

## **Conclusions of Control**

**04/01**

### **Financial Means Expended for the River System Restoration Program**

The control work was included in the plan of control activities of the Supreme Audit Institution (hereinafter "SAI") for 2004 under number 04/01. Ing. Zdeněk Brandt, a member of SAI, managed the control work and prepared the conclusions of the control.

The purpose of the control work was to control the management of financial means of the state budget earmarked for restoration of river systems.

The control was carried out in the period from January 2004 to August 2004 by a group of controllers from SAI from the environment and agriculture department and from the territorial departments of Northern Bohemia, Southern Moravia, Central Moravia, Western Bohemia, Southern Bohemia and North-Eastern Bohemia.

The control period was 1999 to 2003 and, for material connections, also the previous and related periods.

Controlled entities: Ministry of the Environment (hereinafter "ME"); Agency for Protection of Nature and the Landscape of the Czech Republic (hereinafter "APNL"); Agricultural Water Management Administration (hereinafter "AWMA"); Administration of the Protected Landscape Areas of the Czech Republic, which was renamed the Nature Protection Administration during the control work (with effect from May 1, 2004) (hereinafter "APNL"); the administration of the Šumava National Park and Protected Landscape Area, Vimperk; the Silva Tarouca Landscape and Ornamental Gardening Research Institute, Květnové nám. 391, Průhonice; the town of Bavorov, District of Strakonice; the town of Jemnice, District of Třebíč; the town of Lomnice nad Lužnicí, District of Jindřichův Hradec; the town of Nepomuk, District of Plzeň-south; the town of Bouzov, District of Olomouc; the town of Boží Dar, District of Karlovy Vary; the town of Libín, District of České Budějovice; the town of Lubná, District of Rakovník; the town of Luka nad Jihlavou, District of Jihlava; the town of Morašice, District of Chrudim; the town of Rohle, District of Šumperk; the town of Trnov, District of Rychnov nad Kněžnou; BOVIS N.B. spol. s r. o., Nová Bystřice, Švermova 545, District of Jindřichův Hradec; Zábřežská lesní, a. s., Leštinská 4, Zábřeh; L U I S E s. r. o., Hejnice, Ferdinandov 24, District of Liberec; Polanských, spol. s r. o., Jiráskova 112, Protivín; RYBÁŘSTVÍ LITOMYŠL s. r. o., Sokolovská, Litomyšl; Roman Gronský, Březí 30, Kamenný Újezd, District of České Budějovice; Ing. Josef Hora, Pod Křivou 347, Chýnov, District of Tábor; Miroslav Kalina – MK – mont, Družstevní 544, Klášterec nad Ohří, District of Chomutov; František Kolowrat Krakovský – KOLOWRATOVY LESY, Přimda No. 224, District of Tachov; Zbyněk Kužel, Kruh 189, Jilemnice; Ing. Vladimír Maštalář, Zahrádka 27, Petrovice u Sedlčan, District of Příbram; Jaroslav Bareš, Lužec nad Cidlinou No. 9, District of Hradec Králové; Zdeněk Barták, Školní 63, Hamr na Jezeře, District of Česká Lípa; Ivo Kacerovský, Kolová No. 27, District of Karlovy Vary; Karel Mahel, U Pískovny 7, Jihlava; Ing. Jiří Štěpánek, Sluneční 700, Klášterec nad Ohří, District of Chomutov.

Objections submitted in relation to the control protocols by ME, APNL and AWMA were dealt with by the heads of the control groups.

At their meeting held on October 14, 2004, the SAI senate (composed of Ing. Zdeněk Brandt – chairman, JUDr. Jiří Drábek, MVDr. Rudolf Němeček, Ing. Josef Pohl, Ing. Ladislav Zeman – members)

approved in Resolution No. 04/01/43

the conclusion of the control in the following wording:

## I. Introduction

Control was carried out of the management of financial means of the state budget in relation to the restoration work - activities in implementation of the River System restoration program (hereinafter "Program"). In the controlled period, an amount of 1 527 263 thous. CZK was withdrawn from the state budget. These were funds in the budgetary chapter of the Ministry of the Environment. An amount of 176 349 thous. CZK was controlled at the recipients of the assistance from the Program. The Program is listed under numbers 315 050 and 215 110 in the Program Financing Information System (hereinafter "ISPROFIN") (following transition to the new program structure).

