

## Riga Scams: Through Associations and Foundations This Time

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**Lavish earmarked subsidies from the municipal budget, dubious donation schemes, incomprehensible trademark dealings, potentially fictitious employees, unclear principles for granting funding for implementation of various projects, and unreasonable spending on many expenses.**

**Such conclusions follow from the audit that the State Audit Office carried out in Riga City Municipality, where significant deficiencies in the procedures of planning, allocation, and supervision of funding provided to associations and foundations have been identified. This leads us to the conclusion that the Riga City Municipality has spent more than 20 million euro from the money of Rigans inexpediently in the last three years.**

During the audit, the State Audit Office focused on two funds established by the Riga City Municipality, “Riga Tourism Development Bureau” (RTDB) and “Riga.lv”. Those two foundations receive 20.9 million euro from the total amount of the funding of 26.5 million euro for associations and foundations included in the scope of the audit. The State Audit Office tried to ascertain whether the funds had achieved the goals set for them, to cover which expenditure the funding provided by the municipality was used and whether the establishment and maintenance of those foundations were necessary at all.

### **Illicit Schemes with Trademarks, Donations, and Posts in RTDB**

Already in 2009, the Riga City Council decided to allocate 1.4 million euro of budget funds to promote the recognition of Riga by establishing the foundation RTDB. It had three more founders, who invested only 8,537 euro in total. Having invested 99.4% of the funds, the Riga City Council received 70% of the voting rights, and the other founders received 10% each. However, the audit found that the promise of the other founders for the future contributions had not yet materialised.

The audit established that the Municipality granted an amount of funding as the foundation has requested without any substantiation. During the previous three years (2016-2018), RTDB has received funding of 17 million euro from the municipal budget. In fact, most of these funds are invested in the promotion of two trademarks, “LIVE RIGA” and “MEET RIGA”, which are not owned by the municipality or the foundation, but JSC “Air Baltic Corporation” and are currently pledged.

In 2015, RTDB purchased trademark “RIGA CARD” from a private individual for 10 thousand euro, but the Board of the foundation decided to sell it to „Rīgas Satiksme” Ltd for 1 euro in 2017. Immediately after that RTDB created and registered a new trademark “RIGA PASS”.

RTDB has also acted as an intermediary to implement the charitable contribution and donation scheme established by the management of the municipality. Between 2016 and 2018, the financial resources allocated by the municipality of almost 1 million euro were contributed and donated through RTDB.

The audit concluded that there were potentially fictitious employees in the office. Because of the activities carried out by the State Audit Office, seven posts were terminated. Also, when evaluating the list of jobs and the amount of remuneration in RTDB, the audit has established that the salary of the RTDB exceeds the level of payment of municipal employees of the respective class.

### **Unclear Arguments for Creating “Riga.lv”**

Raising public awareness about the performance of the municipality already falls within the scope of the responsible municipal departments and of each institution in particular. The State Audit Office could not find a justification for why the municipality had a need to establish the foundation “Riga.lv” in 2013, where the municipality is the only founder.

Over the past three years, the municipality has awarded the foundation an earmarked subsidy of over 4 million euro. Although the Articles of Association include the obligation for the municipality to approve the budget of Foundation “Riga.lv”, it has not been done in 2016, 2017, or 2018. Also, “Riga.lv” reports false financial data in its financial statements.

Publishing a local newspaper was one of the goals why Foundation “Riga.lv” was established, but the decision to discontinue the publishing of the press was taken the following year after the foundation was established. Already one year after the establishment of the Foundation, a decision was made to stop publishing the newspaper. Nowadays, only by purchasing specific newspapers one can obtain the information prepared by the foundation, which means that the Rigans actually pay twice for that.

The audit found that the staff of this foundation actually engaged in republishing information from other sources of information. In addition, from the authorship agreements concluded, it is impossible to ascertain either the amount of work done or the cost of the services provided.

Also, without sufficient justification, there were agreements signed on the advertising of the Internet portal [www.riga.lv](http://www.riga.lv) on other Internet portals, purchase of broadcasting time on television and radio for more than half a million euro.

### **Formal Supervision of Foundations**

The audit found that the officials and departments responsible for the supervision of the activities of foundations in the municipality such as the Executive Director, the Office of the Chairperson of the Council, the Public Relations Division, do not actually supervise the activities of the foundation and the use of the earmarked subsidies provided.

The State Audit Office also draws attention to merging the positions of the leading officials of the foundations and other employees with other posts in the municipality, in the council and the administration in particular.

### **Unclear Financing Principles for Associations and Foundations**

During the audit, another range of the questions concerned the principles of financing and how transparently and honestly other associations and foundations are eligible to the funding that the Department of Education, Culture, and Sports of the Riga City Council distributes. The audit established that from 2016 to 2018, the Department of Education, Culture, and Sports awarded funding of 2.8 million euro to associations and foundations without a tendering procedure that constitutes 27% of the total funding allocated for such purposes. Control over the use of that money was also formal. This creates unequal conditions for eligibility for the support financing of the municipality available.

The State Audit Office believes that the activities of the foundations of Riga City Municipality discredit the very nature of foundations. The choice of foundations for fulfilling the functions and duties of the municipality creates reasonable suspicions about the deliberate desire for non-

transparent and even illegal use of municipal funds, as well as for circumventing the restrictions imposed on merging the positions.

By summarising the findings of the audit, the State Audit Office recommends the municipality to evaluate how expedient further participation of the municipality in those foundations is.

**Is Financing from Riga City Municipality an Inexhaustible Source for Associations and Foundations!?**