CONTENTS

Executive Summary ...................................................................................................................................... 1

Introduction................................................................................................................................................... 2
  Background............................................................................................................................................... 2
  Purpose...................................................................................................................................................... 4
  Scope and Methodology............................................................................................................................ 5

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

General Environment..................................................................................................................................... 6
APPENDICES

APPENDIX A: Personnel Contacted
APPENDIX B: Management Response
APPENDIX C: Chancellor’s Acceptance

ABBREVIATIONS

Act .................................................. Political Reform Act of 1974
CCR ................................................... California Code of Regulations
Code ............................................... California State University Conflict-of-Interest Code
COI .................................................. Conflict of Interest
CSU .................................................. California State University
EC ................................................... Education Code
FPPC ............................................... Fair Political Practices Commission
HR ................................................... Human Resources
OAAS .............................................. Office of Audit and Advisory Services
Trustees .......................................... Board of Trustee Member
EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of Audit and Advisory Services (OAAS) during the last quarter of 2013, the Board of Trustees, at its January 2014 meeting, directed that Conflict of Interest (COI) be reviewed. The OAAS has never reviewed COI as a stand-alone audit.

We visited the Office of the Chancellor from January 27, 2014, through February 21, 2014, and audited the procedures in effect at that time.

In our opinion, the fiscal, operational, and administrative controls for COI activities in effect as of February 21, 2014, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

GENERAL ENVIRONMENT [6]

Conflict-of-interest processes for Board of Trustee (Trustees) members and campus presidents needed improvement. For example, the process addressing the trustee secretariat’s duties associated with conflict-of-interest reporting and training for certain executives was not documented, and the orientation process for Trustees and campus presidents included minimal information on conflict-of-interest reporting.
INTRODUCTION

BACKGROUND

Conflict of interest occurs when professional duties and personal interests intersect, putting a person in a position to personally benefit from a decision made as part of his or her job duties. As public employees, California State University (CSU) employees are subject to various conflict-of-interest-related laws and regulations.

The primary California legislative document governing conflicts of interest is the Political Reform Act of 1974 (the Act), which prohibits public employees from making, participating in making, or in any way attempting to use their official position to influence a governmental decision in which they know, or have reason to know, they have a financial interest. This applies to all CSU employees. Primary responsibility is placed upon the individual employee to be familiar with the requirements of the Act. In addition, if CSU employees have a personal financial interest in a university decision, they are required to publicly announce the financial interest and disqualify themselves from involvement in the decision. CSU employees should also be sensitive to the appearance of conflict of interest when participating in university decisions, even when a true conflict does not exist.

The Act also requires the CSU to adopt a formal conflict-of-interest code (the Code) that identifies and designates certain employees who are most likely to be involved in university decision-making to file an annual statement of economic interests.

The Fair Political Practices Commission (FPPC) is the state agency responsible for reviewing and approving the Code. It is also the enforcement agency to which violations of the Act are reported. The FPPC last approved the CSU’s Code in 2006; in August 2007, the CSU forwarded an updated Code to the FPPC for review and approval. This Code is still under review, and the CSU systemwide Office of Human Resources and Office of General Counsel have been working with the FPPC to complete the review and approval process. Until the Code is approved, the CSU follows interim disclosure requirements codified in California Code of Regulations (CCR), Title 2, Division 6, §18734.

In addition to filing an annual statement of economic interests, employees designated by the Code must complete ethics training as required by Education Code (EC) §89500.7. An employee must complete this training within six months of becoming designated, and every two years thereafter.

CSU policies relating to the Code and designated employees include the following:

- Coded memorandum Human Resources (HR) 2013-02, Annual Filing Requirements, dated February 28, 2013, provides information on the annual disclosure statement filing requirements for designated employees. Coded memorandum HR 2010-01, Conflict of Interest Update – Designated Positions Pending FPPC Approval – Interim Disclosure, dated January 12, 2010, discusses the interim disclosure requirements for consultants and employees in newly designated positions that are pending FPPC approval.

Disclosures, dated November 15, 2010, clarifies that consultants and employees in newly designated positions pending FPPC approval are also required to complete ethics training.

- The Office of General Counsel Conflict of Interest Handbook, last updated in February 2013, provides critical information on key laws, regulations, and court decisions relating to CSU employees and conflicts of interest.