The Program was approved in Government Resolution No. 373 of May 20, 1992 on the basis of a proposal by ME. Its implementation is intended to ensure renewal of an optimum water regime in the landscape. Restoration of the landscape structure is expected to lead to renewal of natural ecosystems. Communities dependent on an aquatic environment, including critically endangered species, are dependent on the development of these systems. The Program is included in the "State Environmental Policy" and the "State Program of Protection of Nature and the Landscape of the Czech Republic", i.e. in the initial strategic documents, as one of the landscape programs.

## II. Funding of the Program

The ME requirements submitted in proposing the relevant laws on the state budget for 1999 to 2003 did not substantially differ from the binding indicators of the budget for financing the Program in these years. The funds earmarked for the Program were not completely withdrawn especially in 2002 and 2003, when 93.48% and 92.34% of the adjusted budget was employed, respectively.

Table No. 1 Survey of budgetary and actually withdrawn funds for program Nos. 315 050 and 215 110 (in thous. CZK)

Year	Approved budget	Following adjustments	Actual state of affairs:	%
1999	435 000	404 582	399 214	98.67
2000	252 416	255 626	255 316	99.88
2001	253 249	240 749	240 408	99.86
2002	192 041	209 011	195 394	93.48
2003 <sup>*)</sup>	186 000	473 160	436 931	92.34
<b>Total</b>	<b>1 318 706</b>	<b>1 583 128</b>	<b>1 527 263</b>	<b>96.47</b>

Note: \*) 2003 also includes expenditures for subprogram No. 215 117, which was previously financed as an independent program.

At the request of ME and through a budgetary measure of the Ministry of Finance (hereinafter "MF") at the end of 2003 (on November 10, 2003), the budget of program No. 215 110 was substantially increased; however, this was subsequently reduced after only 24

days. On November 14, 2003, the Minister of the Environment requested the Government and the budgetary committee of the Chamber of Deputies of the Parliament of CR for transfer of 40 037 thous. CZK from program 215 110, stating that the funds would not be withdrawn; these funds were transferred to program No. 215 010 "Development and renewal of the material-technical base for the management system of the Ministry of the Environment". Even after this reduction, 35 159 thous. CZK remained unused in the budget of program No. 215 110.

The above transfers of financial means in the framework of the chapters of the Ministry of the Environment indicate inconsistent management activities in ME in balancing the financial needs of the Program.

### **III. Inadequacies in the Conception of the Program and its Implementation**

#### **1. Targets of the Program**

Documents for the Program (hereinafter "documents") were prepared in the regime of Decree No. 40/2001 Coll., on participation of the state budget in financing property reproduction programs. They were intended for 2003 to 2007 and were approved by MF on June 25, 2003. In these documents, the Program is subdivided into six subprograms:

- restoration of the natural function of water courses - No. 215 112;
- establishing and restoring elements of TSES<sup>\*)</sup> bound to the water regime - No. 215 113;
- removal of transverse obstacles on water courses and support for technical schemes that do not contain them - No. 215 114;
- restoration of the retention ability of the landscape - No. 215 115;
- reconstruction of the technical elements of reproductive fishponds - No. 215 116;
- construction and renewal of sewer systems and WWTP<sup>\*\*)</sup> including artificial wetlands - No. 215 117.

Subprogram No. 215 117 was not controlled because, to the middle of 2003, the content of this program was included in the separate program of minor water management environmental construction works and is only marginally related to restoration of river systems in a material sense.

