CIHS's ability to set up sponsored project funds in the accounting system.

Continuing review noted that certain CIHS awards were over budget and that CIHS did not always document cost share correctly. SSU administrators met with the CIHS senior director and informed him that all awards must operate within budget; in addition, they worked with CIHS staff to help correct the identified cost-share issues.

In August 2006, external auditors came to SSU as part of a CSU system-wide grant administration review and found two projects within CIHS that appeared to have inappropriate budget-related cost transfers. One of the projects was a \$15-million, five-year grant awarded by the Department of Health and Human Services (HHS) to establish the National Head Start Family Literacy Center at SSU (Family Literacy grant).¹ The assistant controller for sponsored projects was instructed to begin a process to make improvements identified by the external auditors. Shortly thereafter, another external audit brought attention to the lack of CIHS compliance with procurement procedures within the Family Literacy grant. In November 2006, SSU rescinded CIHS's delegated authority for procurement.

In late 2006, the VP and associate vice president for administration and finance (AVP) became aware of a potential payroll irregularity in the Family Literacy grant. SSU continued to review the situation during December 2006 and January 2007, finding a number of questionable charges to the grant. When SSU questioned the PI, she (the PI) indicated that she did not know certain employees whose time had been charged to her grant. At the VP's direction, the AVP compiled a list that detailed the areas of concern including payroll, procurement, and questionable cost transfers. The list was reviewed with the president and the provost on February 9, 2007.

External Auditor Review

Due to their concerns related to charges to the Family Literacy grant that they believed would be disallowed from reimbursement by the sponsor, SSU hired external auditors to review and assess CIHS's costing practices related to the following two areas:

“Allowability of payroll costs charged to the grants and contracts in accordance with [Office of Management and Budget] OMB Circular A-21 Cost Principles, OMB Circular A-110 Administrative Requirements and the terms of the grant and contract program as well as CSU system-wide policy and SSU policy;

Allowability of other types of non-payroll costs, i.e., contract for services, travel, supplies, etc. in accordance with OMB Circular A-21 Cost Principles, OMB Circular A-110 Administrative Requirements and the terms of the grant and contract program as well as CSU system-wide policy and SSU policy.”

The results of this review are discussed within this report.

¹ According to a SSU news release, the center develops specialized family literacy training curricula and web-based training tools and provides information analysis, materials distribution, and resource and referral services to help Head Start and Early Head Start programs nationwide improve their family literacy services.

SSU Actions and Notifications

Based on issues discovered by SSU and external auditors about the administration and operations of CIHS, the SSU president reassigned administrative and managerial oversight of CIHS to the administration and finance division and placed the executive director and senior director of CIHS on administrative leave. Effective June 30, 2007, the directors were no longer retained in their positions. The president also contacted the chancellor of the CSU on February 12, 2007, who then requested that the office of the university auditor review the allegations. In addition, SSU hired external auditors to review the work it had done to determine the amount it believed would be disallowed under federal requirements. SSU also notified HHS, the California State Auditor, and the Department of Finance of its concerns.

Cooperation of SSU Management and Staff

Throughout our investigation, SSU management and staff were cooperative and provided full support for our efforts and, in fact, continued to bring other issues to our attention as they were discovered. Exceptions to that cooperation were the executive director and the senior director who, through their attorneys, declined to meet with us. In addition, another employee with whom we had scheduled an interview resigned one workday prior to the scheduled interview and declined an offer to be paid for another day if she would agree to the interview.

SCOPE AND METHOD OF INVESTIGATION

To investigate the allegations, we reviewed work the campus had done related to the questionable costs as well as the reports prepared by the external auditors. Although we performed some additional work, the information we present in the “Unapproved Labor Costs” section, as noted there, is based upon the work performed by the external auditors. We also reviewed accounting records, service agreements, personnel records, employees’ email and other electronic files, as well as public records pertaining to other relevant outside entities. Further, we interviewed several employees though, as mentioned, the executive director, senior director, and another employee declined to meet with us.

In addition, the external auditors made note of the responsibilities of the PI. They indicated that, while many federal requirements generally identify the recipient organization’s sponsored program administration as being responsible for the overall financial and administrative conduct of the project, HHS’s Grants Policy Statement (GPS) specifically identifies the principal investigator/project director (PI/PD) as being responsible for financial, administrative, and programmatic activities of the project. They further noted that, according to HHS’s GPS, the PI/PD is a member of the recipient team responsible for ensuring compliance with the financial and administrative aspects of the award.

The external auditors also noted that SSU’s principal investigators’/project directors’ responsibilities are further defined by overall CSU system-wide policy and SSU policy on sponsored research. CSU sponsored project administration policy is outlined in the CSU chancellor’s office’s Executive Order (EO) 890, titled *Administration of Grants and Contracts in Support of Sponsored Programs*, and SSU’s policy is stated in SSU’s Grants and Contracts “blue paper” policy. EO 890’s definition of PI/PD states that they are responsible for ensuring compliance with academic, scientific, technical, financial, and administrative aspects of the project and for day-to-day management of the sponsored program. Furthermore, under Section 3.5, *Fiscal Administration*, EO 890 states that the PI and the sponsored programs administrator

INTRODUCTION

(CIHS in this case...) are responsible for adherence to the fiscal terms and conditions of the contract or grant and compliance with university policies and procedures. Additionally, EO 890, Section 3.5, continues by specifically noting that the “principal investigator is responsible for ensuring that all expenditures are made in compliance with the approved budget, the contract or grant, and the sponsored program administrator’s policies.” SSU’s sponsored project administration policy adopts CSU system-wide policy and requires adherence to federal requirements and CSU policy. Further, SSU policy states that the PI/PD is the designated employee who is responsible for a funded project.

The time period reviewed varied because some issues that came to our attention had been ongoing for several years or occurred years earlier.

RESULTS OF INVESTIGATION

INVESTIGATION RESULTS – INITIAL ALLEGATIONS

Unapproved Labor Costs

Labor costs of \$624,277, which had not been approved by the principal investigator (PI), were charged to the Family Literacy grant.²

In their review, the external auditors hired by Sonoma State University (SSU) noted \$624,277 in personnel charges related to the Family Literacy grant that should not be billed to the sponsor because the PI did not approve the charges.

