



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



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Dear

We have completed the lawfulness and expediency audit “Lawfulness and Expediency of Earmarked Subsidies Granted to Associations and Foundations by Riga City Municipality”.

To support the development of various domains like culture, sport, and tourism, local governments may grant funding to various non-governmental organisations. Local governments can also establish associations and foundations themselves to entrust them with various functions that fall within the competence of the local government.

In public space, information occasionally occurs on the funding granted by Riga City Municipality to various associations and foundations, and concerns that this funding is being used to achieve incomprehensible goals and outcomes.

In this audit, we assessed where the major part of the funding granted by the municipality to associations and foundations “actually goes” and what kind of “final product” the taxpayers of the Riga City would receive from it. We found in the audit that most of this funding granted by the Municipality is allocated to two foundations founded by the Municipality itself, namely, “Riga Tourism Development Bureau” and “Riga.lv”. Therefore, the audit focused on a detailed assessment of the performance of those two foundations, as well as on the assessment of the supervision performed by the Municipality of those foundations.

Do the foundations achieve the set goals, for what costs are the funds allocated by the Municipality spent, and are the foundations necessary for the

reader,

proper fulfilment of functions and tasks? We have been looking for answers to these questions during this audit.

We also evaluated according to which principles and whether associations and foundations can qualify for the funding by the Municipality equally openly and honestly, whom funding is allocated by the Education, Culture, and Sports Department of the Riga City Council.

We extend our gratitude for the cooperation to our audited entities, Riga City Municipality, its institutions and departments, as well as foundation “Riga Tourism Development Bureau” and foundation “Riga.lv”.

Respectfully yours,



Ms Inga Vilka
Department Director

Summary

Main conclusions

When planning, allocating, and supervising the use of funding granted to associations and foundations, the Riga City Municipality (hereinafter referred to as ‘the Municipality’) has not acted with the funds of the local taxpayers economically, because the audit revealed significant deficiencies in the procedures of both financing planning, allocation, and supervision.

Taking into account the discrepancies found during the audit, unjustified use of the funds of the Municipality, overlapping functions and tasks with other institutions and structural units of the Municipality, as well as insufficient supervision and control of the Municipality over two municipality-established foundations “Riga Tourism Development Bureau” and “Riga.lv”, the State Audit Office considers that at least 20.9 million euro has been spent inexpediently (inefficiently, uneconomically, and unproductively) in the last three years. While during the allocation of the funding to associations and foundations of 2.8 million euro, the Municipality has not ensured equal access to qualifying for this funding, thus risking that the funding has not been used efficiently.

When control does not exist...

The audit has led to the conclusion that the Municipality has channelled the vast majority from the total amount of the funding of 26.5 million euro for associations and foundations included in the scope of the audit, that is, 20.9 million euro into two foundations, where the Municipality is also a founder itself, namely, Foundation “Riga Tourism Development Bureau” and Foundation “Riga.lv”. At the time of the audit, it was also not confirmed that before the Municipality decided on establishing the foundations, it would have assessed the financial and economic aspects of that decision. Thus, the Municipality has not complied with the Law on Local and Regional Governments that the activities and decisions of the Municipal Council should be as useful as possible.

The audit concludes that more than 20 million euro for the operation of two foundations have not been supervised by the responsible



Control exists but
only “on paper”

authorities, structural units, and employees of the Riga City Municipality and that the control is formal.

The Finance Department of the Riga City Council permits the situation that the procedure set forth by the Municipality for requesting and planning the financing of the Municipal budget is not complied with because Foundation “Riga Tourism Development Bureau” is granted such an amount of funding as the Foundation has requested without any substantiation. In its turn, the Riga City Municipality has not approved the budget of Foundation “Riga.lv” at all for 2016, 2017, and 2018, although the Articles of Association of that Foundation stipulate such obligation. During those three years, the Municipality has simply granted a generous earmarked subsidy of over 4 million euro to the Foundation.

The Municipality also does not evaluate how the Foundations spend the funding and does not verify the actual financial situation of the Foundation. The audit has established that the foundation “Riga.lv” reports false financial data in the financial statements. Also, without justification and coordination with the Municipality, the Board of the Foundation has signed a short-term loan agreement with a credit institution in 2016, whose amount has already reached 0.2 million euro in 2018.

Although there are certain officers appointed as responsible for the assessment of the activities carried out by the Foundations in the Municipality, the audit has established that neither the Office of the Chairperson of the Riga City Council nor the Public Relations Department performs the assessment of the activities of the Foundations or any other duties assigned to them regarding the supervision of the activities of the Foundations.