The targets of the Program are defined in the documents, in the part "Technical-economic reasoning for the targets of the program". It follows from comparison of the volume of financial means required to achieve these targets (of the order of hundreds of billions of crowns) and the planned expenditures for their achievement set forth in the documents that achieving the targets of the Program would require an unrealistically long period of time. For example, the set targets of the subprogram "restoration of the natural function of water courses" would be achieved in more than 2000 years. Conditions are similar in substantive implementation of the subprogram: the documents state the necessity of restoring 45 000 km of water courses, while so far sections of the order of tens of km have been restored annually.

The targets of the Program are thus set quite unrealistically from the standpoint of the planned amounts of funds from the state budget for its implementation, the expected absorption capacity of the Program and the actual trends to date in withdrawing funds for the individual subprograms. An estimate of realistic substantive targets corresponding to the capabilities of the state budget and other limitations occurring in restoration of the water regime in the landscape is not contained in the approved documents or in any other document. For example, ME has not set gradual or individual targets, the achieving of which could be

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<sup>\*)</sup> Abbreviation for "Territorial System of Ecological Stability"

<sup>\*\*)</sup> Abbreviation for "waste water treatment plant(s)"

evaluated after five years, for which the Program is proposed for the present time. Instead of substantive targets of the Program, or decisive technical-economic parameters of the subprograms, ME gave an analysis of the requirements of the landscape, whose results are determined by the need to achieve an ideal state of ecosystem stability in the landscape.

## 2. Disproportion between the Declared Priorities of the Program and its Financing

In the documents or the relevant balances of the investment requirements of the subprograms and sources of their financing, ME planned the financing of five subprograms for a period of five years (see Table No. 2). According to this document, the greatest emphasis is placed on the actual restoration of water courses. The planned financial requirements of the subprograms have dimensions that roughly correspond to the cost of achieving the targets states of these subprograms, where the actual restoration of the water courses would be most expensive (ME states a sum of 169 bil. CZK). A smaller volume of financial means is earmarked for the subprogram of restoration of the retention ability of the landscape.

The documents do not take into account the actual trends in withdrawing funds in the period prior to its preparation, even though this was already stabilized. Over the entire controlled period, the payment item "restoration of the retention ability of the landscape" (in other words reconstruction and construction of new fishponds and water reservoirs) had by far the greatest financial portion of total subsidies, equal to 60-70%. In the period in question, over 958 mil. CZK were employed for this item, while only 226 mil. CZK was employed for the actual restoration of water courses. The ratio of planned costs for the individual subprograms thus did not correspond to the actual ratio of withdrawn funds in the long run.

Table No. 2. Financial means for the controlled subprograms in 2003 to 2007 and comparison of the actual amounts of subsidies withdrawn with the plan set forth in the documents for 2003.

Subprogram	Plan for the years 2003 to 2007		Plan for 2003	Facts for 2003		
	(CZK thous.)	Fraction of the subprogram (%)	(CZK thous.)	(CZK thous.)	Withdrawals compared to the plan (%)	Fraction of the subprogram (%)
<b>215 112</b>	<b>395 000</b>	<b>33.33</b>	<b>71 000</b>	<b>56 088</b>	<b>79.00</b>	<b>21.13</b>
215 113	296 000	24.98	53 000	22 119	41.73	8.33
215 114	158 000	13.33	29 000	8 709	30.03	3.28
<b>215 115</b>	<b>298 000</b>	<b>25.15</b>	<b>54 000</b>	<b>178 559</b>	<b>330.66</b>	<b>67.26</b>
215 116	38 000	3.21	7 000	0	0.00	0.00
Total	1 185 000	100.00	214 000	265 475	124.05	100.00

Note: The compared subprograms are given in bold.

It is apparent from the table that incorrect estimation of the ratio of withdrawal of funds for the individual subprograms already appeared in the first year of validity of the documents. The funds withdrawn for the subprogram "restoration of the natural function of water courses", for which the greatest amount was planned, were substantially lower than the planned amount. Even lower amounts were withdrawn for all the other subprograms. By far the greatest amount, more than three times the planned amount, was again employed for the subprogram "restoration of the retention ability of the landscape".