Some employees' time was charged to the Family Literacy grant even though there was no clear evidence of the work they allegedly performed on the grant. For example, three of the individuals whose time was charged to this grant were working on the Career Technical Education (CTE) grant that we mention in the section on improper contracting below; one of them was the PI on the CTE grant. Further, another individual who was a director of grant development and legal liaison for the California Institute on Human Services (CIHS) had her time charged to the Family Literacy grant, as did an employee who was actually working at a care facility where the executive director's family member resided. Although there were time and effort reports that were apparently signed by the employees and approved by the senior director indicating the employees worked on the Family Literacy grant, the PI for the grant specifically told SSU during their review that she did not approve the charges.

In accordance with the requirements of the funders, the PIs are the ones responsible for financial, administrative, and programmatic activities of their projects and therefore should have reviewed and approved these charges. In addition, the senior director's job description included a duty to personally review and approve the distribution of labor costs to various grants. SSU employees indicated that the senior director reviewed and revised labor cost distribution reports and that at least some PIs were not given detailed reports indicating who specifically was being charged to their grants, only a summary of the costs.

Although the executive director stated in an email that he and the senior director are not "certified grants management professionals," we believe their positions clearly required that they have an understanding of grants management and the requirements of funders, SSU, and California State University (CSU). In addition, both individuals had worked for CIHS for a number of years (the executive director had been there since the inception of CIHS in 1979) and been involved in the administration of dozens of grants. Given their levels within the organization and years of experience, it is reasonable to expect these individuals would have a thorough understanding of grant administration and that if there were areas where they needed additional knowledge, they would have at least recognized the need to gain that knowledge through additional training.

² The word "charged" indicates a charge to that grant in the accounting system; the amounts had not yet been billed to the sponsor.

Failure to Follow Competitive Bidding Requirements

Competitive bidding requirements were not followed when a \$300,000 contract under the Family Literacy grant was awarded.

In August 2006, CIHS entered into a \$300,000 service agreement with a contractor for the contractor to provide three video programs. A different group of external auditors from the ones mentioned above pulled this agreement as part of a review and then realized the time period was outside the scope of their review. Nevertheless, they discussed it with SSU administrators because it appeared the contract had not been competitively bid. Although the contract was not mentioned in the previous external auditor's report because of the timing, SSU administrators thought it was clear that the situation needed to be addressed. They found that the contract had not been competitively bid and there was no sole-source justification; \$150,000 had been spent under the contract.

As explained earlier, CIHS had been delegated authority for procurement. In 1998, when CIHS was assigned to the office of the provost, the president permitted the delegation to continue with the understanding that CIHS would be closely supervised by the office of the provost. The associate vice president for administration and finance (AVP) told us that when questioned about this contract, the senior director indicated he did not know the process for competitively bidding contracts. The AVP said she informed the senior director that SSU would not bill the federal granting agency for the \$150,000 that had already been spent and that work under the contract would be suspended. Further, according to the vice president for administration and finance, the president was briefed about this violation on November 9, 2007, and in response, the president met with the provost and the executive director. The executive director reportedly did not deny that the action had taken place, accepted responsibility for the violation, and indicated that neither he nor the CIHS senior director were aware of the need to competitively bid contracts in excess of \$50,000. On November 16, 2007, SSU rescinded CIHS's delegated authority for contract and procurement activity.

The senior director's position description states that he reviews all agreements for services and approves them before they go to administration and finance. The executive director's job description states that he is responsible for all administrative services and activities necessary to achieve the objective called for in CIHS contracts. Moreover, the executive director is responsible to oversee and supervise the activities of all CIHS personnel.

The CSU Policy Manual for Contracting and Procurement, Section 401, *Bid Thresholds For Services*, states that, except in certain cases, all contracts for services in the amount of \$50,000 or more shall be formally bid and awarded to the lowest bidder(s) meeting the specifications or whose proposal is given the highest score by the evaluation committee. One exception to this requirement is when it has been determined that only one source will properly meet the needs of the CSU.

The recent external auditor's report indicated that this contract had no documentation or evidence of competitive bidding or sole-source justification.

INVESTIGATION RESULTS – ANCILLARY FINDINGS

Non-Billable and Questionable Costs

Labor costs of \$20,771 and contractual services, supplies, and other expense costs of \$403,160 were either questionable or non-billable to the Family Literacy grant and two other grants administered by CIHS.

In addition to confirming the amounts noted above related to improper labor costs and failure to follow competitive bidding requirements, SSU found and the external auditors confirmed labor costs of \$20,771 on another grant that were not approved by the PI and therefore cannot be billed. Further, transactions and cost transfers the external auditors reviewed that had insufficient supporting documentation totaled \$403,160 (excluding the \$150,000 paid under the contract mentioned above that was not competitively bid). According to the external auditors, the documentation for several transactions neither identified the purpose of the expenditure nor clearly demonstrated its allocability to the project. In addition, during their review of cost transfers, they “noted several that lacked justification and documentation as required by the Sponsor’s terms and conditions and federal costing regulations and/or a reasonable effort certification as required by OMB Circular A-21, Section J.10 (payroll related cost transfers only).”

The external auditors also noted that “payroll related cost transfers require an additional piece of supporting documentation – effort re-certifications. Since payroll cost transfers affect the distribution of labor costs and the implied effort provided to the sponsored project(s), an effort re-certification is typically required to reflect the change and adequately support the new distribution of labor costs. Therefore, to the extent that cost transfers were insufficiently justified and documented or the corresponding effort was not re-certified, the cost transfers could potentially result in questioned costs and disallowance.”

Expenses Incurred Without Identified Funding Sources

Over \$1 million in additional costs were, or will be, incurred by CIHS that either did not have identified funding sources or are needed to pay increased interest costs and costs related to an internal review/audit.

In addition to the \$1,198,208³ in labor and contracting costs discussed above that cannot be billed for reimbursement or are questionable, SSU has identified \$520,000 of administrative payroll expenses and \$200,000 of contractual operating expenses without identified funding sources. Moreover, as of April 2007, CIHS had a cash deficit of \$8 million resulting from expenses that either had not been billed or were awaiting reimbursement, making it necessary to increase a working capital line of credit to CIHS, which in turn increases interest costs by approximately \$150,000. Finally, SSU anticipated the cost of an internal review/audit of CIHS activity would reach \$150,000 by June 30, 2007. Added to the \$1,198,208, the total of these items is approximately \$2.2 million.

