



**Summary**  
**of the Audit on the Audit on the Regularity and Effectiveness of the**  
**2009-2010 Task Performance and Property Management of**  
**Public Foundations Set Up by the Government (1112)**

**Objectives and scope of the audit**

The State Audit Office of Hungary (SAO) audited the 2009-2010 task performance and property management of public foundations set up by the Government in compliance with its annual audit plan. The objective of the audit was to evaluate, whether the public foundations utilised the subsidies granted to them in 2009-2010 regularly, in order to achieve the goals set in their deeds of foundation; whether their revenue-generating activities were effective; and whether they managed the state property put at their disposal regularly.

In the audited period the public foundations managed revenues worth HUF 86,204 million, two-thirds of that coming from the state budget. More than half of the public foundations' revenues was re-granted as subsidies, while the residue was used for tasks performed by themselves or via their independent organisations. By means of their subsidies and own task performance, public foundations contributed to the accomplishment of social, cultural and research activities; to the organisation of national and regional events; as well as to the reinforcement of cross-border relations.

Out of the public foundations set up by the Government, thirty-six operated at the end of 2010. For the purposes of the audit the operating 36 public foundations supplied data by certificates, while sixteen of them – whose activities, on the basis of the Government's decision, will be performed by central budgetary institution in the future – were paid on-site visits, too.

**Main findings**

The economic purposes lying behind the establishment of public foundations – that is, the inclusion of civil society resources in the funding of public tasks – were not achieved, as the security of the public foundations' operation depended on the amount and periodicity of central budgetary subsidies. Their revenue-generating activities were not effective, as in case of four-fifth of the public foundations the ratio of revenues outside public finances did not amount to the 80% requested by law.

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The public foundations were granted subsidies for their tasks performed in order to achieve their objectives on a contractual basis as stipulated by law; the subsidies were accounted for. 73% of the accounts submitted by the public foundations were not verified by the sponsors.

On the basis of accounting for re-granted subsidies, the public foundations utilised the funds provided for the performance of objectives-related tasks in harmony with their deeds of foundation and subsidy contracts. However, the boards of trustees of five public foundations provided grants in the amount of approximately HUF 24 million in an illegitimate way, without tendering.

As for the contents of public foundations' operational expenditures, the effective legal regulations did not provide any guidance. In case of three public foundations the deeds of foundation did not stipulate the contents and extent of operational expenditures, while in case of the remaining ones the regulations varied. The differing regulations could not be justified by the nature of tasks performed. The average of the operational expenditures' cost ratios in comparison to the total expenditures and those disclosed in the registers of the public foundations was 8%.

The honoraria and professional fees disbursed to the boards of trustees and the supervisory boards were in harmony with the stipulations of deeds of foundation and other internal regulations, however one-fourth of the public foundations did not comply with the extent of operational expenditures specified by their deed of foundation, which the founders did not object to. In case of one public foundation the members of the board of trustees did collect their honoraria despite the fact that the public foundation did not perform any activity related to its objectives. In 2009 three, while in 2010 five public foundations lacked a supervisory board, which also contributed to the inappropriate granting of subsidies.

In the audited period, the public foundations operated without a property loss, preserving their own capitals. They met their obligation to preserve nominal assets as requested by their deeds of foundation, except for one public foundation that liquidated one-fifth of its real estates – being part of nominal assets – without the founders' authorisation.

Overall, the public foundations utilised the budgetary subsidies they were granted in order to meet the objectives specified for them. On the other hand, they were unable to establish an efficient distribution system as most of them did not bring in resources outside the budget when performing public tasks. Moreover, in their operation they did not strive to utilise public funds economically, with proprietary solicitude.



## **Recommendations**

Besides the utilisation of the findings of the on-site audit, SAO recommended the Government to use uniform criteria to regulate the contents, extent and projection base of operational expenditures in the deeds of foundation of those organisations that continue their operation as public foundations; taking into account the peculiarities of task performance. The Government was also recommended to specify the rate of honoraria and professional fees to be paid to the members of the board of trustees and the supervisory board in relation to the tasks performed. The board of trustees of the Hajléktalanokért Közalapítvány (Public Foundation for the Homeless) was recommended to cease the illegitimate funding practice.