The reason for this disproportion is, amongst other things, that the Program is conceived on the basis of applications. There is practically no application demand for the target "restoration of water courses", except for state organizations, whose requirements are limited by their capacity potential. Another obstacle to the restoration of water courses lies in the difficult and time-consuming settling of property-ownership relations. The work affects a greater number of owners that, in many cases, do not agree with restoration and successfully block this.

There are a greater number of applicants for the target "providing for the retention ability of the landscape", for whom this is attractive, especially from the standpoint of the usefulness of the property created - new and reconstructed fishponds and water reservoirs. It is much easier to obtain property for the construction of fishponds.

### **3. The Aspect of Utilization of Restoration Studies**

The internal regulations of ME intended for management of the Program emphasize the importance of restoration studies, containing complex approaches for a certain territory. The prepared restoration studies of the area should be a decisive criterion in deliberating on submitted applications in regional consulting committees (hereinafter "RCC") and should for a basis for evaluations.

Studies are generally prepared by specialized private companies and this work was not paid from the funds of the Program. APNL submitted a list of restoration studies paid from ME funds, at the disposal of its centres controlled by SAI (a total of seven centres). The demonstrated level of use of the studies is low both for implemented and for prepared specific projects. On the basis of information from the centres, of the 142 studies that the centres have at their disposal, only 33 studies, i.e. about 23%, have been or will be used for preparation of specific projects or in deliberations thereon.

The restoration studies are used minimally for the specific work of the APNL centres in evaluating the individual projects because of the discrepancy in the presented plans in the application-oriented subsidy program. The studies mostly do not cover the same area as the specific applications of investors. Localized projects - fishponds and reservoirs - for which the most applications are submitted, are not usually part of the conception of restoration of an entire river basin, which is frequently prepared at a high professional level, at substantial costs.

It was found in the control that, in their own investment activities in the framework of the Program, state organizations, in particular APLA, APNL and AWMA, employ a conceptual approach and studies constitute an important basis for decision-making on including of projects. In this connection, it is true that the orientation of applications for subsidies by other entities than state organizations was not in accordance with the priorities of the Program and thus also with the studies that contain these priorities.

### **4. Managing the Program**

The basic document in which ME decided on financing specific projects from the state budget was the decision on purpose earmarking of means from the state budget (hereinafter "decision"). It was found in the control that, in some of its decisions, ME did not lay down for the applicant the obligation to comply with the conditions laid down by RCC. It is, in fact, the conditions of RCC that are generally related to landscape ecology and its application to practical protection of nature and the landscape.

The binding parameters of a substantive character set forth in some ME decisions are not based on the application for provision of a financial contribution or are not in accordance with the documents to which the decision or RCC protocol refers. Where this parameter (e.g. the area of a reservoir or wetland) was not maintained, because the project was carried out

according to the approved project planning documents, in the final evaluation ME did not find any inadequacies and granted the subsidies in the full amount.

ME implemented changes in binding parameters - especially in relation to time - in a manner that did not always involve a change in the decision pursuant to the provisions of § 7 of Decree No. 40/2001 Coll. The required consent was communicated to participants in the process in a letter of the director of the department. A change was not made in the binding indicators in ISPROFIN.

MF terminated program No. 315 050 as of December 31, 2001 in connection with the provision of the MF methodical instruction, related to transition to the new program structure beginning in 2003. In 2002, according to this instruction, only projects whose financing would be completed by December 31, 2002 were to be registered. ME did not proceed in accordance with the methodical instruction and, by the time of termination of program No. 315 050, registered and commenced projects whose financing was not completed by the end of 2002 and proceeded into subsequent years. In 2002, 70 projects of this program were newly commenced, of which 38 continued into subsequent years. Even in 2003, three projects in program No. 315 050 were registered and newly commenced, of which one continued into the subsequent year.

In the controlled period, ME listed in ISPROFIN projects of program No. 315 050 as registered, without issuing a decision on registration in ISPROFIN (registration papers) according to the provisions of § 5 of Decree No. 40/2001 Coll. ME submitted only three registration papers for all the projects of program No. 315 050, although it commenced financing of approximately a hundred new projects in this program in the period of validity of Decree No. 40/2001 Coll.

