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## ABBREVIATIONS

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<thead>
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<th>Description</th>
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<tbody>
<tr>
<td>Act</td>
<td>Political Reform Act of 1974</td>
</tr>
<tr>
<td>CCR</td>
<td>California Code of Regulations</td>
</tr>
<tr>
<td>Code</td>
<td>California State University Conflict-of-Interest Code</td>
</tr>
<tr>
<td>COI</td>
<td>Conflict of Interest</td>
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<tr>
<td>CSU</td>
<td>California State University</td>
</tr>
<tr>
<td>EC</td>
<td>Education Code</td>
</tr>
<tr>
<td>FPPC</td>
<td>Fair Political Practices Commission</td>
</tr>
<tr>
<td>HR</td>
<td>Human Resources</td>
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<tr>
<td>OAAS</td>
<td>Office of Audit and Advisory Services</td>
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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 California State University, Chico campus from March 17, 2014, through April 25, 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 April 25, 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]

The campus had not documented a written designation from the president to the campus conflict-of-interest filing officer. Also, the campus had not established online training accounts for five employees in designated positions.

DESIGNATED POSITION IDENTIFICATION [7]

The campus did not have procedures to determine whether faculty members appointed to or re-assigned to directorship duties were in a designated position.
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.
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 April 25, 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 CAMPUS RESPONSES

GENERAL ENVIRONMENT

ADMINISTRATION

The campus had not documented a written designation from the president to the campus conflict-of-interest filing officer.

Executive Order 295, Designation of Filing Officers Under the California State University and Colleges Conflict of Interest Code, dated July 26, 1978, states, in part, that the filing officers for designated employees in the California State University (CSU) shall be as follows: For officers or employees, except the president, occupying designated positions on a campus of the CSU, the president of the campus or his or her designee shall be the filing officer.

The vice president for business and finance stated that the role of the campus filing officer was properly assigned, but an official designation had not been documented due to oversight.

The lack of a written designation increases the risk of misunderstandings related to oversight of conflicts of interest and noncompliance with CSU and governmental requirements, and compromises accountability.

Recommendation 1

We recommend that the campus document a written designation from the president to the campus conflict-of-interest filing officer.

Campus Response

We concur. The campus will document a written designation from the president to the campus conflict-of-interest filing officer.

Implementation date: July 31, 2014

ETHICS TRAINING

The campus had not established online training accounts for five employees in designated positions.

Coded memorandum Human Resources (HR) 2010-16, Conflict of Interest – Ethics Training Requirement under Interim Disclosure, states that it is the responsibility of the campus conflict-of-interest (COI) filing officers to notify Systemwide Professional Development of the names and contact information of the individuals in designated or interim designated positions so that online training accounts may be established. The campus COI filing officer, or designee, is responsible for notifying participants about the required ethics training, as well as their specific training due date.
The assistant vice president for staff human resources stated that these individuals did not have training accounts because of timing issues regarding the transition to the new CSU training system and the annual conflict-of-interest review process.

A lack of ethics training increases the risk of non-compliance with CSU and governmental regulations.

**Recommendation 2**

We recommend that the campus establish online training accounts for all employees in designated positions.

**Campus Response**

We concur. The campus has established online training accounts for all employees in designated positions. In addition, the campus established a procedure to monitor and verify that employees in designated positions are assigned online training in a timely manner.

Implementation date: Completed

**DESIGNATED POSITION IDENTIFICATION**

The campus did not have procedures to determine whether faculty members appointed to or reassigned to directorship duties were in a designated position.

Coded memorandum HR 2010-01, *Conflict of Interest Update – Designated Positions Pending FPPC Approval – Interim Disclosure*, states that for those positions created subsequent to the 2007 update process and on a prospective basis, the campus must review the new position or a current position that has been modified, to determine whether the position meets the requirements for inclusion in the CSU’s COI Code.

The associate vice president for faculty affairs stated that lack of a procedure to notify human resources of faculty positions with directorship duties was due to staff turnover.

A lack of effective procedures to determine whether employees are in a designated position increases the risk of noncompliance with CSU and governmental requirements.

**Recommendation 3**

We recommend that the campus develop and implement procedures to determine whether faculty members appointed to or re-assigned to directorship duties are in a designated position.
Campus Response

We concur. The campus will develop and implement procedures to determine whether faculty members appointed to, or re-assigned to, directorship duties are in a designated position.

