

California State Auditor

B U R E A U O F S T A T E A U D I T S

Investigative Report:

**Conflicts of Interest, Illegal Acceptance of Gifts,
Failure To Report Gifts, and Improper
Reimbursement of Expenses at the
Teale Data Center**



August 1997
1960159

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CALIFORNIA STATE AUDITOR

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August 21, 1997

Investigative Report I960159

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

Pursuant to the Reporting of Improper Governmental Activities Act, the Bureau of State Audits presents its investigative report concerning the Stephen P. Teale Data Center. This report concludes that one official had conflicts of interest when he awarded contracts and purchase orders to four vendors after accepting gifts from them. In addition, he failed to disclose these and other gifts, and also improperly claimed reimbursement for educational expenses. A second official also failed to disclose gifts. Further, Stephen P. Teale Data Center improperly paid for luxury lodging, golf, and other expenses incurred by the two officials.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

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Summary

Results in Brief

We received an allegation under the Reporting of Improper Governmental Activities Act (act) that two officials of the Stephen P. Teale Data Center (Teale Data Center) violated provisions of the Political Reform Act of 1974, including conflicts of interest. Further, the complainant alleged that the first official improperly claimed reimbursement for expenses. In addition, the Teale Data Center reimbursed certain improper expenses incurred by the two officials.

We investigated and substantiated these allegations. Specifically, we found the following illegal or improper activities:

- From 1993 through 1996, an official at the Teale Data Center had conflicts of interest when he awarded \$5.2 million in contracts and purchase orders to four vendors after accepting \$3,176 in prohibited gifts from them. In addition, he failed to disclose these and other gifts.
- Another official accepted and failed to disclose prohibited gifts totaling approximately \$1,000 from two vendors.
- The first official also improperly claimed reimbursement for more than \$2,000 in educational expenses.
- The Teale Data Center improperly paid approximately \$1,550 for luxury lodging, golf, and other expenses incurred by the two officials.

The Teale Data Center is within the Business, Transportation and Housing Agency (agency); therefore, we submitted our report to the agency for response. Because the Fair Political Practices Commission (FPPC) is responsible for enforcing the Political Reform Act, the agency will await the outcome of the FPPC's review before deciding whether it will take disciplinary action against the officials based on violations of that law. Although the agency has not completed its corrective action, it has taken the following actions:

- Demanded that the two officials immediately reimburse the State for expenses improperly paid by the Teale Data Center.
- Directed that both officials and other Teale Data Center employees receive additional training concerning appropriate expenses and reporting of gifts.
- Initiated steps to review the Teale Data Center's conflict-of-interest code and statement of incompatible activities to ensure they are in full compliance with state law.

Introduction



Whistleblower Hotline:
(800) 952-5665.

The Bureau of State Audits administers the Reporting of Improper Governmental Activities Act (act), which is contained in Section 8547 of the California Government Code. The act defines “improper governmental activity” as any activity by a state agency or state employee undertaken during the performance of the employee’s official duties that violates any state or federal law or regulation; is economically wasteful; or involves gross misconduct, incompetence, or inefficiency. The Bureau of State Audits receives and investigates complaints of improper governmental activities. To enable state employees and the public to report improper governmental activities, the state auditor maintains the toll-free Whistleblower Hotline. The hotline number is (800) 952-5665.

Allegation

Two officials of the Stephen P. Teale Data Center (Teale Data Center) violated state laws.¹ Both official A and official B violated state laws related to accepting gifts and disclosure. Official A also violated a state conflict-of-interest law and improperly claimed reimbursement for educational expenses. In addition, the Teale Data Center improperly reimbursed business expenses incurred by the two officials.

Teale Data Center

The Teale Data Center is one of two large, general-purpose data centers within the State. It provides state agencies with a diversified range of information technology products and services. One of Teale Data Center’s goals is to aid state agencies in achieving their program objectives by using advanced information technology. To meet this goal, the Teale Data Center believes that it must explore technology, influence its development, and foster its deployment throughout state government.

¹ For a detailed description of the provisions of the Political Reform Act of 1974 discussed in this report, see the Appendix.

