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Release #06-2010  
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**FOR IMMEDIATE RELEASE**  
**TUESDAY, FEBRUARY 9, 2010**

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**DOI COMMISSIONER ROSE GILL HEARN'S REMARKS REGARDING  
THE INDICTMENT OF COUNCILMAN LARRY SEABROOK**

It is extraordinary to be here to announce the investigation and indictment of a New York City Councilmember, only seven months after the last arrest of a Councilmember, both of whom were charged with abusing their offices in various ways, including the abuse of discretionary funds.

We announced over two years ago that we would look at discretionary funding and abuses from within NFPs that receive City funding. Previous experience with a series of cases we investigated involving theft of discretionary funds led us to look proactively at that process. DOI joined with the U.S. Attorney's Office and began to examine the way the City Council dispersed millions of dollars in discretionary funds. So far, that probe has yielded three significant criminal cases in less than two years and brought about the revelation of the so-called "holding codes" in which the names of nonexistent organizations were used to hold sums of discretionary money back each year when the budget was adopted. That non-transparent practice was exposed and halted by the Council. While each of the three criminal cases has been different, they had in common some abuse of discretionary funds. The previous cases are:

- Asquith Reid, who was COS to former Councilman Kendall Stewart, and a second Stewart staffer, who have both pleaded guilty to embezzling \$145,000 in discretionary funds allotted to a NFP closely associated with Reid.
- Former City Councilman Miguel Martinez who is serving a five-year prison term for a fraud and money laundering scheme involving more than \$100,000 of public funds, including discretionary funds that he steered into and then siphoned out of a nonprofit organization.
- With the indictment today, Councilman Seabrook adds his name to this list of defendants.

Each of these cases has opened up a new window into the labyrinth of discretionary funding, including circumventions and conduits and NFPs performing little or no work for the City money they received.

As the US Attorney mentioned, the investigation has continued to underscore the serious vulnerabilities in the discretionary funding system, a system that has vastly grown in size over the years. Surely most NFPs and Councilmembers are not corrupt, yet it is the process that has proven to be corruptible. While significant remedial measures have been taken during the last two years, unlike other City funding, these allocations are still made at the discretion and control of individual Council members - funding those organizations anxiously need and want. As today's case illustrates, that can cultivate a relationship susceptible to abuse and undue influence. This latest indictment has revealed new ways this process was used to scheme and subvert.

Safeguards have been implemented in the past two years by the Administration and the Council in connection with the process that have effectively vetted out conflicts and companies not worthy of City funds. But as today's indictment shows there were other ways to fly this money under the radar. As it relates to the existing system, oversight should be expanded to include all recipients and sub-recipients of discretionary funding, so the process is truly transparent from beginning to end and not obscured by conduits or intermediaries. Large discretionary funding grants should be placed under stricter guidelines to ensure the City is fairly appropriating the money and only to well-run, reliable NFPs. City money should only go to entities that are truly independent, unlike the case here where funding went to organizations Seabrook controlled and that supported his family and friends. Thus, there needs to be a stricter set of rules relating to funding organizations where there are potential conflicts. In sum, what is needed is

total transparency, including who will end up with the money; funding organizations that are, on the merits, the best to serve the community, free of entanglements with the benefactor.

Moreover, there should be a dialogue about whether the process by which funds are allocated and selections made can be supplemented based on an objective system of review which could possibly make the money available to more organizations, with a competitive element, and at the same time, serve to eliminate the various corruption vulnerabilities we have seen repeatedly in these cases. I realize there is not one answer to this complex issue; one size does not fit all when talking about the myriad of entities that receive and need funding to provide services throughout the City. There is one model already in place at the Department of Cultural Affairs that involves disbursement of grants to the nonprofit arts and cultural groups, through a peer-review, merit-based selection process. This funding method was greatly expanded by the Administration and the Council in the past two years and has been favorably reviewed by the IBO as leveling the playing field. We certainly think it is an intriguing place to begin the dialogue about still-needed serious reform.

Today's alarming indictment charges Councilman Seabrook not only with siphoning \$50,000 from a Bronx manufacturer who sold boilers to the Yankees with Seabrook's behind-the-scenes help, but also with maneuvering more than \$1 million of discretionary funds through a breathtaking array of fraudulent schemes involving nonprofits he controlled. Certainly one service Seabrook's NFPs performed was routing taxpayer funds to his relatives and cronies. And even when one of the Seabrook-related nonprofits was flagged for financial impropriety, Seabrook found ways to dodge scrutiny and keep the money flowing.

These charged criminal schemes were complicated to untangle. The money traveled along various paths into Seabrook's orbit of nonprofits that were staffed by his associates. Following that money and piecing the puzzle together were made all the more difficult by the opaque budgeting practices of discretionary funds.

What we learned in this case is that corrupt public officials continue to devise ingenious and audacious schemes to overcome any obstacle between them and the taxpayers' money. Our answer is simple: we will continue to expose them.

I want to thank our partners who continue to be so dedicated to public corruption cases: U.S. Attorney Preet Bharara, Deputy US Attorney Boyd Johnson, Public Corruption Chief Dan Stein, the team of Assistant U.S. Attorneys Michael Bosworth and Rua Kelly, SDNY Investigator Bob Ryan; and I thank DOI's dedicated team standing here today.

The DOI investigators who worked on this case are: Associate Commissioner Yuval Hibshoosh, Assistant Commissioner Paul Balukas, Deputy Inspector General Laila Yu, Senior Investigative Auditor Maggie Xu, Examining Attorney Jeanine Girgenti, Investigator Katy Diaz-Espinal, and Investigative Auditor Calvin Lam.

An indictment is an accusation. A defendant is presumed innocent until proven guilty.

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