In the framework of ISPROFIN, ME submitted to MF input data that, in some cases, were not prepared in the extent laid down pursuant to Decree No. 40/2001 Coll. Further, it registered in ISPROFIN in the framework of the Program, in addition to investment projects providing for achieving of the targets of the Program, also projects that did not meet this condition (e.g. "Securing electrical wires against settling of birds, LP<sup>\*\*\*</sup>") and projects that did not provide for any substantive target (e.g. "Minor projects" with subsidies of 582 401 thous. CZK to 2001).

## **5. Monitoring of Projects from the Standpoint of the Required and Actual Impact of the Program on Ecosystems**

It follows from the definition of the Program that its final result should be renewal and harmonic development of ecosystems connected with the aquatic environment. In preparing subjects for projects and conceiving investment plans, the defence of the intended project is frequently supported by formulations that are quite general in character. For example, it is stated that the restoration project will improve the function of the local biocorridor, that the location will be enlivened, that a state close to nature will be achieved, etc. Statements of this kind are so general and universal that exact and unambiguous evaluation of the results of the restoration, i.e. the actually achieved state compared to the desirable state of affairs, is very difficult and problematic. In these cases, there is no genuine criterion that would enable determination of whether the restoration project can be considered to be successful and whether the funds from the state budget can be considered to be expended effectively and purposefully.

Especially in applications for subsidies for restoration of the retention ability of the landscape, emphasis is placed on reasons that constitute favourable facts for inclusion in the Program. Mention is made of the necessity of preserving or creating conditions for the development of species, especially protected species. For a number of projects, plans related

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\*\*\*)) Abbreviation for "Landscape Program".

to the state of the ecosystems are specified in considerable detail, although only rarely are the initial conditions at the location, prior to commencing the restoration, determined reliably and with sufficient precision. Then the results of the project cannot be determined objectively.

The final evaluation of the project generally contains statements in the sense that the targets of the restoration project were achieved from a construction-technical standpoint. In most cases, this involved an approach that constituted a basis for an improvement in the hydrobiological function of the location, required, e.g., to improve the passability of the biocorridor and for development of desirable species of fauna and flora. However, there was no consistent and systematic monitoring of the development of the location after transferring the project to use in the sense of assessing the degree of environmental benefit.

For example, for project reg. no. 315 050 1692 "Reconstruction of the Václavský fishpond", on May 17, 1999 RCC recommended financing the project with reference to the need to save rare and endangered flora. From a construction-technical standpoint, the project was implemented in accordance with the project plans and the subsidies were allocated with final validity. However, none of the affected persons demonstrated the degree to which the endangered flora were saved for the future, i.e. how well the restoration targets were met, to SAI to the time of the control.

For project reg. no. 315 050 1651 "Reconstruction of the Špitálský fishpond", the restoration study encompassed especially dredging of the reservoir, and planting trees and rushes on the shores and wetlands. However, the project for the investment project financed from the Program includes particularly reinforcement of the dam, laying concrete in channels, construction of new outflows and standpipe overflows, construction of new safety overflows, felling of trees without replacement, using part of the "nitrate deposit" to reclaim the banks of the reconstructed dam. It follows from the construction permit that the original plan of restoring the fishpond (dredging followed by planting tree species) was changed to reconstruction, where dredging of the pond became only a marginal part of the planned and actually implemented construction work.

The Minister of the Environment made a decision on the manner of organizing and managing the Program and the conditions for provision of funds, amongst other things, through issuing internal regulations, e.g. annually updated directives or rules. The rules for 2003 formed part of the documents prepared pursuant to Decree no. 40/2001 Coll. Further details were given in the methodical instructions of the Landscape Ecology Department of ME.

No Directive or rules or another binding instruction of ME laid down the obligation for APNL or RCC to control the results of the restoration effect and to analyse the results of monitoring or compliance with conditions laid down in the approval procedure. Some RCC and APNL carry out these controls on their own and frequently determine that the investors have a tendency not to comply with the set conditions and use the reservoirs in a manner contradictory to the original intention, i.e. for intensive fish breeding.

