



City of Wilmington

Hanifa Shabazz
City Council President

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May 21, 2018

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts of the State of Delaware
401 Federal Street – The Townsend Building
Dover, Delaware 19901

RE: Wilmington City Council

Dear Auditor Wagner,

Thank you for sharing with us the draft audit prepared by your office pertaining to the Wilmington City Council Discretionary Fund. In accordance with the past practice of your office, City Council wishes to submit this letter in response to your findings and your audit report, to be included along with the final iteration of your report for public distribution. Please allow me to offer the clarifications and additional context as detailed in the pages that follow.

With that report in final form, I wanted to comment on some specific items reflected in the draft report, the issue of conflict of interest in particular, which we believe warrant additional clarification and context. More broadly, I would also like to share some perspectives, and to reflect on the lessons I, and we, have learned about this process – as well as the improvements we have already made in the interim which will avoid similar outcomes in the future.

Background

On August 28, 2017, I wrote a letter to your office to request an audit of grant awards over \$5,000 issued by the Wilmington City Council during my term in office. The only grant that fit that criterion was funding allocated to the Police Athletic League of Wilmington to support the youth-centered services of the pilot program of Student Disabilities Advocate, Inc.

The purpose of Community Support Funds

The purpose of Council's Community Support Funds has been to support organizations of community benefit and importance. Historically, Council has supported cultural festivals and parades, granted scholarships to youth and adults pursuing their dream of a higher education, funded extended operating hours in community centers, and supported organizations that fill service gaps and provide vital support to our youth.

The grant funding for the Student Disabilities Advocate, Inc., pilot program was one means through which we could provide critical and much-needed support to some of our most disadvantaged youth in local schools. Our youth are confronted with aging schools, high suspension rates, underpaid educators and underfunded programs, and the disparate opportunities and experiences across the five traditional school districts that serve Wilmington. Programs like SDA help fill a critical service gap, notably in addressing the acute disparities facing our youth with differing abilities or other obstacles that can make learning and thriving in an educational environment more difficult.

'Earmarking' of funds

On several occasions in the report, it is mentioned that now-former Council President Gregory, prior to the conclusion of his term, sent an email "earmarking" – or, as referenced subsequently in the audit report, "designating" – discretionary funding for the pilot program of SDA. These references put forth the impression, and accept the premise, that he had authorization and authority to dictate the allocation of funding – both the amount and the recipient – that would be disbursed following the conclusion of his term.

This is not an accurate or complete portrayal. On January 3, 2018, at the moment when I was administered the oath of office, I was fully vested with the powers of this office, and at that moment, Mr. Gregory was relieved of his duties. Any requests for funding submitted after that moment in time, and any allocations awarded after that time, were subject to my authority and discretion. I evaluated the application based upon the merits of the program, and based on my review, there appeared to be no conflict of interest.

Mr. Gregory sent an email prior to the end of his term asserting the nature of a funding allocation he wished to take place after the conclusion of his term. However, he clearly would have no authority over such an action at that time. Further, "earmarking" is not an official action or process associated with the awarding of discretionary funds.

'A second grant to SDA'

The report also includes a mention that the Council President "approved the processing of a second grant to SDA" in July 2017, and notes that "as of January 18, 2018, this grant was not disbursed." This is inaccurate; this matter unfolded as follows:

- On June 8, 2017, we received an application for a grant to Student Disabilities Advocate, Inc.
- In an email to staff on July 14, 2017, I approved the **commencement** of our internal review process to ensure qualifications of the grant were met.
- I subsequently halted the process pending new internal controls and legislation I was pursuing in collaboration with my colleagues on City Council.
- Once new internal controls were in place and legislation further regulating this process had been passed on October 5, 2017, the request was considered in accordance with the more robust process we had established.
- In accordance with this process, I proposed for Council's consideration a grant to SDA on October 30, 2017.
- On November 1, 2017, prior to Council voting on a resolution related to this proposed grant, Mr. Gregory withdrew the grant application.

No known conflict of interest

Over the course of reviewing both grant applications, there never appeared to be, to me, the existence of a conflict of interest.