Although most gifts received by CSU employees in designated positions are subject to reporting requirements and limitations, some gifts that benefit employees may be considered gifts to the CSU when they are used for official CSU business. These are typically travel gifts, including accommodations and food associated with the travel. CCR, Title 2, Division 6, §18944.2 defines such gifts and provides procedural and reporting requirements. Coded memorandum HR 2008-19, Conflict of Interest – FPPC Revised Regulation Concerning Gifts to an Agency, dated November 17, 2008, provides guidance to campuses regarding these types of gifts.

Other examples of codes and/or statutes that govern conflict of interest in the CSU are discussed in the Office of General Counsel Conflict of Interest Handbook and include the following:

- Government Code §1090 et seq. prohibits state employees from having a financial interest in any contract they make in their official capacity. Integrated California State University Administrative Manual §5302.0, Formal Bidding for Personal Property, §5402.0, Formal Solicitation for Services, and §5502.0, Formal Solicitations for Information Technology Goods and Services, effective April 28, 2008, require all CSU employees involved in a formal solicitation process to complete conflict-of-interest and confidentiality statements, which are retained as part of the contract file.

- EC §89006 prohibits CSU employees from using confidential information available by virtue of their employment for private gain.
PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to conflicts of interest and to determine the adequacy of controls that ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- Administration of the conflict-of-interest program is well defined and includes clear lines of organizational authority and responsibility and documented delegations of authority.

- Policies and procedures related to the conflict-of-interest program are current, comprehensive, and effectively distributed.

- Designated employees and employees involved in the administration of the conflict-of-interest program are adequately trained and informed of their duties.

- Processes to identify designated positions on the campus are adequate to capture all positions involved in the making, or that participate in the making, of decisions that may foreseeably have a material effect on the financial interests of the CSU.

- Administration of conflicts of interest is adequate to ensure that employees do not have personal financial interests in CSU contracts.

- Conflict-of-interest disclosure statements are adequately tracked and monitored to ensure compliance with state and CSU requirements, and security and retention of disclosure forms is adequate.

- Review and management of disclosure statements is adequate to ensure compliance with state and CSU requirements.

- Job descriptions appropriately support disclosure requirements for designated positions.

- Controls over recruitment and hiring are adequate to ensure that potential candidates are notified of conflict-of-interest reporting requirements.

- Processes are adequate to ensure that gifts to agency are properly identified and reported according to state and CSU requirements.
SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Audit Agenda Item 4 of the January 28 and 29, 2014, meeting of the Committee on Audit stated that Conflict of Interest (COI) includes the activities of all CSU designated people who make, or participate in the making of, decisions that may foreseeably have a material effect on any financial interest of the CSU. Proposed audit scope could include, but was not limited to, review of the process for identification of designated positions; monitoring, tracking, and review of disclosures related to conflicts of interest, such as research disclosures; faculty and CSU designated officials reporting; employee/vendor relationships; ethics training; and patent and technology transfer.

Our study and evaluation were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with federal and state regulations and guidance, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit focused on procedures in effect from January 1, 2012, through February 21, 2014.

We focused primarily on the internal administrative, compliance, and operational controls over COI activities. We did not focus on research disclosures in this audit, as these are routinely reviewed in sponsored programs and auxiliary audits. Specifically, we reviewed and tested:

- Administration of the COI program, including defined responsibilities, current policies and procedures, and adequate training.
- Processes to identify and review designated positions on campus.
- Tracking, monitoring, and review of conflict-of-interest disclosure statements.
- Solicitation and contracting processes.
- Identification and reporting of gifts to agency.
OBSERVATIONS, RECOMMENDATIONS, 
AND MANAGEMENT RESPONSES

GENERAL ENVIRONMENT

Conflict-of-interest processes for Board of Trustees (Trustees) members and campus presidents needed improvement.

We interviewed the trustee secretariat, eight Trustees, 12 campus presidents and the chancellor’s chief of staff, and we found that:

- The process addressing the trustee secretariat’s duties associated with conflict-of-interest reporting and training for Trustees, campus presidents, and officials who manage public investments was not documented.

- The orientation process for Trustees and campus presidents included minimal information on conflict-of-interest reporting. In addition, because conflict-of-interest training is only provided once every two years, eight of the individuals we interviewed indicated that a refresher on a more frequent basis, such as a communication or reminder letter, discussion in a board meeting, or other avenue of communication, would be beneficial.

- A systemwide review was not performed for board agenda items addressing possible conflict-of-interest issues.

