



SUMMARY

**of the Audit on the State Subsidy System of the
Employment of Disabled Persons and the Utilisation
of the Subsidies Allocated for this Purpose (12112)**

Objectives and scope of the audit

This was the first time the State Audit Office of Hungary audited the system of budget subsidy and the utilisation of subsidies for the employment of disabled people. The audit covered the years 2007–2011. During this period, the central budget provided HUF 202 billion of support to promote the employment of disabled people.

The objective of the audit was to evaluate whether the budget subsidy system established to lead disabled persons back to and enhance their presence in the labour market provided an increase in the employment of the target group, the production of social value, and equal opportunity, as well as whether the support system efficiently and effectively served the achievement of the objectives.

In doing so, we evaluated whether the concepts, targets, legal and organisational framework, and the control, monitoring and reporting system of subsidies established in the years 2007–2011 provided for the effective, efficient and transparent utilisation of available resources. The audit covered the ministry responsible for management, its background institutions, as well as the organisations receiving funding.

Main findings

The reorganisation of the support system in 2005 was not based on impact assessment, a strategy including quantitative targets, or short- and long-term action programmes. The legal environment did not facilitate the transparent and coherent operation of the system of budget subsidies. The legislation and grant agreements pertaining to the funding did not include efficiency and effectiveness targets and did not specify indicators for the effectiveness and efficiency of the subsidies. Due to the frequent changes in legislation, the subsidies paid to employers were not predictable and did not allow for long-term planning.

The principle of equal opportunity in the process of access to grants was not applied. Applications for cost compensation and rehabilitation cost compensation were selected through tenders. The Ministry of Employment and Labour only called for tenders in 2005 and 2006, based on which it concluded protected-employment contracts with 21 organisations and grant agreements

with 53 organisations for a three-year period. In the absence of a call for proposals, after 2006 there was no opportunity for further organisations to obtain protected-employment contracts. The ministry was unable to hand over the complete documentation supporting the decision on the assessment of applications or the resolutions on the decision to the audit team. In the absence of documents, the regularity of the selection and assessment could not be evaluated.

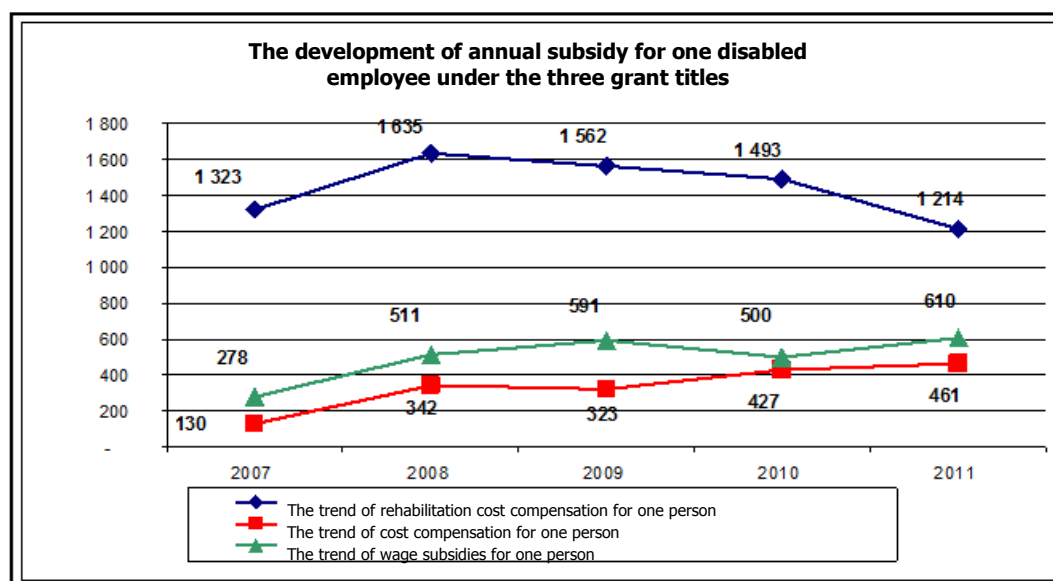
The accreditation certificate proving the conditions of employment of disabled people was a prerequisite for the provision of the wage subsidy and cost compensation. However, the 21 employers with protected-employment contracts receiving 60 to 70% of the grants paid did not need to have accreditation to apply for the rehabilitation cost compensation.