³ The \$1,198,208 total consists of \$624,277 related to labor costs for the Family Literacy grant, \$150,000 related to the Family Literacy grant contract that was not competitively bid, and \$423,931 of additional costs noted by the external auditors that either cannot be billed for reimbursement or were questionable.

Conflict of Interest

CIHS administered a project at a property owned by the executive director where his family member resided in a care facility called My Home, Inc.

According to the 1995-1996 CIHS Annual Director's Report, CIHS was "working in cooperation with My Home, Inc. to convert a social-service licensed facility for individuals with developmental disabilities into a health-services licensed facility." This facility was intended to serve as a model for working with other similar facilities in making this conversion. We found that the executive director was the former chief executive officer and director of My Home, Inc. In addition, the executive director owns the property where the facility is located. Tax records indicated that he has a lease agreement with My Home, Inc. for the use of the property, and My Home, Inc. had a \$49,000 note payable to the executive director between 2001 and 2006. In addition, the executive director's family member is a resident at My Home, Inc.

The source of the funding for what CIHS referred to as the My Home Project was unclear from the available records. However, we did find some limited information from the financial accounting system indicating expenditures of \$25,584 as of April 2000, including \$15,000 for consultants.

Because the executive director owned the property where the facility was located, and was the guardian of a family member who was a resident there, he had a financial interest in CIHS working with My Home, Inc. to convert the facility. Further, in his role as executive director of CIHS, he oversaw grant development and administrative activities. Because older records were unavailable and the executive director declined to meet with us, we do not know the extent of his involvement in the decision-making process related to this project although we do know he made decisions related to hiring an individual through SSU who worked at My Home, Inc., thereby creating a conflict of interest.

California Public Contract Code, Section 10831, states that no officer or employee of the CSU shall engage in any employment, activity, or enterprise for which the officer or employee receives compensation or in which the officer or employee has a financial interest if that employment, activity, or enterprise is sponsored or funded, or sponsored and funded by any CSU department, through or by a CSU contract unless the employment, activity, or enterprise is within the course and scope of the officer's or employee's regular CSU employment.

Laws prohibiting conflict of interest are grounded in the belief that government officials owe paramount loyalty to the public interest. The objective of these laws is to limit the possibility of any personal financial influence that might sway an official's decision. State law prohibits any public official from making, participating in making, or in any way attempting to use his or her official position to influence a government decision in which the official knows or has reason to know that he or she has a financial interest. A public official has a financial interest in a decision if it is reasonably foreseeable that the decision will have a material financial effect, distinguishable from the public generally, on the employee or his or her spouse. Participation in decision making includes participation in negotiations without significant substantive review or providing advice by way of research, investigations, or preparation of reports or analyses for the decision maker without intervening substantive review.

The executive director and senior director of CIHS misappropriated funds from various grants to pay an employee who was actually performing work at My Home, Inc.

An SSU employee, who worked at My Home, Inc. while it was a CIHS project, continued to work there after that project concluded in approximately 2000. In paying her salary from a variety of grants for work that was unrelated to those projects, the executive director and senior director misappropriated state funds. Her earnings from July 2001 through December 2006 (when she retired), totaled \$280,269.

The employee's first annual evaluation, prepared by the senior director and signed by him and the executive director, indicated that she was the coordinator of the "My Home Project." Later evaluations, also prepared by the senior director and signed by him and the executive director, listed other titles but it was unclear which projects she worked on. In addition, the senior director approved time and effort reports that indicated the employee worked on the Family Literacy grant; however, the PI on the grant said she did not approve the employee's time being charged to the grant. PIs on two other grants where the employee's time was charged also said they did not approve the employee's time being charged to their grants.

California Government Code, Section 8314, prohibits state officers and employees from using state resources such as state-compensated time for personal enjoyment, private gain or advantage, or for an outside endeavor not related to state business. If the use of state resources is substantial enough to result in a gain to advantage to an officer or employee for which a monetary value may be estimated, or a loss to the state for which a monetary value may be estimated, the officer or employee may be liable for a civil penalty not to exceed \$1,000 for each day on which a violation occurs plus three times the value of the unlawful use of state resources. Further, the California Constitution, Article XVI, Section 6, prohibits the giving of any gift of public money or thing of any value to any individual for a private purpose.

The executive director channeled CIHS funds to an entity he helped create, the National Continuity Program, Inc., and from which he received payment for acting as its executive director.

The executive director for CIHS used his position to direct CIHS funds to another entity, the National Continuity Program, Inc. (NCP), which also compensated him for his role as executive director of that entity.

In 1984, the executive director helped create and establish NCP as a 501(c)(4) corporation to administer a non-profit, non-governmental program designed to fund guardianship and advocacy services for dependent persons when parents can no longer advocate. In addition, it was to monitor the quality of services delivered by local service providers who are compensated through the program. NCP also had an affiliated 501(c)(3) non-profit corporation, the National Continuity Foundation (NCF).

Although records provided conflicting information, we believe CIHS provided \$9,029 to NCP or NCF and the executive director received as much as \$45,000 in payments. An NCP budget summary document indicated \$9,029 in revenue from CIHS, as did a proposal from NCF to an outside entity requesting funding. A 1987 CIHS proposal to implement the NCP and to request funding from a charitable trust stated that the executive director of NCP (i.e., the executive director of CIHS) was a non-paid, volunteer position. However, tax forms prepared for NCP by its public accountants indicated that the executive director was paid \$20,000 in 1986 and \$25,000 in 1987. A letter to the Internal Revenue Service in 1986 regarding NCF stated that all officers and directors other than the executive director will serve on a

volunteer basis. Moreover, in July 1984, NCP and the executive director entered into a three-year contract that stated NCP would compensate the executive director for his services.

The 1987 proposal, which was approved by the executive director as the project director, also outlined a cost-sharing plan involving CIHS providing funds to support the proposed project. According to the proposal, CIHS had entered into a contract to provide organizational development assistance to NCP. That agreement stated that it was “expressly contemplated by the parties” that the executive director would be retained by both the foundation and NCP.⁴ It was not clear from the records we reviewed whether the charitable trust ever provided the requested funding. However, according to a document labeled “National Continuity Program Budget Summary 5/1/87 – 4/30/88,” CIHS provided \$9,029 to NCP.