Government Code §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. Further, administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

The trustee secretariat stated that she has been responsible for the conflict-of-interest filings for the Trustees, campus presidents, and officials who manage public investments for many years, and it was not her practice to document the process in writing. She also stated that board members and presidents receive biannual ethics training, as well as additional information on conflict-of-interest reporting on an annual basis, including instructions on completing disclosure statements and a frequently asked questions document from the Fair Political Practices Commission. She stated that this information had been deemed sufficient.

The absence of written processes increases the risk of non-compliance with government and CSU requirements, and a lack of communication and training on conflict-of-interest reporting and lack of a systemwide review of board conflict-of-interest statements can compromise additional assurance of compliance with state requirements and increase the risk of negative publicity from unintentional reporting errors.
Recommendation 1

We recommend that the chancellor’s office:

a. Document the process addressing the trustee secretariat’s duties associated with conflict-of-interest reporting and training for Trustees, campus presidents, and officials who manage public investments.

b. Review current methods of communication and training for conflict-of-interest reporting for Trustees and campus presidents to determine whether enhancements should be made to the orientation or training process.

c. Perform a review of board agenda action items to identify known vendors and contractors, provide a list of such vendors and contractors to the Trustees prior to board meetings, determine whether such a review should be performed on a regular basis, and document this determination.

Management Response

We concur. The chancellor’s office will document trustee secretariat’s conflict-of-interest reporting and training duties and processes for Trustees, campus presidents, and officials who manage public investments. Trustee and campus president conflict-of-interest orientation and training processes will be reviewed seeking potential enhancements. Finally, a review of board agenda action items will be performed as recommended, including a determination of the benefits of preparing a summary list for Trustees of vendors and contractors associated with board meeting agenda items.

This recommendation will be completed by October 2014.
# APPENDIX A:
PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gail Brooks</td>
<td>Vice Chancellor, Human Resources (At time of review)</td>
</tr>
<tr>
<td>Alyssa Adamson</td>
<td>Director, Information Technology Services, Finance</td>
</tr>
<tr>
<td>Ruben Armiñana</td>
<td>President, Sonoma State University</td>
</tr>
<tr>
<td>Jeffrey D. Armstrong</td>
<td>President, California Polytechnic State University, San Luis Obispo</td>
</tr>
<tr>
<td>George Ashkar</td>
<td>Assistant Vice Chancellor/Controller</td>
</tr>
<tr>
<td>Garrett Ashley</td>
<td>Vice Chancellor, University Relations and Advancement</td>
</tr>
<tr>
<td>Mary Carrillo</td>
<td>Contracts Manager, Contract Services and Procurement</td>
</tr>
<tr>
<td>Joseph I. Castro</td>
<td>President, California State University, Fresno</td>
</tr>
<tr>
<td>William A. Covino</td>
<td>President, California State University, Los Angeles</td>
</tr>
<tr>
<td>Rebecca D. Eisen</td>
<td>California State University Trustee</td>
</tr>
<tr>
<td>Douglas Faigin</td>
<td>California State University Trustee</td>
</tr>
<tr>
<td>Margaret Fortune</td>
<td>California State University Trustee</td>
</tr>
<tr>
<td>Lu C. Garcia</td>
<td>California State University Trustee</td>
</tr>
<tr>
<td>Steven M. Glazer</td>
<td>California State University Trustee</td>
</tr>
<tr>
<td>Willie Hagan</td>
<td>President, California State University, Dominguez Hills</td>
</tr>
<tr>
<td>Kristy Hawman</td>
<td>Director, Human Resources Services and Conflict of Interest</td>
</tr>
<tr>
<td></td>
<td>Filing Officer</td>
</tr>
<tr>
<td>Leticia Hernandez</td>
<td>Trustee Secretariat</td>
</tr>
<tr>
<td>Maria Hernandez</td>
<td>Contracts Manager, Contract Services and Procurement</td>
</tr>
<tr>
<td>Jabari Holloway</td>
<td>Associate University Planner</td>
</tr>
<tr>
<td>Melody Kojima</td>
<td>Assistant Director, Purchasing</td>
</tr>
<tr>
<td>Robert Linscheid</td>
<td>California State University Trustee</td>
</tr>
<tr>
<td>Horace Mitchell</td>
<td>President, California State University, Bakersfield</td>
</tr>
<tr>
<td>Lou Monville</td>
<td>California State University Trustee</td>
</tr>
<tr>
<td>Tomás D. Morales</td>
<td>President, California State University, San Bernardino</td>
</tr>
<tr>
<td>Claire Morlock</td>
<td>Procurement Assistant, Contract Services and Procurement</td>
</tr>
<tr>
<td>Evelyn Nazario</td>
<td>Associate Vice Chancellor, Human Resources Management</td>
</tr>
<tr>
<td>Fred Neely</td>
<td>Special Consultant</td>
</tr>
<tr>
<td>J. Lawrence Norton</td>
<td>California State University Trustee</td>
</tr>
<tr>
<td>Eduardo M. Ochoa</td>
<td>President, California State University, Monterey Bay</td>
</tr>
<tr>
<td>J. Michael Ortiz</td>
<td>President, California State Polytechnic University, Pomona</td>
</tr>
<tr>
<td>Lori Redfearn</td>
<td>Assistant Vice Chancellor, Advancement Services</td>
</tr>
<tr>
<td>Mike Redmond</td>
<td>Acting Assistant Vice Chancellor, Headquarters Building Security and</td>
</tr>
<tr>
<td></td>
<td>Strategic Initiatives</td>
</tr>
<tr>
<td>Carrie Rieth Hemphill</td>
<td>University Counsel</td>
</tr>
<tr>
<td>Rollin C. Richmond</td>
<td>President, Humboldt State University</td>
</tr>
<tr>
<td>Tom Roberts</td>
<td>Director, Contracts Services and Procurement</td>
</tr>
<tr>
<td>Sally Roush</td>
<td>Interim Vice Chancellor, Business and Finance</td>
</tr>
<tr>
<td>Richard R. Rush</td>
<td>President, California State University, Channel Islands</td>
</tr>
<tr>
<td>Lars Walton</td>
<td>Chief of Staff, Office of the Chancellor</td>
</tr>
<tr>
<td>Leslie E. Wong</td>
<td>President, San Francisco State University</td>
</tr>
<tr>
<td>Colleen Zenger</td>
<td>Senior Financial Manager, Treasury Operations</td>
</tr>
</tbody>
</table>
DATE: July 2, 2014