No framework has been drawn up for any interventions, recommendations (or sanctions) for APNL and its RCC. It was only in 2003 that ME issued an instruction according to which the case can be submitted to ME for exacting return of the subsidies in cases of serious or consistent violation of the conditions.

ME has not prepared a methodology for evaluation of the expected restoration effect or of the results achieved in implementing the project. It has not prepared the principles of monitoring, including responsibility for its implementation. No method has been drawn up for subsequent control of compliance with conditions after carrying out the project. No procedure has been prepared for cases where inadequacies are found that reduce the effectiveness of the restoration.

## **6. Evaluation of the Program, Informing the Public**

APNL carried out a detailed evaluation of the Program solely from the standpoint of withdrawal of financial means in the individual years. The evaluation for 1999 to 2003 explicitly contains all the projects for which the funds were employed, together with the amount of the subsidy. None of the evaluations contains an analysis of the effectiveness of the subsidies provided for the given years. Thus, over the five-year control period, no evaluation was carried out at the level of APNL of the actual restoration effect of the invested funds, or of the achieved benefit from the standpoint of the targets of the Program. The completed evaluations did not evaluate the usefulness, effectiveness and economy of the completed restoration projects. The results are not processed in terms of quantifiable substantive indicators. Thus, it is not possible to evaluate the degree of implementing the given plans - substantive targets.

Similarly, in the Reports on the Environment prepared each year by ME, the implementation of the Program is mostly given only in terms of the number of projects carried out (commenced and on-going) and the amount of funds employed. Fulfilment of the substantive aspects is not evaluated even in these reports. The evaluation in the "State Environmental Policy" and passages on the Program in the Statistical Environmental Yearbooks have similar orientation.

Thus, none of the material prepared in the sector of ME, either that intended for the public or that intended for internal use in managing the Program, evaluates the results of the completed projects or of the whole Program.

## **IV. Inadequacies on the Part of Investors**

Control of 33 investors (including a total of 45 projects) revealed particularly the following types of most frequently repeated inadequacies.

### **1. Unresolved Relations to the Property that is the Subject of the Restoration**

At the time when the SAI control was carried out, i.e. May to June 2004, the investors in the restoration projects had not resolved property ownership relations to the properties on which the restoration was carried out, even though the final construction inspection of the projects was carried out, e.g. in 1999 to 2001. Simultaneously, the settling of these relations constitutes a condition for submitting an application for a subsidy. Thus, for example, a municipality sometimes invested in the property of the Land Fund of CR (in the ownership of CR), and even in properties owned by natural persons. ME did not consistently insist on compliance with the condition of settlement of property ownership relations.

### **2. Failure to Comply with the Conditions of the Decision in Carrying Out the Work**

The control revealed failure to comply with the binding deadline for implementation of the project and related deadlines for the final evaluation of the project. Some investors subsequently requested that ME grant them a postponement in cases of failure to comply with the set deadlines and ME agreed to this. Similarly, ME subsequently requested postponement of the deadline for withdrawal of its own resources when it did not fulfil this obligation in time. Failure to ensure co-financing in the relevant period in the set amount constituted another frequent inadequacy. Failure to comply with the conditions of the ME decision did not generally constitute an obstacle to definitive granting of the subsidies.

### **3. Failure to Comply with the Conditions for Operation of the Subsidized Work**

It was found in the control, e.g., that, after completion of a subsidized project concerned with reconstruction of a fishpond, the investor constructed a concrete landing for construction of a planned structure, which changed the use of the surrounding properties. The relevant construction in the vicinity of the fishpond was not part of the approved project planning documents, for which the financial contribution was provided from the state budget, and its implementation reduced the restoration and aesthetic effect of the pond. In cases where the properties in the vicinity of the pond were not modified, the final effect was reduced by runoff of fertilizers and soil from cultivated agricultural properties. The control found cases where an continuous water surface is present instead of the planned wetland.

