CONFLICT OF INTEREST

CALIFORNIA STATE UNIVERSITY,
SACRAMENTO

Audit Report 14-20
August 1, 2014

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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
EO  Executive Order
FPPC  Fair Political Practices Commission
HR  Human Resources
OAAS  Office of Audit and Advisory Services
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, Sacramento campus from May 12, 2014, through June 12, 2014, and audited the procedures in effect at that time.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls for COI activities as of June 12, 2014, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report. Areas of concern include: delegations of authority, ethics training, Designated Position Identifications, and Conflict-of-Interest Disclosures.

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]

Administration of the campus conflict-of-interest program needed improvement. For example, delegations of authority relating to the conflict-of-interest program were not always in place. In addition, ethics training was not always completed by designated employees.

DESIGNATED POSITION IDENTIFICATION [8]

Campus designated position identification needed improvement. Specifically, the campus did not have procedures in place for reviewing newly created positions or modified positions to determine whether the positions met the requirements for inclusion in the CSU Conflict of Interest Code.

CONFLICT-OF-INTEREST DISCLOSURES [9]

Annual statements of economic interest were not always filed in a timely manner. In addition, the campus did not have a process in place to notify the conflict-of-interest filing officer or designee when employees in designated positions assumed or left office.
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.

- Coded memorandum HR 2004-15, Ethics Regulations and Conflict of Interest Code Training, dated May 18, 2004, discusses ethics training requirements for employees designated by the Code. Coded memorandum HR 2010-16, Conflict of Interest – Ethics Training Requirement under Interim...
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.
INTRODUCTION

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 June 12, 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

Administration of the campus conflict-of-interest program needed improvement.

We found that:

- The campus had not documented a written designation from the president to the conflict-of-interest filing officer until April 25, 2014.

- The responsibilities of the conflict-of-interest filing officer had been further delegated, but written delegation and adequate supervision were not in place.

Executive Order (EO) 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 associate vice president for human resources stated that the written designation for the conflict-of-interest filing officer was not documented in a timely manner due to changes in management. In addition, he stated that the campus did not document the further delegation of responsibilities due to misinterpretation of the EO.

Lack of written designations 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:

a. Maintain a current delegation of authority for the campus conflict-of-interest filing officer.

b. Document any further delegation of conflict-of-interest duties and provide adequate supervision of the delegated individual.

**Campus Response**

We concur. The campus will maintain the current delegation of authority for the campus conflict-of-interest filing officer. The campus has decided not to further delegate the conflict-of-interest duties but for the officer to work closely with the confidential office support staff to confirm all responsibilities are met. The officer and staff will have regular monthly meetings to communicate
designated position changes (assuming and leaving offices) and to approve timely e-mail communications for annual filings and ethics training for all designated position employees. The campus will provide a schedule of these meetings along with a few agendas by November 3, 2014.

**ETHICS TRAINING**

Ethics training was not always completed by designated employees.

We reviewed 30 employees in designated positions and compared the campus lists of procurement card holders and designated positions with the list of employees in the training system, and we found that:

- The campus had not established online training accounts for four employees in designated positions.
- Thirteen employees in designated positions had not completed initial or renewal training by the required deadline.

Coded memorandum Human Resources (HR) 2010-16, *Conflict of Interest – Ethics Training Requirement under Interim Disclosure*, dated November 15, 2010, states that it is the responsibility of the campus conflict-of-interest 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 conflict-of-interest filing officer, or designee, is responsible for notifying participants about the required ethics training, as well as their specific training due date. The training must be completed by all employees and consultants who file under the interim disclosure within six months of appointment in a proposed designated position, and at least once during each consecutive period of two calendar years following the appointment in a designated position.

The associate vice president for human resources stated that some individuals did not have online training accounts due to oversight. He also stated that implementation of the new training system in 2013 was delayed due to the limited number of trained personnel in the HR department, which caused many employees to complete their training after the deadline. In addition, he stated that the campus had limited technical support for the previous system during the conversion.

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

**Recommendation 2**

We recommend that the campus:

a. Establish online training accounts for all employees in designated positions.
b. Provide initial or renewal training for employees in designated positions by the required deadline.
Campus Response

We concur. The campus will establish online training accounts for all employees in designated positions. The campus will also make sure initial and renewal training is complete by the required deadlines. The campus will provide a list of all designated positions and training status reports showing the last ethics training date for all designated positions. All training dates will be within the last two years. The campus will provide this supporting documentation by February 1, 2015.

DESIGNATED POSITION IDENTIFICATION

Campus designated position identification needed improvement.

We noted that:

- The campus did not have procedures for reviewing newly created positions or modified positions to determine whether the positions met the requirements for inclusion in the CSU’s Conflict of Interest Code (Code).
- The campus designated position list had not been updated for any new or modified positions since 2010.
- The conflict-of-interest filing officer’s designee had not been provided with adequate information and training with regard to conflict-of-interest duties.

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 Code. The campus must document its review of position descriptions and identification of applicable disclosure categories.