TO: Larry Mandel
    Vice Chancellor and Chief Audit Officer

FROM: Steve Relyea, Executive Vice Chancellor and Chief Financial Officer

SUBJECT: Conflict of Interest CSU Chancellors Office Audit Report # 14-15

In response to the "Incomplete Draft" report dated April 30, 2014, we are providing the enclosed management response.

Should you have any questions, please feel free to contact us.

SR: mpr

Attachment

cc: Framroze Virjee, Vice Chancellor and General Counsel
    Jessica Darin, Acting Director of Human Resource Operations
    Andrew Jones, Assoc. Vice Chancellor and Deputy General Counsel
    Carrie Hemphill Rieth, University Counsel
    Lars Walton, Chief of Staff, Executive Office
    Leticia Hernandez, Trustee Secretariat
    Evelyn Nazario, Assoc. Vice Chancellor Human Resources
    Kristy Hawman, Director, Human Resources Services and Conflict of Interest Filing Officer
CONFLICT OF INTEREST
CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

Audit Report 14-15

GENERAL ENVIRONMENT

Recommendation 1

We recommend that the chancellor’s office:

a. Document the process addressing the trustee secretariat’s duties associated with conflict-of-interest reporting and training for Trustees, campus presidents, and officials who manage public investments.

b. Review current methods of communication and training for conflict-of-interest reporting for Trustees and campus presidents to determine whether enhancements should be made to the orientation or training process.

c. Perform a review of board agenda action items to identify known vendors and contractors, provide a list of such vendors and contractors to the Trustees prior to board meetings, determine whether such a review should be performed on a regular basis, and document this determination.

Management Response

We concur. The chancellor’s office will document trustee secretariat’s conflict-of-interest reporting and training duties and processes for Trustees, campus presidents, and officials who manage public investments. Trustee and campus president conflict-of-interest orientation and training processes will be reviewed seeking potential enhancements. Finally, a review of board agenda action items will be performed as recommended, including a determination of the benefits of preparing a summary list for Trustees of vendors and contractors associated with board meeting agenda items.

This recommendation will be completed by October 2014.
July 23, 2014

MEMORANDUM

TO: Mr. Larry Mandel
   Vice Chancellor and Chief Audit Officer

FROM: Timothy P. White
       Chancellor

SUBJECT: Draft Final Report 14-15 on Conflict of Interest,
         Office of the Chancellor

In response to your memorandum of July 23, 2014, I accept the response as submitted with the draft final report on Conflict of Interest, Office of the Chancellor.

TPW/amd