The findings of the audit also allow us to conclude that the Municipality has chosen to establish foundations perhaps deliberately because such a legal entity is not obliged to report in detail or otherwise inform the public about its activities, use of funding, and achievement of the set goals. The State Audit Office considers that the Municipality should choose the kind of institutions to ensure the transparent use of taxpayers’ funds that would allow the Municipality to carry out full monitoring and control of the set goals, results and financing or one must impose stricter statutory requirements on the foundations established and/or financed by local governments.

How much do taxpayers of Riga City pay for tourism development?

In 2009, when there was an economic downturn, unemployment, and business closures observed in the country, each euro invested by the Municipality in one of the supported sectors should have been based on detailed calculations and focused on economic recovery. In August 2009, the newly elected Riga City Council decided on amendments to the Municipality budget and planned 1.4 million euro to promote the recognition of Riga. Already in October 2009, the Municipality decided to establish Foundation “Riga Tourism Development Bureau”. There was no evidence found during the audit that such a decision was based on financial calculations, forecasts of the positive impact on tourism development in Riga. Similarly, the Municipality did not meet the obligation envisaged in the Law on State Administration System to make sure that when delegating some tasks, the latter would be carried out more efficiently than if the municipality had fulfilled them itself.

Why did the desire and interest of JSC Air Baltic Corporation and two associations, Latvian Association of Hotels and Restaurants and Latvian Association of Travel Agents, to develop tourism demanded an investment of 1.4 million euro from the Municipality and only 8,537 euro from the other 3 organisations? Is this proportional distribution of the funding invested proportionately? Even though the investment of the Municipality constitutes 99.4% of the total investment, the Municipality received 70% of voting rights, while the remaining members received 10% each. Was the information announced publicly in 2009 that this was just an initial investment and then the other participants would invest their money true? The information obtained during the audit reveals the opposite.

The Riga Tourism Development Bureau has been generously funded from the Municipal budget or from the funds of Riga taxpayers for all these years. Only in the last three years, the Riga Tourism Development Bureau has received municipal funding of 17 million euro. But what benefit do the Rigans receive from that?

Most of this amount was invested in the development of two trademarks “LIVE RIGA” and “MEET RIGA” owned by JSC “Air Baltic Corporation” and currently pledged. This indicates a risk that the Foundation will not be able to use them anymore. However, all the activities of the Riga Tourism Development Bureau are constructed in the way to promote only these trademarks. Therefore, the auditors have doubts about whether the Municipality has handled the funds of Riga taxpayers efficiently for 10 years by financing Foundation “Riga Tourism Development Bureau”.



The Municipality grants lavish earmarked subsidies without any assessment

“Trademark deals” do not finish on the above-mentioned trademarks, as the audit has found that the Riga Tourism Development Bureau had purchased the trademark “RIGA CARD” for 10,000 euros in 2015, while the Board of the Foundation decided to sell the trademark to “Rīgas Satiksme” Ltd. only for one euro in 2015 by causing losses of at least 10,000 euros to the Foundation.

It is also unclear why selling the trademark “RIGA CARD” was necessary, as only two days after the sale of the above-mentioned trademark the Riga Tourism Development Bureau filed an application for the registration of another trademark “RIGA PASS” with the Latvian Patent Office, which is essentially an analogue of the trademark “RIGA CARD”.

Not only trademarks but also dubious donation scheme, untraceable collaborative projects, and possibly dummy employees

For a municipality, the foundation is a very “convenient” legal entity to support the “favoured ones”. The audit has stated that the Riga Tourism Development Bureau acts as an intermediary to implement the charitable contribution and donation scheme established by the Municipality. Between 2016 and 2018, the Riga Tourism Development Bureau has contributed and donated the financial resources allocated by the Municipality of almost one million euro, including to other foundations established by the Municipality. The circle of “favoured ones” includes Foundation “Basketball Club “TTT-Riga””, KRUKFILMS Ltd., Association “Latvian Club of Funny and Inventive People”, and Association “Baltic Forum”, etc.

The allocation of the funding of the Foundation for the implementation of various co-operation projects is also questionable since at least 7.8 million euro was spent on those projects during the period from 2016 to 2018; it has not been assessed what added value each cooperation project generates for popularising and developing tourism in Riga and whether the City of Riga benefits from implementation of such projects in general. The largest regular beneficiaries are Association “Streetbasket” with nearly 270,000 euro, the European Junior Ice Hockey League with nearly 174,000 euro, and the Latvian Handball Federation with 35,000 euro.

