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Hungarian fraudsters indicted after OLAF investigation

Hungarian public prosecutors have followed a recommendation from the European Anti-Fraud Office (OLAF) and opened proceedings against individuals accused of illegally overcharging for the renovation of children's playgrounds using EU money. Prosecutors are calling for prison sentences for the fraudsters, who illegally pocketed more than €1.7 million in European and Hungarian funding.

OLAF Director General Ville Itälä said: *"I welcome the decision by the Hungarian authorities to bring proceedings against the fraudsters investigated by OLAF, in line with our initial recommendations. This was a clear case of fraud against EU and Hungarian taxpayer money, and it is good to see that the Hungarian prosecutors agree with this assessment. This case is a prime example of how OLAF and national judicial authorities work together to take on the fraudsters to ensure that every euro of European funding is spent as and where it should be. This kind of investigation is at the heart of what OLAF does and I am delighted that our collaboration with the Hungarian authorities in this case has led to such a positive outcome."*

OLAF opened an investigation in 2011 into the possible manipulation of the initial cost estimation and irregular tender processes for the construction of children's playgrounds in small municipalities in Hungary. The net costs of the construction or renovation of the playgrounds were fully reimbursed from a combination of EU (European Agricultural Fund for Rural Development) and national funding. Only value-added tax (VAT) costs were not reimbursed.

The OLAF investigation found that a consultant had colluded with two colleagues to artificially inflate the costs related to the renovation and construction work. Meanwhile, a fourth individual was found to have established a new company with the express purpose of carrying out the construction work. The fraudsters targeted smaller Hungarian municipalities – with fewer than 5,000 inhabitants – offering to renovate or construct their public playgrounds at minimal cost. The consultant put in place a system in which he requested significantly overpriced offers from other companies and made use of these to apply for funding from the authorities in Budapest.

Once the project was awarded, the same consultant was put in charge of the tendering procedures, which were manipulated in order to systematically favour the same general contractor. The work was carried out by sub-contractors at a much lower price: in most cases, the main contractor charged more than double the real cost of the work completed by the sub-contractors.

The fraudsters also managed to ensure that the municipalities did not even need to cover the VAT costs not reimbursed by the funding. Instead, the VAT was covered by payments from a foundation funded by companies linked to the consultant or the construction firm.

OLAF's investigation showed that the total amount of irregular subsidies paid for 145 projects was around €4 million. This amount was excluded from EU financing by the European Commission and the corresponding amount was reimbursed to the EU budget by Hungary.

The case was closed in 2014, with recommendations to the Hungarian General Prosecutor to initiate judicial procedures. OLAF also provided expertise and information to the Criminal Directorate-General of the Hungarian Tax and Customs Agency, under the supervision of the Capital's Prosecutor's Office, for their criminal investigation.

According to the indictment, the Hungarian authorities have found sufficient evidence of the fraud being carried out in 60 projects between 2009 and 2013, as a result of which the three main defendants pocketed more than 536 million forints (€1.7 million) of EU and Hungarian public money. The fourth defendant is considered to have defrauded almost 187 million forints (€609,000).

The public prosecutor's office in Budapest is calling for custodial sentences against the fraudsters, as well as fines and a ban on holding company directorships and undertaking public works. The principal defendant in this case is already in pre-trial detention in Hungary in relation to another criminal case, while his accomplices remain at large.

OLAF mission, mandate and competences:

OLAF's mission is to detect, investigate and stop fraud with EU funds.

OLAF fulfils its mission by:

- carrying out independent investigations into fraud and corruption involving EU funds, so as to ensure that all EU taxpayers' money reaches projects that can create jobs and growth in Europe;
- contributing to strengthening citizens' trust in the EU Institutions by investigating serious misconduct by EU staff and members of the EU Institutions;
- developing a sound EU anti-fraud policy.

In its independent investigative function, OLAF can investigate matters relating to fraud, corruption and other offences affecting the EU financial interests concerning:

- all EU expenditure: the main spending categories are Structural Funds, agricultural policy and rural development funds, direct expenditure and external aid;
- some areas of EU revenue, mainly customs duties;
- suspicions of serious misconduct by EU staff and members of the EU institutions.

For further details:

Jana CAPPELLO
Spokesperson
European Anti-Fraud Office (OLAF)
Phone: +32 2 29 85549

Chris JONES
Deputy Spokesperson
European Anti-Fraud Office (OLAF)
+32 2 29 91606

E-mail: olaf-media@ec.europa.eu
http://ec.europa.eu/anti_fraud



olaf-media@ec.europa.eu
http://ec.europa.eu/anti_fraud