In April 1987, five months after the agreement was signed between the foundation and NCP (the executive director was not one of the parties who signed the agreement), the executive director, at the request of the office of research and sponsored programs, provided the vice president of the SSU Academic Foundation with a “Principal Investigator’s Statement of Economic Interests” form describing his relationship with NCP. On that form, the executive director indicated that he had served as executive director (of NCP) on a non-paid basis. As noted above, other documents indicated that the executive director was paid for his services, and therefore, we find his statement that his position was on a non-paid basis to be questionable.

In addition, the executive director misused state resources, including CIHS’s address and phone number and the name of the foundation when he put that information on NCP’s letterhead and referred to CIHS as the “Western Regional Office” of NCP, thereby using those things to the advantage of a private entity.

California Public Contract Code, Section 10831, states that no officer or employee of the CSU shall engage in any employment, activity, or enterprise for which the officer or employee receives compensation or in which the officer or employee has a financial interest if that employment, activity, or enterprise is sponsored or funded, or sponsored and funded by any CSU department, through or by a CSU contract unless the employment, activity, or enterprise is within the course and scope of the officer’s or employee’s regular CSU employment.

In addition, The Political Reform Act of 1974, codified in the California Government Code beginning with Section 87100, states that no public employee shall make, participate in making, or in any way attempt to use an official position to influence a government decision in which the public employee knows or has reason to know he or she has a financial interest. Section 87103 of the same code defines a financial interest to include any business entity or real property in which the public employee has a direct or indirect investment worth \$2,000 or more, or any source of income, other than gifts and specified loans, aggregating \$500 or more, provided or promised to the employee within 12 months prior to when the decision is made.

California Government Code, Section 8314, prohibits state officers and employees from using state resources for private gain or advantage or for an endeavor not related to state business.

⁴ The reference here to “foundation” is the Sonoma State University Academic Foundation. That entity used to house CIHS before CIHS was moved under the auspices of SSU.

CIHS awarded paid work to the executive director's supervisor at the Napa County Office of Education, where the executive director had secondary employment.

In addition to his employment with CIHS, the executive director has been employed as an administrator by the Napa County Office of Education (NCOE) since 1988. For the last 13 years, his time base at NCOE was 70 percent. The executive director was not in a full-time position at SSU until 1999. In 1999/2000, the executive director's supervisor at NCOE, who was also the head of that agency, performed work for CIHS and was paid \$5,792. Although we were unable to determine who made the decision to hire the NCOE supervisor or who authorized the payments, one of the projects she worked on was related to a federal grant for which the executive director was responsible.

As we were unable to interview the executive director, we do not know how his supervisor was selected to perform the work or what, specifically, she did. Because the supervisor received payments from an entity run by the executive director and she had the ability to influence his secondary employment, this situation creates at least the appearance of a conflict of interest.

The executive director participated in making decisions to move CIHS grants to NCOE, where he had secondary employment.

In his position with NCOE, one of the executive director's areas of responsibility was grant development. At least in part because of his dual employment, the executive director was able to participate in making decisions that moved CIHS-administered grant projects to NCOE. This apparent conflict of interest on the part of the executive director may have been detrimental to CIHS and beneficial to NCOE. The executive director was also involved in plans to move other grants from CIHS to other entities, including to a non-profit entity, CIHS, Inc., that was established by several CIHS PIs and that later included the senior director in its board of directors.

Because the executive director was being paid by both SSU and NCOE, he had a financial interest in decisions affecting both entities. As with the previous examples, this situation creates at least the appearance of a conflict of interest.

Two CIHS employees may have violated conflict of interest provisions when a company they worked for/owned was awarded contract work by CIHS.

A grant writer and a project manager who worked for CIHS also worked for/owned a company called Resources for Innovation (RFI) that performed contract work for CIHS on various grant projects, including the CTE grant from the California Department of Education they worked on as employees.⁵ RFI first performed work for CIHS as early as 1998, and between 2001 and 2006 received payments from SSU totaling \$168,592. During most of this time, the individuals were not SSU employees; however, they both became SSU employees in July 2004 and RFI continued to work on various CIHS projects. Although either the grant writer or another individual typically signed the service agreements on behalf of RFI, it was not clear from the service agreements or invoices who specifically performed the work for

⁵ A 1999 form filed with SSU by the project manager listed her as the owner of the company and indicated a Napa address for RFI; later invoices indicated a Vallejo address (the grant writer's home). We checked with both cities' business license departments and neither had an active or inactive license for that entity, nor did they have any active licenses under the names of the employees.

which RFI was paid by SSU. However, an email from the project manager to the senior director regarding work on the CTE grant stated that the grant writer's invoice was attached and that the work that was performed was "editing and consulting for the CTE Standards and Framework Initiative Project."

RFI was paid \$20,000 for work performed on the CTE grant between July and December 2004. During this time period, the grant writer's time was charged to CIHS administrative funds, so it is not clear what projects she may have been working on, though later she became a temporary PI on the CTE grant. The project manager's full time for that period was charged to the CTE grant. The only description on the invoice of the work performed was "consultant work" on grant standards and said it was for 20 days at \$1,000 per day, per agreement.

Because the project manager put her name on the form she submitted to SSU for its vendor database and because RFI had done other work for CIHS, we believe it is reasonable to assume that the senior director and executive director knew that the employees had a financial interest in RFI and therefore should not have allowed the employees to engage in activities funded by or through the CSU. As mentioned previously, because the senior director and executive director declined to meet with us, we were unable to ask them why they allowed and approved this activity.

California Public Contract Code, Section 10831, states that no officer or employee of the CSU shall engage in any employment, activity, or enterprise for which the officer or employee receives compensation or in which the officer or employee has a financial interest if that employment, activity, or enterprise is sponsored or funded, or sponsored and funded by any CSU department, through or by a CSU contract unless the employment, activity, or enterprise is within the course and scope of the officer's or employee's regular CSU employment.

Improper Contracting

The CIHS executive director signed both a contract with a federal agency and memoranda of understanding with another CSU campus without the authority to do so.

