Email from Sheryl Vacca 10/1/2008

Charles,

I have provided you some information below from the University and Consulting firm perspective. I hope this helps.

The University's procurement rules would be relevant as well as the rules that govern external accounting firms. Procurement Rules: Since 2003, under SB 1467, consultants are not allowed to receive or even bid on follow-on contracts to provide goods or services required, suggested or deemed appropriate in the end product of their consulting services. Even competitive bidding would provide some safeguard against unjustly enriching those who had a hand in setting the market for the senior manager in his hypothetical.

External firms, who are conducting external audits and doing consulting, have their own standards of independence which follow standards that are monitored for compliance by the PCAOB. Also, independence generally follows the GAO requirements as well. External Auditing firms are very careful about the "rules of independence", especially with all the SEC, Sarbanes oxley and focus, etc.

As to consulting firms who do not perform external audits, but perform consulting engagements, the rules of independence can be less concrete. In fact, to my knowledge, the aspect of independence falls on the organization buying the services more to carefully monitor this, if required in the scope of work being conducted, than for the firm itself to monitor this because it would be contrary to their purpose.

Sincerely,

Sheryl

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-----Original Message-----
From: Charles Schwartz [mailto:schwrtz@berkeley.edu]
Sent: Saturday, September 27, 2008 8:01 AM

To: Sheryl Vacca
Subject: inquiry

Sheryl;

I wonder if you can give me some guidance, or direct me to relevant reading, on the following concern as it may relate to the University of California.

The issue of excessive executive compensation is frequently discussed in

relation to many large institutions in our society. One aspect of this which has been noted is the arrangement where an external consulting firm is brought in to advise the top management on setting appropriate compensation scales; and then the well paid managers may hire that same consulting firm for other jobs. Such situations readily give the appearance, at least, of involving a sort of conflict of interest.

What standards and procedures are there to avoid such troubles?

Sincerely,

Charlie