Implementation date: November 30, 2014
# APPENDIX A:
# PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
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<tbody>
<tr>
<td>Paul J. Zingg</td>
<td>President</td>
</tr>
<tr>
<td>Sharyn Abernatha</td>
<td>Assistant Vice President for Staff Human Resources</td>
</tr>
<tr>
<td>Drew Calandrella</td>
<td>Vice President for Student Affairs</td>
</tr>
<tr>
<td>Richard Ellison</td>
<td>Vice President for University Advancement</td>
</tr>
<tr>
<td>Beverly Gentry</td>
<td>Manager for Professional Development and Conflict-of-Interest Filing Officer</td>
</tr>
<tr>
<td>Lorraine Hoffman</td>
<td>Vice President for Business and Finance</td>
</tr>
<tr>
<td>Jeni Kitchell</td>
<td>Director of University Budget and Resource Management</td>
</tr>
<tr>
<td>Wenshu Lee</td>
<td>Associate Vice President for Faculty Affairs</td>
</tr>
<tr>
<td>Michael McNairn</td>
<td>Contracts Coordinator</td>
</tr>
<tr>
<td>Lynda Miracle</td>
<td>Assistant Vice President, Planning, Design, and Construction</td>
</tr>
<tr>
<td>Sara Rumiano</td>
<td>Director of Procurement and Contract Services</td>
</tr>
<tr>
<td>Michael Schilling</td>
<td>Vice Provost for Information Resources and Chief Information Officer</td>
</tr>
<tr>
<td>Karen Von Bargen</td>
<td>Confidential Administrative Support</td>
</tr>
<tr>
<td>Belle Wei</td>
<td>Provost and Vice President for Academic Affairs</td>
</tr>
<tr>
<td>Karla Zimmerlee</td>
<td>Chief of Staff</td>
</tr>
</tbody>
</table>
July 7, 2014

Mr. Larry Mandel
Vice Chancellor and Chief Audit Officer
CSU Office of the Chancellor
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

Subject: Conflict of Interest, Audit Report 14-19
California State University, Chico

Dear Mr. Mandel:

We have reviewed the Office of the Audit and Advisory Services Audit Report 14-19, Conflict of Interest at California State University, Chico. Please find enclosed our response to the audit recommendations. Upon acceptance of our response, the campus will submit documentation evidencing implementation of the recommendations.

If you have any questions or require additional information, please contact Jeni Kitchell at 530-898-5910 or jkitchell@csuchico.edu. Thank you.

Sincerely,

Lorraine Hoffman
Vice President for Business and Finance

Enclosure

cc: Paul Zingg, President, CSU Chico
Jeni Kitchell, Director of Budget, CSU Chico
Sharyn Abernatha, AVP for Staff Human Resources
Wenshu Lee, AVP for Faculty Affairs
CONFLICT OF INTEREST

CALIFORNIA STATE UNIVERSITY,
CHICO

Audit Report 14-19

GENERAL ENVIRONMENT

ADMINISTRATION

Recommendation 1

We recommend that the campus document a written designation from the president to the campus conflict-of-interest filing officer.

Campus Response

We concur. The campus will document a written designation from the president to the campus conflict-of-interest filing officer.

Implementation Date: July 31, 2014

ETHICS TRAINING

Recommendation 2

We recommend that the campus establish online training accounts for all employees in designated positions.

Campus Response

We concur. The campus has established online training accounts for all employees in designated positions. In addition, the campus established a procedure to monitor and verify that employees in designated positions are assigned online training timely.

Implementation Date: Completed

DESIGNATED POSITION IDENTIFICATION

Recommendation 3

We recommend that the campus develop and implement procedures to determine whether faculty members appointed to or re-assigned to directorship duties are in a designated position.
Campus Response

We concur. The campus will develop and implement procedures to determine whether faculty members appointed to, or re-assigned to, directorship duties are in a designated position.

Implementation Date: November 30, 2014
July 23, 2014

MEMORANDUM

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

FROM: Timothy P. White
      Chancellor

SUBJECT: Draft Final Report 14-19 on Conflict of Interest,
         California State University, Chico

In response to your memorandum of July 23, 2014, I accept the response as submitted with the draft final report on Conflict of Interest, California State University, Chico.

TPW/amd