

## 0022 Summary of auditing the use of special purpose and earmarked support provided to the a local governments investment and reconstruction projects 1999 years

The State Audit Office, on the basis of its audit plan for 2000, surveyed the use of earmarked and special purpose support in 1999.

The XC Law of 1998 on the 1999 year Budget of the Hungarian Republic made an appropriation of 48,000 HUF million for earmarked and special purpose support. This sum was increased by the amount of 27,287.4 HUF million that had been left unused until the end of 1998. Taking the mid-year resignation and the sums ploughed back into consideration, a total of 73,712.6 HUF million earmarked and special purpose support was available for the local governments in 1999.

In the course of our on the spot audits we have surveyed 127 projects with 88 local governments in 14 counties.

We have audited 15 tasks of those carried out with earmarked support, with 15 local governments. As regards the classification of these projects 7 belong to water management, 2 to healthcare and social welfare provision, and 6 to educational and cultural service provision.

Among the 112 audited projects with 74 local governments to be carried out with special purpose support, there were 97 investments related to waste water lines and purification, while in the field of educational and cultural service provision 15 projects with 15 local governments have been checked.

Thus we have audited 21.5% of the financial appropriation available for the local governments in 1999, 7% of the total earmarked support and 29.3% of the total special purpose support.

Since 1991, the State Audit Office has been auditing the use of state support related to the closing of accounts. Following the 1993 enactment of the LXXXIX Law of 1992 regulating the use of earmarked and special purpose support by the local governments (henceforth: Cct.) the aim of our audits has been to check if this law is observed. In the seven years after 1993 we audited the performance of 1,887 tasks with 40% of the local governments.

The Parliament defined the goals of general social importance that are to be supported in the sectors of water management, healthcare and social welfare, educational and cultural service provision as well as waste management. Among these, as regards the special purpose support, an issue of special importance was, within the water management sector, the question of waste water lines and purification, which indicates the commitment of the country, in accordance with the requirements of the EU accession, to catch up with the European standards in this field.

In the audited cases, the role of the special purpose support was very important for the local governments to be able to start the development projects. The investments related to waste water lines and purification have become of great importance in the small communities in the last few years. In these communities the almost complete establishment of

drinking water pipe lines increased the output of waste water very much. Waste water, in most of these places, was desiccated in the soil, the result of which was increased contamination of that, which in turn points out the necessity of building waste water lines and purification for environmental reasons. At the same time, as a result of the increased inland water in the recent years the demand for waste water lines has significantly grown. The inland water worsened the living conditions of the population primarily in the small communities. The local population rightly demands more comfort and better dwelling conditions. In some regions of the country there was an obvious lack of concert between the waste water utility development projects.

In the case of the capital intensive waste water utility investment projects the local governments undertook obligations beyond their means in order to obtain the special purpose support. Often they sought to ensure the necessary local resources from other sources of state support. However, they rarely managed to ensure the necessary finance for the development projects from various funds and concert decision making.

It is still a problem, indicated already in the previous audits, that the assignment of these other state support takes place in a system and time other than that of the central support (special purpose support).

In most of the cases, the involved local governments did not have the necessary financial resources in due time to carry out the related tasks. For this reason, there was a significant delay in the start of the waste water utility investment projects, they had to be fragmented, and it was not possible to carry out a complex implementation, so the investment projects ran out of the scheduled time and the local governments were unable to obtain and use the special purpose support appropriations.

The prescriptions of the 32 § (2) of the XL Law on Public Procurement of 1995 were often unobserved by the local governments: they had started the public procurement process even before they obtained the financial cover to guarantee the performance or the corollary that these resources would be available for them until the day of performance. In some cases, irregularities occurred with the selection of those implementing the investment projects and with observing other provisions of the Law on Public Procurement.

In order to obtain the necessary local resources the local governments made irregular arrangements, in the course of which they became financially dependent on the contractors. The local governments made certain contracts with the contractors for their road and property use, and for other services through which they gained unfairly high rate of income. The contractors had a compensation for these additional costs in the charge of undertaking and thus central and other state support was used for about 70-80 % of the local governments' required own resources. This, again, made that clear that the specific costs of waste water lines and purification investment projects implemented with central support are high. The planned total expenditure, defined with the consideration of the things mentioned before, around which the offer prices by the contractors were set in the public procurement process made it possible that the contractors were able to cover the charges by the local governments for their road and property use, and for other services from the general charge.

Of the audited development projects only 16.1% were completely and 35.7% partly in accordance with the plans, while 48.2% did not follow them in effect.

On the basis of the national data on the earmarked and special purpose support it can be seen that an amount of HUF 34,457.7 million was left unused at the end of 1999, which is 46.7% of the total appropriation for 1999. In this amount the sum of 30,562.5 HUF million unused special purpose support was the most significant, amounting to 63.6% of the total appropriation available in 1999. The great majority of the total residue, 81.8%, belonged to the field of waste water lines and purification, which means, that in this sector, in 1999, 28,195.3 HUF million special purpose support appropriation remained unused. The total residue of the audited earmarked and special purpose support was 70.0% in value of HUF 11,118.4 million, within which 36.5% was earmarked support and 75.5% special purpose on December 31, 1999. 94,6% of the total amount of unused funds occurred in the field of waste water line and purification projects. There were 65 cases (67%) found among the audited 97 waste water lines and purification projects with great amounts of residues, where, in effect, nothing was used of the appropriations.

In the field of waste water line and purification development projects the insufficient technical and, mainly, financial preparation and the lack of local resources with the local governments have been typical problems for several years now. The high rate of residues in funding also indicates, that there is a considerable lagging behind the standards of the European Union, and in terms of environment protection, too.

The audit has checked 127 investment projects and found 19 irregularities with 16 projects concerning the obligatory resignation from, and the use of the support funds. The total value of the revealed unlawful use, and the projects obliged to resign from central support appropriation amounted to 631,237 thousand HUF, 4% of the audited support appropriation for 1999. On the basis of the audit findings the State Audit Office makes a recommendation to have 7,290 thousand HUF earmarked support and 183,986 thousand HUF special purpose support paid back because of unlawful use. In addition, we also propose in the bill on the Budget of 1999 that 25,650 thousand HUF earmarked support and 414,311 thousand HUF special purpose support has to be resigned from.

The unlawful use of state support revealed by the audit occurred because of the following reasons: use for not the supported aims (e.g. for projects other than the ones in the report of claims, like putting down waste water lines in resort property); VAT had been deduced (claimed back), so the use of central support planned for the unreclaimable VAT became unlawful; there was deviation, in the course of the public procurement process, from the content of the technical documentation attached to the report on claim for special purpose support; the investment projects were completed leaving funds unused from the appropriation; or the technical implementation was not adequate to plans indicated in the report on claims for support.

In the case of any amount of VAT reclaim under any entitlement the related earmarked and special purpose support has to be resigned from according to the prescriptions of Cct. so that the practice of double use of support could be avoided.

Until the completion of the present report, on the basis of the recommendations made by the State Audit Office, the surveyed local governments had paid back HUF 7,471 thousand unlawfully used earmarked and special purpose support to the Hungarian State Treasury, and, in addition, had fulfilled their obligation of resigning from HUF 245,782 thousand earmarked and special purpose support. The amount repaid and resigned from by the local governments is 41% of the total of the unlawful use and appropriation.

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