The Riga Tourism Development Bureau spends about one million euro on administrative expenses per year that is 19-20% of total expenditures, wherefrom salaries constitute about 0.4 million euro. The audit led to a conclusion that employees might be employed fictitiously



Selling their
trademarks
dirt-cheap

at the Riga Tourism Development Bureau because, during interviews with those employees in the framework of the audit, a part of those employees failed to explain what specific duties they were performing, what function they had, whom they were subordinate to, and who organised their daily work. Because of the activities carried out by the State Audit Office, seven posts were terminated, thus reduction of the earmarked subsidy allocated by the Municipality to the Foundation for at least 340,939 euro is possible in three years.

The objective of the Riga Tourism Development Bureau is to develop tourism and promote the visibility of Riga City. Therefore, it is justified that employees participate in various international events and forge contacts with cooperation partners. However, the audit has stated that employees were often posted on missions without sufficient justification, and there was no clear justification for establishing cooperation. Hence, we assessed the funds spent. As a result, unreasonable spending of employees totalling to at least 25,000 euro has been identified, of which 19,000 euro was spent by one employee for restaurants, alcohol, delicacies, flowers, and other expenses.

When one foundation is not enough...

While the Municipality can justify the establishment of the Riga Tourism Development Bureau by its statutory function, id est, to develop tourism and to conclude a delegation agreement, then the “story” is quite different in the case of Foundation “Riga.lv”, because the State Audit Office esteems that raising public awareness about the performance of the Municipality already falls within the scope of municipal institutions. Therefore, there was no reason to establish such a foundation.

In 2013, the Municipality came up with the idea to establish another foundation by anticipating that this foundation would deal with raising public awareness about the performance of the Municipality. In this foundation, the Municipality is the sole founder and has invested 35,000 euro initially. Over the last three years, the funding of 4.35 million euro has been allocated to the Foundation.

Again, the question arises: why was it necessary to start “Riga.lv”? Is it not sufficient for the Municipality to have its Public Relations Department and the many PR experts in its institutions, structural units, and municipal companies? Publishing a municipal newspaper was one of the goals why Foundation “Riga.lv” was established. But does the Foundation really do it? The audit found the opposite. Already one year



The Municipality
overdid with raising
public awareness

after the establishment of the Foundation, a decision was made to stop publishing the newspaper. Nowadays, a free municipal newspaper has “turned” into a paid printed material for the population, as it can be obtained only by purchasing specific newspapers at the same time. Do the Rigans pay twice for that? Yes, because at least 0.6 million euro per year is spent from the municipal budget on preparing and distributing the printed matter and the population must buy this printed material at their own expense.

Republishing information from other sources of information is what the employees of this Foundation actually do largely. From the authorship agreements concluded, it is impossible to ascertain either the amount of work done or the cost of the services provided. In the opinion of the auditors, it is generally questionable that some of the agreements are actually signed on the works of authorship, as the agreements are also concluded on consulting and there is no confidence gained regarding the royalties paid by the Foundation of at least 251,352 euro.

Should the Municipality advertise itself? Does a reader not reach the Riga informative portal www.riga.lv when entering the keyword “Riga” in the Internet browser? Apparently, the Municipality and Foundation “Riga.lv” think differently, since the Foundation concluded agreements on the advertising of the Internet portal www.riga.lv on other Internet portals, purchase of broadcasting time on television and radio by spending at least 549,917 euro during the period from 2016 to 2018.

Does the same uncertainty with funding also exist in other institutions of the Riga City Municipality?

The audit has found that the Department of Education, Culture, and Sports of the Riga City Council allocates at least a part of the available funding to associations and foundations based on the results of the tender, thus providing a criteria-based approach to the distribution of the funds from the municipal budget.

However, the audit also established that from 2016 to 2018, the Department of Education, Culture, and Sports awarded funding of 2.8 million euro without a tendering procedure that constitutes 27% of the total funding allocated to associations and foundations, thus creating unequal conditions for eligibility for the support of the Municipality available to associations and foundations.



Expenses not fit for
purpose

Major recommendations

Taking into account the discrepancies found during the audit, unjustified use of municipal funds, overlapping functions with other institutions and structural units of the Municipality, as well as insufficient control by the Municipality over the two Foundations established by the Municipality, namely, Foundation “Riga Tourism Development Bureau” and Foundation “Riga.lv”, the State Audit Office recommends the Municipality to evaluate how expedient further participation of the Municipality in those Foundations is.

The State Audit Office recommends the following to the Department of Education, Culture, and Sports:

- Elaborate evaluation criteria and limit the amount of funding in those educational, cultural, and sporting activities where funding is granted without the announced tenders;
- Improve the control procedures regarding the use of funding allocated to associations and foundations by the purpose of its allocation.

Following the findings of the audit, having informed the responsible institutions of the sector, the State Audit Office shall propose to assess the need to improve the legislation by calling for the establishment of principles for the actions of municipalities with financial resources when participating in the establishment of foundations and channelling the financial resources to foundations.