A fishpond constructed with subsidies from the Program of 5 420 000 CZK and approved in a construction inspection procedure in 2000 was destroyed in the floods of 2002. The investor did not carry out an analysis of the reasons for breaching of the dam of the uninsured pond and also did not decide whether and under what conditions the structure would be renewed.

Controls of investors revealed that the actual form of the work differed from the project planning documents, with potential detriment to the effectiveness of the project. For example, a water course proposed as a meander does not have a natural meandering character and the banks are reinforced with quarry stone to a greater degree than in the project planning documents and lead to a concrete channel into an underground concrete pipe. The original drainage channel was not abolished to the degree specified in the project plans. The plans encompassed planting of groups of woody species with a certain intention of interconnection. The trees were planted at different places and with different species composition. A formerly restored fishpond on the property of a different owner is located lower down on the water course. The fishpond (and the entire property) is fenced in and the banks are used for sheep grazing. A littoral strip was not created around the fishpond. Two smaller water reservoirs with concrete dams were constructed at the inlet and outlet of the pond. The expected restoration effect in the entire valley of the water course is thus endangered by work that primarily increased the value of the property for the owners.

#### **4. Failure to Comply with Act No. 199/1994 Coll., on Public Procurement**

In a great many cases, investors did not exclude applicants for failure to comply with qualification preconditions or incomplete tenders and subsequently concluded agreements on public contracts with them. In a number of cases, it was not possible to evaluate the transparency of the approach of the ordering party in evaluating the individual tenders. The report on assessing and evaluating the tenders did not contain the necessary information and some contracting parties did not unambiguously and comprehensibly specify the manner of evaluating the tenders.

The investors frequently did not document the preparation and sending of registration sheets for public tenders and did not report exceeding of the tender price by more than 10%. Similarly, in a number of cases, they did not document publishing of information at a "central address". In addition, they did not store all the prescribed documents for the specified period of time.

#### **5. Lack of Economy in Implementation**

The investors did not proceed in an economical manner in procurement and carrying out the project, as they did not require preparation of price tenders in an itemized manner - the tenders frequently contained only the overall tender price and the contract to carry out work was constructed similarly. The investors also did not have an itemized budget and consequently did not and could not carry out control of invoicing and of the actually carried out work. They thus allowed the contractor or invoice work and supplies according to the

project plans, to which the agreement to carry out work referred, and not according to the facts, which did not always agree with the project plans. The investors also did not insist on documentation of which work and supplies the contractor actually carried out and of the prices for this.

Invoices that did not contain prices for items and prices for amounts in the items, and without a fact-finding protocol or other document of acceptance of work, were thus paid. For a number of projects, the control found that the invoicing frequently did not correspond to entries in the construction daybook. The investors did not compare the actually carried out work with the invoicing and thus also paid for work that could not have been completed at the given time. In some cases, inconsistent work of the technical supervisor of the investor contributed to inadequacies in accepting and agreeing to work.

Some investors did not require that the contractor report the completed work and supplies in units of measurement, that they draw up invoices where an integral part is a list of work and supplies completed, with a report on the extent of work and unit prices, and not only the names of the completed work without expression in terms of prices. The reporting period was not unambiguously identified in some invoices.

The control discovered cases where the contractor invoiced the investor for all the work according to the tender budget, even though part of the work had not actually been completed. Cases, where the agreement to carry out work allowed payment for activities of an on-going nature, not in stages, but in a lump sum prior to completion of the entire project, can also be considered uneconomical.

## **V. Summary**

The control revealed inadequacies in the conceptual, management and control work of ME, which contributed to the fact that the funds from the state budget for the Program, in a total amount of more than 1.5 bil. CZK, were not used effectively and with the greatest economy in some cases.

During 2003, ME requested a substantial increase in the budget of the Program. Even though ME subsequently transferred part of this increase, in an amount of more than 40 mil. CZK, to another program related to its investment requirements, the funds were not fully withdrawn in the final phase. ME justified the failure to withdraw the funds and the transfer of funds through the decisions of municipalities not to construct the originally planned waste water treatment plants and sewer systems. The relatively short period of time between the increase in the budget of the Program and the subsequent transfer of a substantial amount of the funds to a different program suggests inadequacies in the managerial activities of ME in balancing the financial requirements of the Program. Similarly, in 2002, withdrawal of funds was less than the adjusted budget.