In 1998 the executive director entered into a federal contract exceeding \$1.5 million on behalf of SSU. In September 2002 and May 2003, the executive director entered into agreements with California State University, Channel Islands (CSUCI). The September 2002 agreement provided CSUCI with an in-kind staffing contribution of 20 percent of the time of a PI. The May 2003 agreement was retroactive to July 1, 2002, and was for CIHS to assist CSUCI in obtaining and managing contracts and grants in exchange for 50 percent of all indirect and administrative revenue earned from CIHS-assisted CSUCI grants and contracts. SSU campus management has indicated that the only individuals who may contract on behalf of the campus are the president, vice president of administration and finance, and director of contracts and procurement.

The Financial Integrity and State Manager's Accountability Act of 1983 contained in the California Government Code, beginning with Section 13400, requires each state agency to establish and maintain a system or systems of internal accounting and administrative controls. Internal controls are necessary to provide public accountability and are designed to minimize fraud, abuse, and waste of government funds. In addition, by maintaining these controls, agencies gain reasonable assurance that the measures they have adopted protect state assets, provide reliable accounting data, promote operational efficiency, and encourage adherence to managerial policies.

Because the executive director would not make himself available for interview, we do not know why he signed agreements on behalf of SSU without the authority to do so. The executive director's failure to follow proper contracting procedures left the campus vulnerable to potential liability.

Administration of several CIHS service agreements with contractors was below acceptable standards.

CIHS entered into service agreements with various contractors to have them perform work for outside entities, typically schools. Our review indicated that at least four agreements lacked both details, such as what specifically would be done in exchange for payment, and signature approvals. For example, the entire statement of work for an 11-month agreement with a middle school stated "The Institute will perform services as follows: high school reform and mathematics coaching provided by [3 named individuals]." In consideration of the performance of this undefined amount of work, the school would pay \$71,040.

Another 11-month agreement called for \$38,000 to be split between two individuals who would perform "Math and English High School coaching." As with the previous example, there was no further description of services, e.g., how many days or how much time they would work or what exactly the "coaching" consisted of. A third agreement was not signed by the senior director, and that and a fourth agreement were not approved by SSU until after work had already begun.

Some invoices contained vague descriptions of the work performed. For example, a February 2005, \$20,000 invoice from RFI listed the name of the grant the work was done for and stated the invoice was for consultant work on standards between July and December 2004, "20 days at \$1,000 per agreement." There was no description or evidence of actual deliverables provided or specific dates the work was performed. Another invoice from the same company for \$10,050 (134 hours at \$75 per hour) stated it was for "project management and evaluation services." These invoices were approved by the senior director, but there was no indication they were approved or authorized by the PIs of the applicable grants.

Because CIHS had been delegated authority for procurement, the senior director's approval was all that was needed to process the invoices for payment. As mentioned, we were unable to interview the senior director, so we do not know why he approved agreements and invoices that lacked sufficient detail or failed to sign other agreements. The senior director's failure to follow proper contracting and accounting procedures left the campus vulnerable to potential liability.

Specific terms and conditions are necessary to convey a clear understanding of each party's expected role, its obligations, and the parameters in which the activities must be carried out, under the contract. As mentioned, state law requires each state agency to establish and maintain a system or systems of internal accounting and administrative controls which are necessary to provide public accountability and are designed to minimize fraud, abuse, and waste of government funds.

CIHS improperly allowed grant funds to be administered outside of the State Treasury.

In April 2007, SSU administrators discovered that registration payments for a summit being conducted under one of the CIHS grant programs were being made payable to a contractor, Managing Information Systems (MIS), instead of CIHS/SSU. Although the registration form instructed participants to mail the payments to CIHS, thus allowing CIHS to track them, once they were forwarded to the contractor, MIS

had control of the money and it was not maintained in the State Treasury or subject to the same protections and internal controls as other state assets.

We asked the PI of the grant about this situation, and she told us they have used MIS to coordinate logistics for large events and have found that it is easier and faster to have MIS handle the money because the SSU system is too cumbersome. She also indicated that the money that is collected usually ends up going to a local organization that the event is held for. She further stated that CIHS has a service agreement with MIS and pays them for their services once MIS provides an invoice, but the PI did not know whether MIS provided CIHS with a breakdown or summary of the accounting.

California Government Code, Section 16305.2, defines “state money” as “all money in the possession of or collected by any state agency or department...” Section 16305.3 of the same code provides that state funds must be deposited in the custody of the State Treasurer unless otherwise authorized by the Director of Finance or deposited directly in the State Treasury. Further, in accordance with California Education Code, Section 89721, notwithstanding any other provision of law, monies received by the trustees for research, workshops, conferences, institutes, and special projects shall be deposited into local trust accounts or in trust accounts in accordance with Sections 16305 to 16305.7, inclusive, of the Government Code, or in the California State University Trust Fund.

California Government Code, Section 13400, states that fraud and errors in state programs are more likely to occur from a lack of effective systems of internal accounting and administrative control in state agencies. Such effective control systems are necessary to assure that state assets and funds are adequately safeguarded, as well as to produce reliable financial information for the agency. Elements of a satisfactory system of control shall include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

Refusal to Perform Duties

The executive director and senior director refused to meet to answer questions related to this investigation.

We made multiple attempts to interview the executive director and senior director. Both of the directors were on administrative leave with pay and as such, were still employees of SSU and obligated to be available during regularly scheduled workdays. In addition, in the letters placing the two directors on administrative leave with pay, the president instructed them to cooperate fully with university personnel and be completely honest in answering questions and providing information to the investigator.

Initially, we contacted the two directors on April 6, 2007, to schedule interviews for April 11; they responded that their attorney was out of town and they would need to wait until his return on April 26. In order to accommodate the directors and their attorney, we agreed and scheduled the appointments for that day. On the morning and the afternoon of April 25, the attorney sent separate faxes relating to each of the directors stating that the directors declined to be interviewed at this time. On April 30, the campus sent overnight letters to each of the directors ordering them to appear for interviews on May 2. By that time, the directors each had new attorneys who said they needed more time to review the situation before they and their clients could meet. Both attorneys were informed that the investigator would be on campus until the end of May and could meet with their clients prior to that time. Because both of the directors were still employees of SSU, they were obligated to cooperate with our investigation, including appearing in

person to answer questions related to their work for SSU. By refusing to cooperate with the investigation after being directed to do so, the directors refused to perform the normal and reasonable duties of their positions and engaged in unprofessional conduct.