The associate vice president for human resources stated his belief that the campus had not updated the designated position list because of poor communication by the chancellor’s office to the campus about the campus’ ability to amend the list. Also, he stated that the conflict-of-interest filing officer’s designee was fairly new to her duties, which resulted in a learning curve from the time she assumed her conflict-of-interest responsibilities.

Lack of effective procedures to determine whether employees should be designated, and inadequate updating of the campus designated position list increases the risk of conflicts of interest and noncompliance with CSU and governmental requirements.

Recommendation 3

We recommend that the campus:
a. Develop and implement procedures for reviewing newly created positions or modified positions to determine whether the positions meet the requirements for inclusion in the CSU’s Code.

b. Update the campus designated position list for new or modified positions since 2010.

c. Provide adequate information and training to the conflict-of-interest filing officer’s designee with regard to conflict-of-interest duties.

**Campus Response**

We concur. The campus will develop and implement procedures for reviewing newly created positions or modified positions to determine whether the positions meet the requirements for inclusion on the designated position list. The campus will also update the designated position listing for new and modified positions since 2010. The campus will provide adequate information and will ensure support staff attends any CO trainings offered to assist with performing conflict-of-interest duties. Please see the campus response for Recommendation 1. The campus will provide a copy of the written procedures and the updated designated position listing by December 15, 2014.

**CONFLICT-OF-INTEREST DISCLOSURES**

**ANNUAL FILINGS**

Annual statements of economic interest were not always filed in a timely manner.

We reviewed 30 designated employees, and we found that seven annual statements were not submitted by the deadline.

Coded memorandum HR 2013-02, *2013 Conflict of Interest Annual Filing*, dated February 28, 2013, states that the Code requires employees in designated positions to file a statement of economic interests on an annual basis. It further states that for 2013, employees must submit completed statements of economic interest to the campus filing officer by April 2, 2013.

The associate vice president for human resources stated that filings were submitted late due to inadequate internal procedures.

Untimely filing of conflict-of-interest disclosures increases the risk of liability for acts contrary to CSU and governmental policies.

**Recommendation 4**

We recommend that the campus obtain annual statements of economic interest by the required deadline.
**Campus Response**

We concur. The campus will revise its internal timelines of follow-up e-mails to designated employees. Follow-up communication will persist and become more often as the deadline approaches for those that have not complied. The campus will provide a copy of the follow-up communication plan for 2015 by October 1, 2014.

**ASSUMING AND LEAVING OFFICE STATEMENTS**

The campus did not have a process in place to notify the conflict-of-interest filing officer or designee when employees in designated positions assumed or left office.

We reviewed five assuming office statements and seven leaving office statements, and we found that:

- One assuming office statement was not filed, and two assuming office statements were not submitted in a timely manner.
- Three leaving office statements were not filed, and one leaving office statement was not submitted in a timely manner.

Government Code §87302 states that each new designated employee shall file a statement within 30 days after assuming office. It further states that every designated employee who leaves office shall file, within 30 days of leaving office, a statement disclosing reportable investments, business positions, interests in real property, and income held or received at any time during the period between the closing date of the last statement required to be filed and the date of leaving office.

The vice president for human resources and conflict-of-interest filing officer stated that lack of communication about personnel changes in designated positions was due to inadequate coordination within the human resources department. She further stated that this process was under review.

Untimely filing of conflict-of-interest disclosures increases the risk of liability for acts contrary to CSU and governmental policies.

**Recommendation 5**

We recommend that the campus develop and implement a process for notifying the conflict-of-interest filing officer or designee when employees in designated positions assume or leave office.

**Campus Response**

We concur. The campus will develop and implement a process for notifying the conflict-of-interest filing officer and the confidential office support staff when employees in designated positions assume or leave office. The confidential office support staff will run weekly query reports of changes to designated positions. The conflict-of-interest officer and confidential office support staff will have regular monthly meetings to review designated position changes for the assuming and leaving office
filing requirements. The campus will provide a copy of this weekly query, a few meeting agendas, and the documented process by December 15, 2014.
## APPENDIX A:
### PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Alexander Gonzalez</td>
<td>President</td>
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<tr>
<td>Dale Clack</td>
<td>Procurement Supervisor</td>
</tr>
<tr>
<td>Philip Garcia</td>
<td>Vice President for Public Affairs and Advocacy</td>
</tr>
<tr>
<td>Larry Gilbert</td>
<td>Vice President and Chief Information Officer</td>
</tr>
<tr>
<td>John Guion</td>
<td>Director, Procurement and Contract Services</td>
</tr>
<tr>
<td>Frederika Harmsen</td>
<td>Provost and Vice President for Academic Affairs</td>
</tr>
<tr>
<td>Yavette Hayward</td>
<td>Senior Management Auditor</td>
</tr>
<tr>
<td>Justine Heartt</td>
<td>Associate Vice President for Financial Services</td>
</tr>
<tr>
<td>Ming-Tung (Mike) Lee</td>
<td>Chief Financial Officer and Vice President for Administration and Business Affairs</td>
</tr>
<tr>
<td>Christine Lovely</td>
<td>Vice President, Human Resources and Conflict-of-Interest Filing Officer</td>
</tr>
<tr>
<td>Kaye Milburn</td>
<td>Director of Auditing Services</td>
</tr>
<tr>
<td>Kent Porter</td>
<td>Associate Vice President for Human Resources</td>
</tr>
<tr>
<td>Vince Sales</td>
<td>Vice President for University Advancement</td>
</tr>
<tr>
<td>Lorena Solis</td>
<td>Confidential Office Support, Human Resources</td>
</tr>
</tbody>
</table>
August 29, 2014