The targets of the Program are laid down completely unrealistically in the approved documents of 2003 and also in the previous program documents. ME prepared an analysis outlining the need to achieve an ideal state in the ecosystem stability of the landscape. ME gave this analysis in the documents as the substantive target of the program or as the decisive technical-economic parameters of the subprograms. An estimate of realistic substantive targets corresponding to the capabilities of the state budget and other limitations and problems occurring in restoration of the water regime in the landscape is not contained in the approved documents or in other documents. ME has not set gradual or individual targets, the achieving of which could be evaluated after five years, for which the Program is proposed for the present time.

Most of the funds of the Program were expended for the purpose (title) "support for restoration of the retention ability of the landscape", using funds planned for other purposes and subprograms in which the applicants did not express as much interest. Reconstruction and construction of new fishponds and water reservoirs was carried out in the framework of this object of assistance. ME did not remedy this disproportion between the individual purposes (subprograms), although this has long been recognized.

The restoration studies, which ME finances and simultaneously denotes as basic documentary material for decision-making on participation in the Program, are not fully utilized. The greatest number of applications is submitted for fishponds and reservoirs. These consist in local projects, which mostly do not concur with the intentions of the study. Attempts at a complex approach for a larger area based on the prepared studies have so far been successful only for investors that are state organizations.

In the stage of preparing subjects for projects and conceiving investment plans, the defence of the intended project is frequently supported by formulations that are quite general in character. It is then difficult to exactly and unambiguously evaluate the results of the restoration, i.e. the actually achieved state compared to the desirable state. The final evaluation of the project generally concentrates on evaluation of the project from a construction-technical point of view. It generally no longer concentrates on achieving the targets that were used to justify the support from the state budget, e.g. development or protection of valuable features in the ecosystem. ME has not prepared a methodology for evaluation of the expected restoration effect or of the results achieved in implementing the project. It has not prepared the principles of subsequent monitoring, including responsibility for its implementation.

A number of evaluations of the Program were prepared in the environmental sector in the controlled period; however, they were concerned mainly with analysis of withdrawals of funds. None of the materials contains an evaluation of the purposefulness, effectiveness and economy of the use of the provided subsidies or quantification of the results achieved.

A number of inadequacies were found in control of the recipients of the subsidies - the investors. For example, at the time of the SAI control, the property-ownership relations to properties affected by the restoration work had not yet been resolved. They violated the Act on public procurement and did not comply with the conditions laid down in the ME decision (deadlines, co-financing with their own funds, accordance with the approved documents). Following completion of the subsidized project, they carried out work that reduced the restoration effect for which the project was included in the Program. In particular, owners frequently tried to find means of not complying with the conditions limiting economic use of the ponds.

A serious finding of the control of the investors consisted in the fact that activities such as tender procedures for suppliers, the provisions of contracts with suppliers and the actual implementation of the project, including invoicing, were not always carried out in a manner allowing evaluation and control of the purposefulness and economy of the use of the funds. There was a lack of suitable classification of activities and supplies and evaluation thereof, statements of the extent of work and fact-finding protocols were lacking or were inadequate, and temporal and substantive disagreements were found between the invoicing and the facts.

Especially the APNL centres participated in the system of control of investors, and APNL or RCC employees generally carried out several controls during the project and always carried out a final control of the project. ME documented carrying out of control by professional units. Mostly the financial authorities carried out control of compliance with the conditions of the decision, on the basis of a request during the final evaluation of the project.

Because of the number and seriousness of the determined inadequacies amongst applicants for support, it is necessary that, on the basis of an analysis, ME increase the effectiveness of the control system in providing subsidies, including controls of the use of the work and compliance with the conditions following completion of construction in the project. Control of compliance with the conditions for operation of the work was not consistently ensured for most of the control period.