Further concerns and future funding

I was disappointed and concerned to learn in the audit report that the Police Athletic League of Wilmington, as well as Mr. Gregory on behalf of SDA, both failed to participate in this special investigation, despite numerous attempts by the Office of the Auditor of Accounts to contact them in reference to this matter. Moving forward, I will construe this lack of participation as a likely violation of the City Code provisions related to requirements imposed upon grant recipients, and to consider this lack of cooperation as resulting in disqualification from consideration for future grant funding.

Actions already taken

Shortly after requesting this audit to be conducted, we identified several key opportunities to enhance the process through which we support entities like the pilot program of SDA, and we took concrete actions to bolster the transparency and internal controls associated with Community Support Funds. Our team also conducted thorough research and outreach to officials both in Wilmington and in other cities that manage similar funding programs, and we have adopted a number of measures in place in cities like New York, NY and Richmond, VA.

The steps we have taken include:

- Instituting a formal grant application process and review period for grants of \$5,000 or more – the first iteration of which took place in late 2017
- Establishing a grant review panel including participation by the City Auditor
- Creating a policy and procedures manual for Council members and staff to follow in conjunction with Community Support Funds
- Introducing and passing legislation to further regulate the awarding of funding from all three elected offices in Wilmington – the Office of the Mayor, City Council and the City Treasurer – which has resulted in a formal process for review and approval of large grants. This process has already been utilized for several grant awards from City Council
 - Now, this legislation mandates that grants of **\$5,000 or more** be approved by resolution of City Council prior to disbursement
 - Grants of **under \$5,000** require notification to the City Council Finance Committee on a regular basis
- Requiring from grant applicants additional information about the intended purpose of funding, as well as a more robust statement about affiliations and potential conflicts of interest
- Reducing the amount of proposed funding in the Fiscal Year 2019 budget, and reallocating some funds to specific line items created to reflect greater transparency about causes and projects that Council seeks to support
- Aligning grant award proposals from City Council with the priorities in the adopted City Council Strategic Planning Process report, in an effort to better focus allocations of Community Support Funds on the issues that Council has collectively identified as being those we must prioritize
- Enhancing communication channels among Council Members to ensure greater transparency and coordination regarding causes we support individually and collectively
- Making data on grant funding publicly and conveniently available on Council's website – www.WilmingtonCityCouncil.com
- Announcing plans to create an annual report to highlight the impact of Council's Community Support Funds, and the important efforts of the organizations we support

The steps that I have outlined above represent a fairly revolutionary set of reforms for this long-standing practice – with greater levels of transparency, accountability and collaboration than ever before. As with any process that has been in place for a period of time, there is tremendous merit in careful analysis and consideration – and we found value in researching best practices in this arena and in effectuating the changes outlined here.

Moving forward

As I have detailed in the preceding pages, City Council's Community Support Fund process has been significantly revamped and enhanced since the time at which I requested this audit. Today's process is markedly different from the long-standing practice I inherited as Council President, and moving forward the principles of transparency, accountability and collaboration are paramount.

I appreciate the efforts of the team that produced this audit, and certainly welcome further scrutiny. Following the recommendation of this audit to perform a review of past dollars allocated dating back to Fiscal Year 2014, I have drafted a formal letter of request to City Auditor Terence Williams to work in tandem with the Audit Review Committee to conduct just such a review, pertaining to grants of an identical size - \$5,000 or more – from Fiscal Year 2014 through the beginning of the current Session of City Council.

I can say with confidence today that I – and we, as a team and institution – have learned from this experience. We worked diligently to identify gaps and flaws in the old process, and rapidly to make concrete changes.

And moving forward, I plan to work with my colleagues to continue to evaluate this process. Council has never endeavored to serve as a grant-making entity, though regrettably some of the acute social and community needs in Wilmington's various neighborhoods demand the sort of support that can be extended through Community Support Funds. I believe my colleagues would share the emphatic ambition that we might work holistically to alleviate the conditions that make this sort of financial support to community organizations so necessary.

I look forward to that day – and in the interim, to continuing to ensure that the new measures and safeguards we have put into place ensure that this process moves smoothly and allows us to focus on what is most important – moving Wilmington forward.

Thank you for your attention to this matter, and for your support of our efforts.

Respectfully,

A handwritten signature in blue ink, appearing to read "Hanifa Shabazz". The signature is fluid and cursive, with the first name being more prominent.

Dr. Hanifa Shabazz
President, Wilmington City Council