Larry Mandel
Vice Chancellor and Chief Audit Officer
The California State University
401 Golden Shore
Long Beach, CA 90802-4210

SUBJECT:  Campus Response to Audit Recommendations of Conflict of Interest, #14-20

Dear Larry:

Please find enclosed California State University, Sacramento’s response to the recommendations of the audit. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or require additional information, please contact Kaye Milburn, Director of Auditing Services, at (916) 278-7439.

Sincerely,

Ming-Tung “Mike” Lee, Ph.D.
Vice President for Administration/CFO

MTL:tj

Enclosures

c: Alexander Gonzalez, President
    Christine Lovely, Vice President of Human Resources
    Kaye Milburn, Director, Auditing Services
CONFLICT OF INTEREST

CALIFORNIA STATE UNIVERSITY,
SACRAMENTO

Audit Report 14-20

GENERAL ENVIRONMENT

ADMINISTRATION

Recommendation 1

We recommend that the campus:

a. Maintain a current delegation of authority for the campus conflict-of-interest filing officer.

b. Document any further delegation of conflict-of-interest duties and provide adequate supervision of the delegated individual.

Campus Response

We concur. The campus will maintain the current delegation of authority for the campus conflict-of-interest filing officer. The campus has decided not to further delegate the conflict-of-interest duties but for the officer to work closely with the confidential office support staff to confirm all responsibilities are met. The officer and staff will have regular monthly meetings to communicate designated position changes (assuming and leaving offices) and to approve timely email communications for annual filings and ethics training for all designated position employees. The campus will provide a schedule of these meetings along with a few agendas by November 3, 2014.

ETHICS TRAINING

Recommendation 2

We recommend that the campus:

a. Establish online training accounts for all employees in designated positions.

b. Provide initial or renewal training for employees in designated positions by the required deadline.

Campus Response

We concur. The campus will establish online training accounts for all employees in designated positions. The campus will also make sure initial and renewal training will be complete by the required deadlines. The campus will provide a list of all designated positions and training status report showing the last ethics training date for all designated positions. All training dates will be
within the last two years. The campus will provide this supporting documentation by February 1, 2015.

DESIGNATED POSITION IDENTIFICATION

Recommendation 3

We recommend that the campus:

a. Develop and implement procedures for reviewing newly created positions or modified positions to determine whether the positions meet the requirements for inclusion in the CSU’s Code.

b. Update the campus designated position list for new or modified positions since 2010.

c. Provide adequate information and training to the conflict-of-interest filing officer’s designee with regard to conflict-of-interest duties.

Campus Response

We concur. The campus will develop and implement procedures for reviewing newly created positions or modified positions to determine whether the positions meet the requirements for inclusion on the designated position list. The campus will also update the designated position listing for new and modified positions since 2010. The campus will provide adequate information and will ensure support staff attends any CO trainings offered to assist with performing conflict-of-interest duties. Please see Campus Response for Recommendation 1. The campus will provide a copy of the written procedures and the updated designated position listing by December 15, 2014.

CONFLICT-OF-INTEREST DISCLOSURES

ANNUAL FILINGS

Recommendation 4

We recommend that the campus obtain annual statements of economic interest by the required deadline.

Campus Response

We concur. The campus will revise their internal timelines of follow-up emails to designated employees. Follow-up communication will persist and become more often as the deadline approaches for those that have not complied. The campus will provide a copy of the follow-up communication plan for 2015 by October 1, 2014.
ASSUMING AND LEAVING OFFICE STATEMENTS

Recommendation 5

We recommend that the campus develop and implement a process for notifying the conflict-of-interest filing officer or designee when employees in designated positions assume or leave office.

Campus Response

We concur. The campus will develop and implement a process for notifying the conflict of interest filing officer and the confidential office support staff when employees in designated positions assume or leave office. The confidential office support staff will run weekly query reports of changes to designated positions. The conflict of interest officer and confidential office support staff will have regular monthly meetings to review designated position changes for the assuming and leaving office filing requirements. The campus will provide a copy of this weekly query, a few meeting agendas, and the documented process by December 15, 2014.
October 6, 2014

MEMORANDUM

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

FROM: Timothy P. White
      Chancellor

SUBJECT: Draft Final Report 14-20 on Conflict of Interest,
         California State University, Sacramento

In response to your memorandum of October 6, 2014, I accept the response as submitted with the draft final report on Conflict of Interest, California State University, Sacramento.

TPW/amd