California Education Code, Section 89535, states that employees may be dismissed, demoted, or suspended for certain causes, including failure or refusal to perform the normal and reasonable duties of the position and unprofessional conduct.

The executive director refused to answer any questions relative to a Statement of Economic Interests form he was required to complete.

The executive director's position required that he annually complete a Statement of Economic Interests, a form that is issued by the Fair Political Practices Commission. The purpose of financial disclosure is to alert public officials to personal interests that might be affected while they are performing their official duties, i.e., making governmental decisions. Disclosure also helps inform the public about potential conflicts of interest. In addition to the required annual disclosure, designated employees such as the executive director are required to complete a statement within 30 days of leaving office. Because the executive director was non-retained effective June 30, 2007, he was required to complete a leaving office statement. However, although he submitted and signed the form, he did not complete the required schedules, stating instead that "...upon the advice of counsel, I refuse to answer any questions relative to this schedule summary on the ground it might tend to incriminate me."

RECOMMENDATIONS

Our investigation was administrative in nature. The conclusions we drew were made within that context. Recommendations that would mitigate the recurrence of similar findings are presented below.

1. Unapproved Labor Costs

We recommend, as did the external auditors, that the campus:

- a. Obtain positive confirmations from all principal investigators (PIs) and their signature authority designees of their awareness of and compliance with sponsored project administration requirements set forth in sponsors' terms and conditions, other federal sources such as applicable Office of Management and Budget (OMB) Circulars, and California State University (CSU) and Sonoma State University (SSU) policy.
- b. Provide PIs and their signature authority designees, on an ongoing basis (e.g., monthly), general ledger and payroll detail reports for their review for compliance with applicable federal, CSU, and SSU requirements and approval.
- c. Implement an independent and centralized compliance monitoring activity responsible for reviewing and monitoring all SSU sponsored project administrative activities, regardless of academic location.
- d. Conduct detailed reviews of general ledger and payroll detail reports for sponsored projects with administrative and clerical staff directly charged to ensure compliance with applicable cost principles such as OMB Circular A-21 prior to submitting the next reimbursement request or drawdown.
- e. Conduct detailed reviews of sponsored projects' general ledger and payroll detail reports for line items that appear irregular, unusual, or inappropriate prior to submitting the next reimbursement request or drawdown.
- f. Conduct detailed reviews of sponsored projects' general ledger reports for cost transfers (including payroll and related cost transfers) that appear irregular, unusual, or inappropriate prior to submitting the next reimbursement request or drawdown.

Campus Response

We concur. The following actions have been taken:

- a. With the reassignment of the California Institute on Human Services (CIHS) from academic affairs to administration and finance and the removal of delegated authority, confirmations from PIs indicating their awareness of and compliance with requirements set forth in sponsors' terms and conditions, CSU policy (Executive Order 890), and SSU policies have been requested. Most have been received. Those that have not will be obtained by September 30, 2007.

Completion Date: September 30, 2007

RECOMMENDATIONS

- b. With the reassignment of CIHS from academic affairs to administration and finance and the removal of delegated authority, monthly general ledger and payroll detail reports are now sent to PIs for their review for compliance with applicable federal, CSU (Executive Order 890), and SSU requirements.

Completion Date: Completed

- c. The campus will implement an independent compliance monitoring activity that reviews and monitors SSU sponsored project administrative activities regardless of academic location.

Completion Date: October 15, 2007

- d. With the reassignment of CIHS from academic affairs to administration and finance and the removal of delegated authority, PIs are now required to review general ledger and payroll detail reports for sponsored projects with administrative and clerical staff directly charged to ensure compliance with applicable cost principles such as OMB Circular A-21 prior to submitting the next reimbursement request or drawdown.

Completion Date: Completed

- e. With the reassignment of CIHS from academic affairs to administration and finance and the removal of delegated authority, PIs are now required to conduct detailed reviews of sponsored projects' general ledger and payroll detail reports for line items that appear irregular, unusual, or inappropriate prior to submitting the next reimbursement request or drawdown.

Completion Date: Completed

- f. With the reassignment of CIHS from academic affairs to administration and finance and the removal of delegated authority, PIs are now required to review general ledger reports for cost transfers (including payroll and related cost transfers) that appear irregular, unusual, or inappropriate prior to submitting the next reimbursement request or drawdown.

Completion Date: Completed

2. Failure to Follow Competitive Bidding Requirements

We recommend, as did the external auditors, that the campus conduct reviews of accounts payable reports and vendor/consultant detail reports to identify significant vendors and consultants that should have their contracts/agreements reviewed for compliance with CSU procurement policies.

Campus Response

We concur. With the reassignment of CIHS from academic affairs to administration and finance and the removal of delegated authority, reviews of monthly accounts payable and vendor/consultant reports now take place to identify significant vendors and consultants that should have their contracts/agreements reviewed for compliance with CSU and SSU procurement policies.

Completion Date: Completed

3. Non-Billable and Questionable Costs

See recommendations under item numbers 1 and 2 above.

4. Expenses Incurred Without Identified Funding Sources

We recommend that the campus:

- a. Require an annual, balanced CIHS budget and monitor it monthly to ensure adequate funding exists for all budgeted expenses.
- b. Require that the preapproval process for contractual operating expenses identify a funding source and include a certification that adequate funding from that source exists.
- c. Develop a procedure to ensure billings are prepared timely to avoid large cash deficits.

Campus Response

We concur. With the reassignment of CIHS from academic affairs to administration and finance, an annual, balanced, budget is now in place which is monitored monthly to ensure adequate funding exists for all budgeted expenses. In addition, a documented funding source is now required prior to granting approval for contractual operating expenses, and a procedure has been developed to ensure billings are completed in a timely fashion.

Completion Date: Completed

5. Conflict of Interest

We recommend that the campus:

- a. Provide additional training to employees regarding conflict of interest rules and requirements for reporting conflicts.
- b. Ensure that the PIs approve all grant expenditures.
- c. Provide additional training to ensure that all individuals responsible for approving expenditures understand their role and responsibility in the process.
- d. Develop a procedure for administrators to follow when an employee discloses an actual or potential conflict of interest.
- e. Develop a policy that would require documentation of how and why a consultant/contractor was selected in situations where it is likely a consultant/contractor will be used repeatedly.