In the audited period, no requirements were specified with regard to the financial management of the beneficiary employers. The employers only had to account for the costs actually charged against the subsidies. The support system did not ensure the increased participation of disabled employees in employment, did not motivate employers to lead employees back to the open labour market, and did not contribute to the efficient and effective utilisation of resources.

The effectiveness of the support of disabled employees in terms of employment demonstrated an overall deterioration in the audited period. The number of disabled employees employed with subsidies – except for the 21 protected organisations – continuously decreased. At the 13 organisations audited on-site the increase in the number of disabled persons was typically accompanied by a reduction of employee working time.

The per capita annual grant amount varied by grant type, and differed by employer in the case of cost compensation and rehabilitation support. The annual grants awarded were not supported by calculations for the organisations receiving funding. The number of disabled employees decreased from 2007 to 2011 by 26%.

The per capita annual funding for the three grant titles varied both in terms of volume and trend.



The efficiency and effectiveness of the subsidy system were negatively affected by the control deficiencies and the failure of the supervising organisations to take the necessary measures.

In the audited period, 9 out of the 12 companies controlled by the employment centres receiving wage subsidies failed to perform ex-post on-site checks. The ministry commissioned an Ltd. to conduct the cost compensation and rehabilitation cost compensation audit for 2007–2009. During the selection and assignment of the Ltd. based on tendering in 2007, it failed to take into consideration the effective legal regulations according to which only the Hungarian Tax and Financial Control Administration is entitled to audit the utilisation of subsidies. Seven companies refused to recognise the right of the Ltd. to carry out audits. Accordingly, they contested the findings of improper use and the resolutions adopted by the granter in court. In its final judgement on 11 May 2012, the Court stated that resolutions could not be adopted on the auditing of the appointed Ltd. The ministry commissioned the Treasury with the auditing of the year 2010–2011 subsidies.

The repayment of the unlawfully obtained funds was ineffective. In the years 2007–2009, HUF 22 million (1.2%) of the HUF 1,800 million in rehabilitation cost compensation and HUF 7.9 million (7.2%) of the HUF 109 million cost compensation were repaid.

In five cases the Director General of the National Office for Rehabilitation and Social Affairs was nearly a year late in adopting the resolutions regarding the repayment of the funds unlawfully obtained in 2010 and the first half of 2011.

The ministry, due to the improper handling of irregularities identified by the audit institutions – delayed resolutions for the repayment of irregularly utilised subsidies, the incomplete claims registers, the lack of or irregular monitoring of the company information data of funded organisations – did not implement the transparent, prudent and efficient financial management of public funds. There were delays in adopting resolutions on the repayment of irregularly utilised subsidies. The claims register was incomplete. The monitoring of the company information data of the funded organisations was not regular. As a result, in two cases claims were submitted after the deadline during the liquidation proceedings initiated in connection with the funded organisations. The return of the subsidies reclaimed as a result of unauthorised utilisation in 2007–2009 was ineffective; 1.2% of the reclaimed amount of the rehabilitation cost compensation and 7.2% of the cost compensation subsidy were repaid by the beneficiaries.

The ministry has already taken measures to implement the recommendations formulated based on our findings pertaining to the subsidy system of disabled employees during the audit. The Government has adopted a decree on the accreditation of employers employing disabled persons, as well as on the budget subsidies that can be provided for the employment of disabled persons. The decree has rectified the deficiencies in connection with equal opportunity, effective and transparent utilisation, the grant system and accreditation, revealed during the audit with regard to the subsidy system.

Recommendations

Based on the audit findings, we recommended the Minister of Human Resources to review the subsidy system, launch a new tender for the rehabilitation cost compensation, expand the auditing criteria, and regulate the register and repayment of unlawfully obtained funds in a closed system. We also recommended the discretionary investigation of the responsibility for the deficiencies relating to the audited period.