

## Unanswered Questions: City Council's Phantom Funds

by Courtney Gross

Monday, April 14, 2008 12:00 AM

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Gotham Gazette image by Ya-Hsuan Huang

*This story was updated on Tuesday, April 15, to reflect recent developments. Other updates throughout the week can be found [here](#).*

A week after the story broke that the City Council had allocated funds to non-existent organizations, Council Speaker Christine Quinn declared that the council has "reformed" its decades long practice of hoarding extra funding for pet projects -- the so-called routine process that [gave rise to the scandal](#).

Leaders of several of the city's good government groups flanked Quinn Friday as she announced the changes aimed at creating a more transparent process for the council's allocation of discretionary funding. The more than \$20 million a year previously handed out solely at the speaker's discretion will now be distributed to the city's nonprofits via a merit-based proposal process.

But while some congratulated the [speaker](#) on her new initiatives, including the 10 council members who stood behind her as she announced them to reporters, the issue shows no sign of disappearing.

Two investigations -- one city, one federal -- into the council's finances are still ongoing as New Yorkers await a specific explanation on how millions of dollars were earmarked to fictitious organizations in the council's discretionary budget. There were [reports](#) of possible fraud charges against those -- whoever they might be -- who set up the phony groups. And Quinn [reportedly has hired](#) a criminal defense lawyer, although she has also said that she is not a target of any of the inquiries into the secret funds.

On Friday, the speaker declined to describe how [approximately \\$4.7 million](#) could possibly have been allocated under her watch to groups that did not exist. Several city agencies, including those that are most associated with the council's discretionary funding, such as the

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### Department of Youth and Community Development

, refused to comment on the issue. These agencies also would not explain the funding process, claiming that too is part of the investigation.

Even so, City Hall observers, officials and citizens have not hesitated to point fingers at one another. Those involved include Quinn, the council's finance department, Finance Committee Chair David Weprin, [City Comptroller William Thompson](#), the mayor's [Office of Management and Budget](#) and the respective city agencies that were slated to contract out the funding to the particular nonprofits.

All of these individuals or entities will be subject to questions at some point, if not now, certainly in 2009, when Quinn, Thompson and Weprin all may run for higher office.

### **The Way the Process Worked**

Here's what we know.

Each year City Council members receive money to dole out to youth and senior programs and funding for discretionary programming -- termed the council's member items or in the eyes of some, pork barrel spending.

Last year, each council member [received](#) \$340,464 in discretionary funds, of which \$151,714 was devoted to youth programs, \$108,750 to senior initiatives and \$80,000 to allocate as he or she wanted. While the items are approved by the speaker's office, members often select their own programs with relatively little interference. The council's discretionary funding is outlined in a [budget document](#) called "Schedule C."

Schedule C is not released until the day the budget is adopted. Even council members do not know which initiatives or items are being funded before then. (One of Quinn's proposals announced last week would be to release this budget document at least 24 hours before the council approves the budget, which it must do by July.)

This funding is in addition to about \$300 million given to the council for larger, citywide

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initiatives. Those programs are under the control of the speaker and are chosen with council members' input. The speaker also has had an additional pot to distribute solely as he or she saw fit. For the first time, Quinn announced the total amount. This year, she said, that funding is approximately \$22 million, but that sum has risen to as much as \$35 million under previous leaders.

Though the City Charter contains a chapter titled "Budget Process," nowhere does it cite the council's discretionary funding or the process by which it should be allocated. The City Council's rules also do not address this process. Some council members, even veterans who have served in city government for decades, do not know specifically how this process plays out.

Once it is determined which programs will receive discretionary funding -- from the speaker and or individual council members -- the city agency involved draws up a contract. Those contracts then go to the city's comptroller's office, which reviews them for economic efficiency and so-called legitimacy. The role of the mayor's Office of Management and Budget, which refused to comment because of the ongoing investigations, remains unclear. Though it oversees all agency spending, unlike the comptroller's office, it does not have an auditing responsibility.