Campus Response

We concur. The following actions have been taken:

- a. All employees who are required to complete California Form 700 complete the training provided by the CSU regarding conflict of interest rules and requirements for reporting conflicts. This subject will receive additional attention in the newly developed SSU Management Academy scheduled to begin on October 12, 2007.

Completion Date: October 12, 2007

- b. With the reassignment of CIHS from academic affairs to administration and finance and the removal of delegated authority, CIHS PIs are now required to approve all grant expenditures. In addition, all CIHS PIs, project directors, and staff have been trained on expenditure approval and appropriate justification and costing practices.

Completion Date: Completed

- c. With the reassignment of CIHS from academic affairs to administration and finance and the removal of delegated authority, individuals responsible for approving expenditures have been trained on expenditure approval and appropriate justification and costing practices.

Completion Date: Completed

- d. As part of the SSU Management Academy's training on conflict of interest, appropriate administrators will be told to immediately inform the managing director of employee services when an employee discloses an actual or potential conflict of interest.

Completion Date: October 12, 2007

- e. The office of contracts and procurement requires documentation of how and why a consultant/contractor was selected in situations where it is likely that the consultant/contractor will be used repeatedly.

Completion Date: Completed

6. Improper Contracting

We recommend that the campus:

- a. Revise the form used to establish a new vendor in the campus database to ask whether the vendor or any of its employees are employed by the CSU.

- b. Provide training to project administrators and PIs which addresses:
- ▶ Authorized signatures for approving contracts and invoices.
 - ▶ Improper contracting, conflicts of interest, and related party transactions.
 - ▶ Specific services to be performed/received.
 - ▶ Administration of grant funds outside of the State Treasury.

Campus Response

We concur. With the reassignment of CIHS from academic affairs to administration and finance on February 12, 2007, and the removal of delegated authority, the following actions have been taken:

- a. Form 204 has been revised to include the question regarding whether the vendor or any of its employees are employed by the CSU.

Completion Date: Completed

- b. During spring 2007, training was provided to all CIHS PIs and project directors. Ongoing training will continue to be provided in the areas of authorizations for contracts and invoices, improper contracting, conflict of interest, related party transactions, specific services to be performed/received, and the administration of grant funds outside the State Treasury.

Completion Date: October 12, 2007

7. Refusal to Perform Duties

We recommend that the campus take disciplinary or corrective action it deems appropriate.

Campus Response

The executive director of CIHS was non-retained from his position on June 30, 2007. This employee has chosen to exercise his right to return to a tenured full-professor position in the department of political science. He has subsequently chosen to participate in the CSU Faculty Early Retirement Program and plans to teach in the SSU master of public administration program beginning in spring 2008. The campus concurs with the recommendation that it take appropriate disciplinary or corrective action with respect to this employee.

The senior director for CIHS was non-retained from his position on June 30, 2007. This employee has indicated that he will not seek reconsideration of this decision and has retired from university employment. The campus does not believe there is any additional disciplinary or corrective action that it can take with respect to this employee.



1801 East Cotati Avenue
Rohnert Park, CA 94928-3609

OFFICE OF THE PRESIDENT

707.664.2156 • Fax 707.664.3106

RECEIVED
UNIVERSITY AUDITOR


SEP 17 2007

THE CALIFORNIA STATE
UNIVERSITY

September 10, 2007

MEMORANDUM

TO: Larry Mandel
University Auditor

FROM: Ruben Armiñan 
President

SUBJECT: Investigative Report 07-91

I am pleased to forward the response from Sonoma State University with regard to the recommendations made in Investigative Report 07-91.

Please do not hesitate to contact me, Vice-President Furukawa-Schlereth or Associate Vice-President Coate if you have questions or need additional information.

c: Vice-President Furukawa-Schlereth
Associate Vice-President Coate

THE CALIFORNIA STATE UNIVERSITY

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy
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**SPECIAL INVESTIGATION
SONOMA STATE UNIVERSITY
Investigative Report 07-91**

1. Unapproved Labor Costs

We recommend, as did the external auditors, that the campus:

- a. Obtain positive confirmations from all principal investigators (PIs) and their signature authority designees of their awareness of and compliance with sponsored project administration requirements set forth in sponsors' terms and conditions, other federal sources such as applicable Office of Management and Budget (OMB) Circulars, and California State University (CSU) and Sonoma State University (SSU) policy.
- b. Provide PIs and their signature authority designees, on an ongoing basis (e.g., monthly), general ledger and payroll detail reports for their review for compliance with applicable federal, CSU, and SSU requirements and approval.
- c. Implement an independent and centralized compliance monitoring activity responsible for reviewing and monitoring all SSU sponsored project administration activities, regardless of academic location.
- d. Conduct detailed reviews of general ledger and payroll detail reports for sponsored projects with administrative and clerical staff directly charged to ensure compliance with applicable cost principles such as OMB Circular A-21 prior to submitting the next reimbursement request or drawdown.
- e. Conduct detailed reviews of sponsored projects' general ledger and payroll detail reports for line items that appear irregular, unusual, or inappropriate prior to submitting the next reimbursement request or drawdown.
- f. Conduct detailed reviews of sponsored projects' general ledger reports for cost transfers (including payroll and related cost transfers) that appear irregular, unusual, or inappropriate prior to submitting the next reimbursement request or drawdown.

Campus Response

We concur. The following actions have been taken:

- a. With the reassignment of CIHS from Academic Affairs to Administration and Finance and the removal of delegated authority, confirmations from Principal Investigators indicating their awareness of and compliance with requirements set forth in sponsors' terms and conditions, CSU policy (Executive Order 890), and SSU policies have been requested. Most have been received. Those that have not will be obtained by September 30, 2007.

Completion Date: September 30, 2007

- b. With the reassignment of CIHS from Academic Affairs to Administration and Finance and the removal of delegated authority, monthly general ledger and payroll detail reports are now sent to Principal Investigators for their review for compliance with applicable federal, CSU policy (Executive Order 890), and SSU requirements.

Completion Date: Completed

- c. The campus will implement an independent compliance monitoring activity that reviews and monitors SSU sponsored project administrative activities regardless of academic location.