The Teale Data Center sends its employees to information technology conferences, including those sponsored by vendors, to collect information to help select and procure new products. Employees also hope to develop contacts and working relationships with experts in the computer industry to assist in implementing and maintaining information technology products and services in state government.

Scope and Methodology

To investigate the allegations, we reviewed claims for expense reimbursement filed at the Teale Data Center. Official A's travel expense claims often showed that a number of the conferences or corporate visits included golf. We determined if the State paid for the official to play golf during conferences and corporate visits. To assist us in determining what the State or the vendors paid for these officials to attend conferences, we requested the vendors to provide us with information on actual costs related to their conferences.

We also reviewed the officials' claims for expense reimbursement to determine if they complied with state regulations for reimbursements. In addition, we reviewed the contracts awarded to, and purchases made from, information technology vendors by the Teale Data Center to determine if the officials had a conflict of interest. Further, we reviewed the officials' annual statements of economic interests to determine if they disclosed gifts they accepted. Finally, we interviewed the officials and other state employees at the Teale Data Center.

Chapter 1

Two Officials Violated the Political Reform Act of 1974

Chapter Summary

Official A had conflicts of interest when he awarded \$583,420 in contracts and purchase orders to two information technology vendors after improperly accepting lodging, meals, and recreational activities valued at \$1,112 at hotel resorts during conferences hosted by these vendors.

In addition, official A accepted \$2,064 in lodging, meals, and recreational activities from two other information technology vendors. The Teale Data Center subsequently reimbursed the latter two vendors \$1,825. However, since payments were not made within 30 days of receiving or accepting the gifts, a conflict of interest still existed, according to the law, when the official awarded these vendors \$4.59 million in contracts within the ensuing 12 months.

Official A also accepted a prohibited gift of \$1,585 from a fifth vendor; moreover, official A did not disclose any of these gifts. Official B also accepted and failed to report prohibited gifts totaling \$1,084 from two vendors.

Conflicts of Interest and Other Violations Related to Four Trips Paid for by Vendors

The following table shows, in order of presentation, the value of gifts official A received from each vendor, and the amount of contracts and purchase orders subsequently awarded to the vendor, that were in violation of the conflict-of-interest laws during the relevant period.

Table

Official A's Conflicts of Interest

Vendor	Year	Value of Gifts Received by Official A	Total Amount of Contracts and Purchase Orders Awarded by Official A
Gartner Group	1995	\$ 662	\$ 567,750
Sybase	1994	450 ^a	15,670
Amdahl	1996	634 ^a	4,141,962
AT&T/NCR	1993	1,430 ^{ab}	443,365
Total		\$3,176	\$5,168,747

^a Teale Data Center subsequently repaid part of these gifts, but after the 30-day limit required by law.

^b Two estimates of the value of this gift are discussed later in the section concerning this trip.

The Political Reform Act of 1974 prohibits acceptance of these gifts. The same act requires designated employees to disclose in annual statements of economic interests the source and amount of gifts in excess of limits established for each year. Official A not only accepted these gifts, but also failed to disclose them, even though he was a designated employee.

In addition, official B accepted prohibited gifts totaling \$1,084 related to two of the same trips and failed to disclose them. Official B was also a designated employee.

1995 Trip to Georgia Sponsored by the Gartner Group



Official A attended the Masters Golf Tournament compliments of a Teale Data Center vendor.

The Gartner Group, a provider of information technology advisory and market research services to Teale Data Center, hosted a Masters Tournament event for their valued clients at Greensboro, Georgia from April 7 through 9, 1995. This was at the same time the Masters Golf Tournament was being held at the Augusta National Golf Club, 70 miles from Greensboro. The agenda for the event consisted of only two and one-half hours of presentations and question and answer periods each day on April 7 and 8. The rest of the time was spent golfing, watching the Masters Golf Tournament, or on meals and refreshments.

The Teale Data Center paid for official A's airfare to attend the event. However, the Gartner Group paid the rest of the expenses incurred by the official in Greensboro, Georgia, including lodging, meals, and passes to the Masters Golf Tournament. We requested that the Gartner Group tell us how much it incurred on behalf of the official during these events. It provided us with the per-person estimated costs for individuals attending and participating in the event.² We estimated the official accepted gifts from the Gartner Group in the amount of \$662, well above the \$280 gift limit for that year. The official never disclosed these gifts.

Both the Gartner Group and the official contended that he did not golf during the event, even though it was scheduled for two separate days. However, the official participated in the Masters Golf Tournament as a spectator for a day. He also acknowledged that he participated in the golf putting contests organized by the Gartner Group on two separate days. The Gartner Group did not provide any information regarding the cost for the passes to the Masters Golf Tournament or the putting contests, so we could not assess a value for these two activities. However, we know that passes to the 1995 Masters Golf Tournament, which originally cost \$100 apiece, were no longer available. According to the Augusta National Golf Club, they were fully subscribed and the waiting list for passes closed in 1978.

In May, June, September and November of 1995, and in April 1996, the official awarded numerous contracts and purchase orders for information technology services to the Gartner Group totaling \$567,750, in violation of the conflict-of-interest laws.

1994 Trip to Napa Sponsored by Sybase

◆
Teale Data Center failed to repay a vendor for official A's expenses until our investigation began.

Sybase, another information technology vendor to the Teale Data Center, invited official A and official B to an executive conference at a country club in Napa, California, from October 4 through 6, 1994. Both officials attended the conference. Official A indicated that he played two rounds of golf with the vendor's executives, but official B did not participate in the golf game.

² The Gartner Group stated that, both before and after the event, the Teale Data Center requested to be invoiced for any services the Gartner Group had rendered. The Gartner Group responded that it was not a client-billable event and declined to invoice the Teale Data Center for any costs incurred for accommodations and meals.

Before the conference, Sybase sent an invoice for \$450 for expenses it estimated would be incurred on behalf of official A, but provided no similar invoice for official B. Despite the invoice for official A, the Teale Data Center did not reimburse Sybase until May 1997, after we inquired about the matter and over two years too late to avoid violating the law. As a result, official A had a conflict of interest in June 1995 when he approved purchases from the vendor totaling \$15,670. Furthermore, neither the Teale Data Center nor official B paid for the expenses he incurred during the conference. Consequently, official B accepted a prohibited gift. Moreover, neither official reported this gift on their annual statement of economic interests.

1996 Trip to Pebble Beach Sponsored by Amdahl

Amdahl, a provider of information technology services and products, invited official A and official B to a conference at a resort in Pebble Beach, California from June 17 through 19, 1996. Both officials traveled to the conference in a car driven by the vendor's account representative. The conference agenda included meetings and group discussions to share industry knowledge on information technology and introduce the vendor's new products.

The vendor sponsored a golf tournament on the second day of the conference in which both official A and official B participated. The vendor paid for all the officials' expenses during the conference except for their lodging.³

◆
Despite direction to do so, neither official disclosed golfing and other expenses covered by a vendor as gifts on their annual reports.

In response to an anonymous letter sent to the Business, Transportation and Housing Agency (agency) in July 1996 alleging improprieties by the two officials, the agency immediately conducted an internal review of their attendance at this conference.⁴ The agency completed the review and issued a report in September 1996, which revealed that neither official paid any conference fees to attend the function. It also stated that both officials should report the fair market value of the meals and the round of golf provided by the vendor on their respective annual statement of economic interests. The report indicated that both officials had stated their intention to disclose the gifts. However, neither reported the gifts on their annual

³ The Teale Data Center paid \$293 per night for two nights for each official's lodging. However, the officials did not obtain prior approval for their lodging, which was at a rate higher than the \$79 state-allowed rate.

⁴ The Teale Data Center is within the Business, Transportation and Housing Agency.

statements of economic interests for 1996, which they filed in March 1997, several months after the agency's report, in violation of state disclosure laws.

The report also revealed that both officials played in two other rounds of golf provided by the vendor: one on June 17, 1996, and the other on June 19, 1996. The report stated official A reimbursed the vendor for the cost of his two rounds on July 15, 1996, and official B reimbursed the vendor on July 18, 1996. Official B's reimbursement to the vendor for the one round of golf was one day beyond the 30-day limit allowed by law.

The report concluded that neither official had violated any laws at that point since both indicated they would report the gifts of meals and one round of golf they accepted and because they had reimbursed the vendor's representative for the two additional rounds of golf. However, the report stated that, if the agency had not received the anonymous complaint, the officials might not have reimbursed the vendor for the two rounds of golf.

Subsequent to the Pebble Beach event, on November 19, 1996, official A awarded to Amdahl a contract of \$4.1 million to upgrade computers. In addition, he approved amendments to contracts for another \$30,100 in July and October 1996 and March 1997. Consequently, he again violated the conflict-of-interest laws.

Subsequent Payments by the Teale Data Center Do Not Mitigate the Law

*The vendor invoiced
Teale Data Center well
after the 30-day limit for
return of improper gifts.*

At our request, Amdahl provided us with a detailed breakdown of the costs it incurred for both officials. Amdahl indicated that both received a ride to the event from its account executive. In addition, Amdahl provided all the meals and three rounds of golf to both officials and subsidized the cost of the official's hotel in the amount of \$30 per night for two nights. We estimated the vendor incurred a total expense of at least \$964 for each official at this conference.

As we stated earlier, both officials repaid the vendor for the two additional rounds of golf they played. However, in addition to the \$330 for golf, each official received a gift totaling at least \$634 in the form of transportation, meals, and recreation from Amdahl, well over the \$280 gift limit for that year. In addition, neither official disclosed this gift.

On October 30, 1996, more than four months after the conference, Amdahl issued two invoices for \$395 each to the Teale Data Center as registration fees for both officials to attend the conference. The Teale Data Center paid the invoices on November 7, 1996, well beyond the 30-day limit the law demands for return of an improper gift. Although the Teale Data Center paid this invoice before the official awarded the contract and contract amendments, because the payment was not made within 30 days after the gift was made, the official was prohibited from making or influencing any decision concerning the vendor for at least 12 months.

We believe that this was an after-the-fact attempt to correct the officials' failure to reimburse Amdahl for the \$634 of transportation, meal, and recreation expenses incurred. First, the agency's internal review report issued in September 1996 stated that the Teale Data Center did not pay any registration fees for the officials to attend the conference. Second, neither the training request form prepared by one of the officials prior to the conference, nor the promotional materials for the conference, listed a registration fee.

If a registration fee was required, it is odd that it was not paid before but four months after the conference. We believe the agency's internal review of the officials prompted Amdahl to submit the invoices. In addition, the invoices did not cover all of the costs incurred.

***1993 Trip to New Jersey and Ohio
Sponsored by AT&T/NCR***



—◆—
*Official A should not
have influenced any
decisions to award
contracts to this vendor
for 12 months.*
—◆—

AT&T/NCR invited official A to a special presentation and tour of the corporate facilities of AT&T in Morristown, New Jersey, and at the corporate facilities of the NCR Corporation in Dayton, Ohio, from June 29 through July 1, 1993. The official flew from Sacramento to New Jersey and Ohio with several of the vendor's representatives on a six-passenger private jet plane owned by the NCR Corporation. The official returned to Los Angeles on the same plane.

The vendor initially paid for all transportation, lodging, and meal charges incurred by the official. It then sent an invoice for approximately \$1,430 to the Teale Data Center to cover these expenses. We were unable to determine when the vendor billed the Teale Data Center. However, the Teale Data Center did not reimburse the vendor for this amount until October 1993, at least 2 months beyond the 30-day limit the law demands for return of an improper gift.

The official also violated state conflict-of-interest laws when, within 12 months after the trip, he awarded a number of contracts and purchase orders for information technology products totaling approximately \$443,365 to AT&T/NCR. Again, although the Teale Data Center paid the vendor \$1,430, because it did not pay until after the 30-day limit, official A was prohibited from making or influencing any decision concerning the vendor for at least 12 months after accepting the gift.

We asked AT&T/NCR to provide us with information on expenses it incurred on behalf of the official for this trip. However, the vendor could not provide us with information on the specific charges. Nevertheless, one of the vendor's representatives who accompanied the official on the trip stated the official stayed at a hotel while in New Jersey and at the NCR Corporation's campus facility while in Ohio. The representative also stated the official played a round of golf at a private country club owned by the NCR Corporation during his stay in Ohio. In addition, the representative indicated the invoice of \$1,430 paid by the Teale Data Center included his office's estimate of the cost of a round-trip coach airfare, commercial lodging, and meal charges incurred by the official. However, it did not include charges for his stay at the NCR Corporation facility and the round of golf he played at the country club owned by the NCR Corporation.


The vendor did not invoice Teale Data Center for the fair market value of expenses it covered for official A.


We do not believe \$1,430 represents the fair market value of all the charges incurred by the official during his trip to AT&T/NCR corporate facilities. According to the Fair Political Practices Commission, the fair market value for private air transportation is either the commercial air rate for a similar trip or the charter rate divided by the number of passengers. We contacted two airlines that serve the destinations of the trip taken by the official. Using the information from the airlines, the State's reimbursement rates for meals and lodging, and the fair market value of the golf game the official played, we estimated the vendor incurred at least \$1,600 for official A's trip.

Regardless of whether the fair market value of the gift was \$1,430 or \$1,600, because the Teale Data Center paid nothing until after the 30-day limit, the gift was prohibited and official A was required to report it on his annual statement of economic interests. However, official A did not disclose this gift.

***Official A Accepted Other Gifts
and Failed To Disclose Them***

Official A accepted another prohibited gift with a value of \$1,585 in 1996 and other gifts for less than the prohibited amount from another vendor, all of which he was obligated to disclose but did not.

***1996 Trip to Palm Springs
Sponsored by Computer Associates
International***

Computer Associates International, a business software vendor of the Teale Data Center, invited official A to a conference at a resort in Palm Springs, California, from February 21 through 24, 1996. The agenda for the conference included presentations, workshops, and panel discussions on information technology presented by the executive management staff of the vendor. The agenda also included an afternoon golf tournament on the third day of the conference. The vendor encouraged conference attendees to bring a guest to the conference.


—◆—
After our inquiry, the
vendor issued a \$350
invoice to Teale Data
Center.

Official A and his wife attended the conference. The Teale Data Center paid for the official's airfare, and the official paid for his wife's airfare. However, the vendor paid for the rest of the expenses including lodging, meals, and golf. When we inquired how much expense it incurred on behalf of the official and his wife, the vendor provided us with the approximate cost of the pertinent charges connected with the conference. The vendor stated that its policy requires charging \$350 to government clients, an all-inclusive fee covering lodging, meals, and recreational activities for the clients and their guests. The vendor acknowledged it did not issue an invoice to the Teale Data Center for the \$350 fee. In May 1997, after our inquiry, the vendor told us it had recently issued an invoice to the Teale Data Center for \$350.

From the information provided by the vendor, we determined that official A and his wife benefited from the lodging, meals, and golf during the conference in the amount of approximately \$1,585, an amount prohibited by law. The official did not disclose this gift on his statement of economic interests for that year.

***1993 Trip to Virginia
Sponsored by Software AG***

On September 16 and 17, 1993, official A visited the corporate office at Reston, Virginia, of Software AG, a provider of information technology products and services and a vendor of the Teale Data Center. During the visit, the executives of Software AG shared information on their products and services. The vendor paid for official A's lodging and some meals during the visit.


*The vendor did not bill
Teale Data Center for trip
expenses and the official
did not report this gift.*

Software AG provided us with the invoices for the official's lodging which totaled approximately \$224. However, it stated that it could not provide us with information on the lunch and dinner provided to the official.

Using the vendor's invoices and the State's reimbursement rate for meals, we estimated official A benefited in the amount of at least \$250. Official A indicated on his travel expense claims that the vendor would bill the Teale Data Center for the lodging and meals. However, it did not and official A did not report the gift on his annual statement of economic interests.

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Chapter 2

Teale Data Center Improperly Reimbursed Educational and Travel Expenses

Chapter Summary

Official A claimed \$2,095 in educational expenses he was not entitled to receive. In addition, the Stephen P. Teale Data Center (Teale Data Center) paid \$1,550 for luxury lodging, golf, and other expenses that we believe should not have been paid for with public funds.

Educational Expenses

—◆—
Official A completed course work for only one of the eight courses he charged to Teale Data Center.
—◆—

Official A claimed \$2,095 for educational expenses he incurred to obtain an external doctorate degree in business management from a private university in Louisiana. According to state regulations, the State will provide full reimbursement for tuition for training that is required by the job and may provide full reimbursement for tuition that is related to the job.⁵ The State will reimburse tuition for courses offered through accredited colleges or universities when the training is of direct value to the State, is relevant to the employee's career development in state service, and cannot be economically provided through available in-service training administered by the State. The official claimed the training was required by and related to his job.


However, we do not believe the expense qualifies for either category. The official's transcript indicates that he completed eight courses and a dissertation for his doctorate degree. However, the university granted him credit for seven of these eight courses based on his professional experience. The only course he was required to take was "Theocentric Studies," and involved the study of the Bible. The university, which is not an accredited school of business, awarded the official a doctorate degree in business management in October 1995.

⁵ Job-required training is training provided to ensure adequate performance in an employee's current assignment. Job-related training increases an employee's proficiency in his current job or improves his job performance above the acceptable level of competency established for a specific job assignment.


Travel Expenses

The Teale Data Center also paid approximately \$1,550 in improper expenses incurred during conferences attended by official A and official B. State regulations allow an agency to pay registration fees for an employee to attend a conference based on the State's interest being served, the needs of the agency, and the costs incurred. The regulations also allow for reimbursement of actual lodging costs at conferences, if approved by the employee's appointing authority. However, the regulations specifically prohibit payment of expenses included in the registration fees for activities related to recreation, sports, entertainment, or tourism.

Official A attended several conferences sponsored by IBM in 1992, 1993, and 1994, and by Amdahl in 1996 at various locations throughout the United States. IBM billed the Teale Data Center for the expenses incurred by the official at each of the conferences. However, the invoices provided very general descriptions of the kinds of expenses covered. When we asked IBM for a detailed breakdown, we found that the Teale Data Center had paid for expenses that were not allowed under state regulations. For example, it paid for golf games the official played, gift baskets given to him, and a hotel room movie during these conferences. These expenses totaled approximately \$360.



Teale Data Center paid for unallowed expenses such as golf, gift baskets, and hotel movies on behalf of official A.



Official A's executive assistant approved the invoice for payment. However, since official A did not inform the Teale Data Center that IBM had paid various personal expenses on his behalf, the Teale Data Center paid these expenses unwittingly.

Further, as discussed earlier in this report, official A and official B attended a conference sponsored by Amdahl at Pebble Beach, California, in June 1996. The Teale Data Center paid \$293 per night for two nights for each official's lodging at a luxury hotel resort. State employees can receive reimbursement for actual hotel costs at conferences with prior approval. Nevertheless, the officials did not obtain prior approval for their lodging, which was higher than the \$79 (plus tax) rate allowed by the State.

We believe it is not prudent to spend public money for rooms costing \$293 per night when rooms costing substantially less are within close proximity. Even allowing \$93 per night for lodging, we estimate that the Teale Data Center imprudently paid \$800 for the officials' luxury lodging at Pebble Beach.

In addition, in October 1996, four months after the conference, Amdahl billed the Teale Data Center for a conference registration fee of \$395 each for official A and official B. After each of the officials approved his invoice for payment, the Teale Data Center paid the registration fees. When we requested Amdahl to provide us with a detailed breakdown of the amounts incurred by the officials during the conference, we found that the \$395 registration fee included \$195 for a round of golf at Pebble Beach. We found no evidence that either official informed the Teale Data Center that the fee included a golf game. Thus, it appears that the Teale Data Center unwittingly paid a total of \$390 for the two officials to play golf.

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Conclusion

Two officials at the Teale Data Center violated state laws when they attended conferences hosted by information technology vendors. Official A violated the state conflict-of-interest laws when he accepted prohibited gifts totaling \$3,176 from information technology vendors and awarded contracts and purchase orders totaling \$5.2 million to these vendors. He also violated state laws when he failed to disclose those improper gifts. He also accepted other prohibited gifts as well as gifts that should have been disclosed. Official B also violated state laws by accepting prohibited gifts and failing to report them.

We conducted this investigation under the authority vested in the California State Auditor by Section 8547 of the California Government Code and in compliance with applicable investigative and auditing standards. We limited our review to those areas specified in the scope of this report.

Respectfully submitted,



KURT R. SJOBERG
State Auditor

Date: August 21, 1997

Investigative Staff: Ann K. Campbell, Manager, CFE
Stephen Cho, CFE, CGFM

Audit Staff: Gayatri Patel

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Appendix

Requirements and Prohibitions of the Political Reform Act of 1974

This appendix provides more detailed descriptions of provisions of state laws that govern employee conduct discussed in this report.

Section 87100 of the California Government Code, part of the Political Reform Act of 1974, states that no public official shall make, participate in making, or in any way attempt to use an official position to influence a government decision in which that public official knows or has reason to know he or she has a financial interest. The law defines a financial interest as any business entity in which the public official holds an office, is an employee, or has a direct or indirect investment of \$1,000 or more. If the decision will have a material financial effect on the official, his family, or any source of income or gift totaling \$250 or more provided or promised to the official within 12 months prior to when the decision is made, it is considered a financial interest.⁶ Participation in decision making includes negotiations, advice by way of research, investigations, or preparation of reports or analyses for the decision maker.

According to state regulations, to avoid financial interest based upon the receipt or acceptance of a gift exceeding the prohibited amount, the recipient must return the gift or reimburse the donor within 30 days of receipt or acceptance. Generally speaking, the return or reimbursement must occur before the official makes the government decision.

For the purposes of the Political Reform Act of 1974, income is defined in Section 82030 of the California Government Code as a payment received, including any gift of food or beverages, reimbursement for expenses, per diem, etc. Section 82028 of the same code defines a gift as any payment to a public official for which the official did not provide any goods or services of equal or greater value.

Section 89503 (c) of the California Government Code states that no member of a state board or commission or designated employee of a state or local government agency shall accept

⁶ The gift limit of \$250 is adjusted biennially by the Fair Political Practices Commission. The limit was \$270 for calendar years 1993 and 1994, and \$280 for calendar years 1995 and 1996.

gifts from any single source in any calendar year with a total value of more than \$250 if the member or employee would be required to report the receipt of income or gifts from that source on his or her statement of economic interests.

According to state law, designated employees are required to disclose in their statements of economic interests the name and address of each source of income aggregating \$250 or more in value, or \$50 or more in value if the income was a gift.

Agency Response

We submitted our report to the Business, Transportation and Housing Agency (agency). The agency has not completed its corrective action. However, it requested both officials to provide a detailed response to each of the issues we reported. In addition, the agency demanded that both individuals immediately reimburse the State for expenses improperly paid by the Stephen P. Teale Data Center (Teale Data Center). Official A reimbursed the Teale Data Center in the amount of \$2,930, for both travel and tuition expenses. Official B reimbursed the Teale Data Center in the amount of \$195 for travel expenses.

Because the Fair Political Practices Commission (FPPC) is responsible for enforcing the Political Reform Act, and because Official A's attorney has presented to the agency an alternative analysis of the facts, the agency will await the outcome of the FPPC's review before determining whether it will take disciplinary action based on violations of that law. We have provided the FPPC with a copy of our report.

The agency also has directed that both officials and other employees at the Teale Data Center responsible for processing travel claims receive additional training concerning expenses and the reporting of gifts. Further, the agency has directed its general counsel to work with the Teale Data Center and, if necessary, the FPPC, in reviewing the Teale Data Center's conflict of interest code and statement of incompatible activities to ensure they are in full compliance with state ethics laws.

cc: Members of the Legislature
Office of the Lieutenant Governor
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State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
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