To further complicate matters, the differences between the individual council member funding and the speaker's funding has remained unclear until now. Though Quinn spearheaded a policy to attach council members names to their particular initiatives last year, she has admitted that the speaker's funding in particular was not spelled out in budget documents.

Her announcements on Friday, especially her proposal to distribute the speaker's discretionary funding through the request for proposal process, are an attempt to create more transparency.

### **Who's at Fault**

Although this discretionary funding process winds its way through City Hall and through most of the city's agencies, some of the city's elected officials contend, it is mostly under the control of the speaker's office, which includes the council's finance department.

Given that, some say the current controversy can entirely be attributed to Quinn and her predecessors. One of her colleagues, Councilmember Charles Barron, who has clashed with Quinn in the past, has [called](#) for her to step down.

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On Friday, Quinn took responsibility for the scandal, though she has continued to reiterate her innocence in the matter. She argues she found out about the fictitious groups last year after she directed her staff to stop hoarding away funds for mid-year budget fixes. Her staff, she says, disregarded her directive.

"Obviously, I am the speaker," said Quinn. "I take full responsibility."

It is unclear whether the funding allocated to fictitious groups was from the member item funding or from the speaker's discretionary funding. The last budget document that contains the names of the fictitious groups was in fiscal year [2007](#), prior to the speaker's initiative to name council members next to certain programs.

Though more than a dozen fictitious groups have been allocated funding under Quinn, none of them ever received funding. The fictitious groups were used to "park" funding, which was doled out to certain groups, such as Little Leagues or park associations, mid-way through the budget year. One report found that Quinn's district received about a [quarter](#) of all of the funding.

According to the council's Schedule C from fiscal year [2007](#), several of these phony groups were slated to get some of the council's largest appropriations. The American Association of Concerned Veterans, which we now know does not exist, was set to get \$422,763 -- the fifth largest appropriation of any member item that year.

Since the Finance Committee holds budget hearings, some think Committee Chair David Weprin should also bear some responsibility. Weprin, who has remained relatively silent on the issue for the past week, claims he is not at fault. Though his committee is charged with holding budget hearings, he, like any other member, does not get the list of the council's discretionary funding until moments before the budget is passed. Also, Weprin said, his committee does not hold specific hearings on the council's discretionary funding.

Weprin, who is running for city comptroller, said because the city's budget is so large -- nearly \$60 billion -- it would be impossible to weed out a minute number of fake groups out of the thousands the council funds. "There is no possible way that I can personally vet all of these

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organizations," he said. "That's why we have staffâ€¦ obviously there are a lot of other players in the process."

Individual council members may also be at fault, said some advocates. If members received funding, advocates wondered why they did not question where this money was coming from. "The only other massive suspect I would point to is council members who are massively brokering funding," said Maria Doulis of the [Citizens Budget Commission](#) .

More than a dozen council members got funding that was originally slated for the fake groups. One of them was Councilmember Gale Brewer. Brewer said, however, she was never notified that the group in her district had been funded mid-way through the budget year.

Brewer, who also sits on the council's finance committee and its budget negotiating committee, said she was unaware that the speaker's office, both under Quinn and her predecessor Speaker Gifford Miller, had extra funding stashed aside in "holding codes" -- or accounts to be used for mid-year budget fixes or mid-year discretionary funding.

"I don't feel responsible," said Brewer. "There was no way for us to know what this item is."

Councilmember Daniel Garodnick, who also was named in budget [documents](#) as having received funding, said his office assumed the additional funding was part of a larger City Council initiative, which had not allocated specific funding yet.

### **The Comptroller and City Agencies**

Then there is the comptroller's office. Last week, Thompson [hand-delivered](#) a letter to Quinn stating that his office would be

[reviewing](#)

any agency agreement or contract paid for with council member discretionary funds before funding is disbursed. Some chalked this up to politics, since both Thompson and Quinn are potential mayoral candidates in 2009.

Technically, some City Hall observers have argued, the comptroller's office should have been

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doing that already. According to the City Charter, the comptroller is responsible for auditing every city agency or entity at least once every four years. So far, since Thompson assumed office in 2002, he has audited the City Council once. That report was released last year and examined the council's expenses for fiscal year 2005. Though it uncovered the City Council had violated the charter when disbursing printing contracts, it said nothing about its discretionary spending.

The comptroller's press office did not return repeated calls for comment. Thompson has said elsewhere, though, that it would have been impossible for his office to uncover the practice because he only audits contracts, and the fake groups never got that far along in the funding process. The fictitious groups were designed to park extra funding, and therefore city contracts were never drawn up for them.

Elsewhere, the role of the city's agencies has raised some suspicions. Because agencies also play a part in disbursing discretionary funding, some have questioned what agencies knew when. On Friday, Quinn partly exonerated them. She said agencies never received the names of these fictional groups.

### **Moving Forward**

Whether it's because of her mayoral ambitions or her purported interest in reform, Quinn is attempting to move on from the phantom group mess by putting forth several proposals to "restore confidence" in the council's budget process.

For one, beginning with the fiscal 2009 budget, which the council must approve by June 30, she will limit the speaker's power over discretionary funds by doling out money based on merit and a formal proposal process.

The speaker's office, with advice and recommendations from individual members, will draw up the requests for proposals, and the mayor's Office of Contract Services will award the contracts. Good government groups, including [Citizens Union](#), the sister organization to Gotham Gazette's publisher, and the [New York Public Interest Research Group](#), hailed the move.

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Since Quinn released her proposal on Friday, a backlash has emerged in the council, starting with closed-door borough delegation meetings. Many members -- some elected officials have said a "vast majority" -- argue the proposal hands over even more power to the already influential mayor.

"If you get caught with your hands in the cookie jar, just let go of the cookies and remove your hand, and maybe give yourself a slap on the wrist," said Councilmember John Liu in a prepared statement last week. "But do not tie the hands of all the successors."

Councilmember Lewis Fidler said the Brooklyn borough delegation agreed on three parameters at its meeting over the weekend including the following: It would not export power to the executive branch, it wants to protect small groups from an exhaustive and confusing proposal process and, given that the budget needs to be passed by July, the reforms done for fiscal year 2009 cannot be too overwhelming.

Though the council's personal member item pots will not be affected by the request for proposal process that Quinn is proposing, Fidler said many small groups that individual members or borough delegations cannot fund often get funding from the speaker's pot. Thus they are concerned for small groups in their own districts.

"Let's be frank -- it's her money, but it's our money," said Fidler. "It's her decision, but it's not done without the input of members."

Members said the backlash is unlikely to derail Quinn's reforms, but merely modify them.

In response to this opposition, the speaker's Spokeswoman Maria Alvarado released the following statement: "The speaker is seeking input and ideas on the best way to implement the reforms she announced on Friday. We are at a point in the process where ideas need to be made more specific. As we do so, we are confident there is a way to meet both the goals that were laid out on Friday and the concerns that have been raised."

Some of the proposals released last week have also caused little to no controversy. The speaker intends on hiring an independent compliance officer to assure the council meets all of the charter's requirements and procurement rules. The speaker will also release Schedule C at

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least 24 hours in advance of its projected approval and create a searchable database that lists all organizations that apply for funding through the council, similar to Attorney General Andrew Cuomo's [Project Sunlight](#) .

After a rocky week, it seems Quinn may be back in the good graces of good government groups. Dick Dadey, executive director of Citizens Union, admitted that the group had wanted more from the speaker when she announced reform measures, like naming council members next to member items, last year. That, at least in part, is what they are seeing now and had discussed with her previously.

"Out of the public disclosure of this years long practice," said Dadey of the budget scandal, "has come a good thing."

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