Completion Date: October 15, 2007

- d. With the reassignment of CIHS from Academic Affairs to Administration and Finance and the removal of delegated authority, principal Investigators are now required to review general ledger and payroll detail reports for sponsored projects with administrative and clerical staff directly charged to ensure compliance with applicable cost principles such as OMB Circular A-21 prior to submitting the next reimbursement request or drawdown.

Completion Date: Completed

- e. With the reassignment of CIHS from Academic Affairs to Administration and Finance and the removal of delegated authority, principal Investigators are now required to conduct detailed reviews of sponsored projects' general ledger and payroll detail reports for line items that appear irregular, unusual, or inappropriate prior to submitting the next reimbursement request or drawdown.

Completion Date: Completed

- f. With the reassignment of CIHS from Academic Affairs to Administration and Finance and the removal of delegated authority, principal Investigators are now required to review general ledger reports for cost transfers (including payroll and related cost transfers) that appear irregular, unusual, or inappropriate prior to submitting the next reimbursement request or drawdown.

Completion Date: Completed

2. Failure to Follow Competitive Bidding Requirements

We recommend, as did the external auditors, that the campus conduct reviews of accounts payable reports and vendor/consultant detail reports to identify significant vendors and consultants that should have their contracts/agreements reviewed for compliance with CSU procurement policies.

Campus Response

We concur. With the reassignment of CIHS from Academic Affairs to Administration and Finance and the removal of delegated authority, reviews of monthly accounts payable and vendor consultant reports now take place to identify significant vendors

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and consultants that should have their contracts/agreements reviewed for compliance with CSU and SSU procurement policies.

Completion Date: Completed

3. Non-Billable and Questionable Costs

See recommendations under item numbers 1 and 2 above.

4. Expenses Incurred Without Identified Funding Sources

We recommend that the campus:

- a. Require an annual, balanced California Institute on Human Services budget and monitor it monthly to ensure adequate funding exists for all budgeted expenses.
- b. Require that the pre-approval process for contractual operating expenses identify a funding source and include a certification that adequate funding from that source exists.
- c. Develop a procedure to ensure billings are prepared timely to avoid large cash deficits.

Campus Response

We concur. With the reassignment of CIHS from Academic Affairs to Administration and Finance an annual, balanced, budget is now in place which is monitored monthly to ensure adequate funding exists for all budgeted expenses. In addition, a documented funding source is now required prior to granting approval for contractual operating expenses and a procedure has been developed to ensure billings are completed in a timely fashion.

Completion Date: Completed

5. Conflict of Interest

We recommend that the campus:

- a. Provide additional training to employees regarding conflict of interest rules and requirements for reporting conflicts.
- b. Ensure that the PI approves all grant expenditures.
- c. Provide additional training to ensure that all individuals responsible for approving expenditures understand their role and responsibility in the process.
- d. Develop a procedure for administrators to follow when an employee discloses an actual or potential conflict of interest.

- e. Develop a policy that would require documentation of how and why a consultant/contractor was selected in situations where it is likely a consultant/contractor will be used repeatedly.

Campus Response

We concur. The following actions have been taken:

- a. All employees who are required to complete California Form 700 complete the training provided by California State University regarding conflict of interest rules and requirements for reporting conflicts. This subject will receive additional attention in the newly developed SSU Management Academy scheduled to begin on October 12, 2007.

Completion Date: October 12, 2007

- b. With the reassignment of CIHS from Academic Affairs to Administration and Finance and the removal of delegated authority, CIHS Principal Investigators are now required to approve all grant expenditures. In addition, all CIHS Principal Investigators, Project Directors, and staff have been trained on expenditure approval and appropriate justification and costing practices.

Completion Date: Completed

- c. With the reassignment of CIHS from Academic Affairs to Administration and Finance and the removal of delegated authority, individuals responsible for approving expenditures have been trained on expenditure approval and appropriate justification and costing practices.

Completion Date: Completed

- d. As part of the SSU Management Academy's training on conflict of interest, appropriate administrators will be told to immediately inform the Managing Director of Employee Services when an employee discloses an actual or potential conflict of interest.

Completion Date: October 12, 2007

- e. The Office of Contracts and Procurement requires documentation of how and why a consultant was selected in situations where it is likely that the consultant/contractor will be used repeatedly.

Completion Date: Completed

6. Improper Contracting

We recommend that the campus:

- a. Revise the form used to establish a new vendor in the campus database to ask whether the vendor or any of its employees are employed by the CSU.

- b. Provide training to project administrators and PIs which addresses:
- ▶ Authorized signatures for approving contracts and invoices.
 - ▶ Improper contracting, conflicts of interest, and related party transactions.
 - ▶ Specific services to be performed/received.
 - ▶ Administration of grant funds outside of the State Treasury.

Campus Response

We concur. With the reassignment of CIHS from Academic Affairs to Administration and Finance on February 12, 2007, and the removal of delegated authority, the following actions have been taken:

- a. Form 204 has been revised to include the question regarding whether the vendor or any of its employees are employed by the California State University.

Completion Date: Completed

- b. During Spring, 2007, training was provided to all CIHS Principal Investigators and Project Directors. On-going training will continue to be provided in the areas of authorizations for contracts and invoices, improper contracting, conflict of interest, related party transactions, specific services to be performed/received, and the administration of grant funds outside the State Treasury.

Completion Date: October 12, 2007

7. Refusal to Perform Duties

We recommend that the campus take disciplinary or corrective action it deems appropriate.

Campus Response

The Executive Director of the California Institute on Human Services was non-retained from his position on June 30, 2007. This employee has chosen to exercise his right to return to a tenured full-Professor position in the Department of Political Science. He has subsequently chosen to participate in the CSU Faculty Early Retirement Program and plans to teach in the SSU Masters of Public Administration program beginning in Spring, 2008. The campus concurs with the recommendation that it take appropriate disciplinary or corrective action with respect to this employee.

The Senior Director for the California Institute on Human Services was non-retained from his position on June 30, 2007. This employee has indicated that he will not seek reconsideration of this decision and has retired from University employment. The campus does not believe there is any additional disciplinary or corrective action that it can take with respect to this employee.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

September 17, 2007

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Investigative Report 07-91,
Special Investigation – CIHS, Sonoma State University

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of September 17, 2007, I accept the response as submitted with the draft final report on *Special Investigation – CIHS at Sonoma State University*.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

Enclosure

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS