

Compensation for the costs of disabled war veterans' institutional care

Provisions on compensation for the costs of institutional care and part-time institutional care of disabled war veterans are contained in the act on military injuries (sotilasvammalaki, 404/1948). Compensation for the institutional care of persons who became injured or fell ill while doing their military service in 1948–1990 is also paid under the military injuries act. In the budget, these persons are referred to as disabled servicemen.

Institutional care services for disabled war veterans are mainly provided by such specialised institutions as those set up by the Disabled War Veterans Association of Finland, including Kauniala Hospital for Disabled War Veterans (today known as Kauniala Hospital Ltd) and the institutions for disabled war veterans built with 90% state funding in the 1980's and 1990's. It has become customary to refer to all of these institutions as veterans' homes, and they have a special role in producing institutional care services for disabled war veterans. Institutional care services for disabled war veterans can also be provided by other rehabilitation institutions with which the State Treasury has concluded service provision contracts, and also by local governments.

The audit targeted compensation paid to veterans' homes for the institutional care and part-time institutional care of disabled war veterans that mainly has been funded from budget appropriation 33.50.52 (State compensation for the operating costs of institutions for disabled war veterans) deriving from the profits of gambling games. In some cases, compensation paid to other rehabilitation institutions and local authorities and the relevant procedures were used for reference.

In 2012, a compensation sum amounting to EUR 55.6 million was paid to veterans' homes for the institutional care of disabled war veterans and disabled servicemen. Compared to the year 2010, the sum of this compensation went down by 7.1 per cent. Similarly, a sum of approx. EUR 7.5 million was paid to other rehabilitation institutions, with a reduction of 9.3 per cent compared to 2010. In 2012, a total of 266,000 days in institutional care were produced in veterans' homes for disabled war veterans and disabled servicemen eligible for compensation, showing a reduction of 12.3 per cent from 2010.

The aim of the audit was to provide reasonably reliable answers to the following questions:

1. Is compensation for the institutional care and part-time institutional care of disabled war veterans paid in compliance with statutes and guidelines?
2. Is the internal control of the compensation process appropriately organised?

The first objective was divided into three more specific questions:

1. Has compensation only been paid for those disabled war veterans who, under the military injuries act, are entitled to state-reimbursed institutional care or part-time institutional care?
2. Has the compensation been paid out in compliance with the Budget?
3. Has the State Treasury administrated the compensation in compliance with the statutes?

The audit was carried out following the National Audit Office's audit plan for 2012 and the guidelines for compliance audits. The National Audit Office conducts its compliance audits following the ISSAI audit standard 4100 of INTOSAI (International Organisation of Supreme Audit Institutions).

The aim of a compliance audit is to, in issues that are within the competence of the National Audit Office, verify that the auditee has complied with legislation, other regulations of a lower order and guidelines issued by the authorities. In addition to compliance with provisions, a compliance audit also aims to establish whether the activities in question have been organised in observance of the budget and the principles of good governance.

Answers to the questions listed as the objectives of the audit were sought by formulating key audit criteria based on the legislation and, in particular, the military injuries act, the Budget and the established practices of the State Treasury in administrating the compensation. The audit was based on the military injuries act valid until 31 December 2012.

It was carried out as an analytical audit, an audit of the compensation administration process and a substantive test. The substantive test was complemented by conducting audits that consisted of an audit of the quality criteria on which the pricing of care days was based and an audit that focused on the monitoring of care days in three veterans' homes.

As its opinion on the first question related to the first objective, the National Audit Office states that compensation for institutional care and part-time institutional care has only been paid for those disabled war veterans who are entitled to state-reimbursed institutional care and part-time institutional care. In individual cases, compensation paid for the part-time institutional care of disabled war veterans with a 20 per cent disability rating exceed the number of days stated in the military injuries act by a few days.

Under a legislative amendment that entered into force on 1 January 2013 (901/2012), the practice of periodical compensation was discontinued, and the disability rating entitling to permanent institutional care was lowered to 20 per cent, regardless of whether the need for institutional care is due to an injury or an illness eligible for compensation.

Compensation for military injuries for disabled war veterans and others who were injured or fell ill while doing their military service before 1 January 1991 and their family members is paid under the military injuries act. A considerable share of the payment commitments valid in 2012 had been granted to disabled servicemen who had become injured or fallen ill while doing their military service in time of peace, or in the years 1948–1990. If the disability rating entitling to state-reimbursed institutional care is further lowered from the current 20 per cent, an increasing number of disabled servicemen will be eligible for free institutional care. On the other hand, other front line veterans besides disabled war veterans are not entitled to state-reimbursed institutional care. Ac-

According to estimates in the 2013 budget, the number of disabled war veterans at the end of 2013 will be 4,312 and that of disabled servicemen 2,227. Based on projections produced in the statements issued by the Ministry of Social Affairs and Health and the State Treasury on the draft audit report, the number of disabled servicemen would exceed the number of disabled war veterans in 2018. Based on legislative documents, the Parliament was not provided with sufficient information on the beneficiaries of institutional care under the military injuries act and the long-term financial impacts of the amendment on which to base the legislative amendment.

Regarding the second question related to the first objective of the audit, the National Audit Office's view is that the Budget does not provide the Parliament with correct and adequate information on the grounds for paying compensation for the costs of institutional care of disabled war veterans. The heading of the item "State compensation for the operating costs of institutions for disabled war veterans" and the wordings in the decisions section and explanations and context section are inconsistent, and the actual use of the item does not correspond with the intended use of this appropriation, as operating and capital costs are not itemised in the pricing of care days. Since 1994, the operating surplus of veterans' homes has also been used to fund investments, even if this is not permitted by the intended use of the item.

There are no specific provisions on compensating the costs of institutional care of disabled war veterans to others than local authorities, and the procedures are based on information provided in the budget and the practice followed by the State Treasury at any one time. The information presented in the budget since 1994 has been materially misleading.

The budget item based on the profits of the Finland's Slot Machine Association is used to fund veterans' homes, not only those where the state has reimbursed 90 per cent of the establishment costs, but also institutions established by the Disabled War Veterans' Association of Finland in earlier times. There are no grounds for this division from the point of view of the budget or the payment of compensation. The institutions funded from the item in question are in a special position compared to other rehabilitation institutions.

These veterans' homes have preserved their special position regardless of a change of ownership. The special position may also apply to new institutions established by the veterans' homes. As a service provider's operations change or expand, the State Treasury decides in each individual case whether the service provider can produce services for disabled war veterans and disabled servicemen. Such case-by-case decisions put the equal treatment of institutions at risk.

As its comment on the third question related to the first objective of the audit, the National Audit Office states that key parts of the compensation process administered by the State Treasury are not based on statutes but the practices applied by the State Treasury at any one time. The State Treasury reports that both institutional care services and rehabilitation services for disabled war veterans are subjected to competitive bidding. The bidding model used by the State Treasury is not based on applying public contract legislation but, rather, on allocating the available appropriations to veterans' homes. When the so-called bidding process was introduced in 1994, it was referred to as bringing in performance guidance, which is a better description of the this model. An imputed price is calculated for each service category, which is paid to the service provider if it is lower than the price tendered by the institution. If the price tendered by the institution is lower, the price tendered by the institution is paid. This procedure does not treat the tenderers equally. If an institution tenders a price that is lower than the imputed

price, it may receive a smaller compensation sum than an institution with the same quality points that has submitted a tender with a higher price for a care day.

This practice and other shortcomings in the contract award procedure were pointed out in the National Audit Office's performance audit report Procurement of nursing care services for disabled war veterans (1/2001) published in 2001, and it is thus obvious that the procedure applied by the State Treasury was known to at least some of the tenderers.

The compensation paid by the State Treasury is thus not based on the market price or actual costs but on calculations that factor in actual previous care days, average differences between costs incurred for various disability ratings derived from the tender prices, and the available appropriations, which are increased in line with the general cost index.

In the performance audit report published in 2001, the National Audit Office stated as its understanding that the implementation of the reform in 1994 emphasised safeguarding the upkeep of the veterans' homes rather than guaranteeing services that offered overall economical advantageousness and high-quality services to disabled war veterans. The audit now completed reinforces this impression.

Based on the audit results, there appears to have been no essential improvement in the contract award procedures of the State Treasury since 2001.

In the bidding process organised in 2010, the veterans' homes were only granted the price they tendered in very exceptional cases. The compensation paid to the veterans' homes was thus based on an imputed care day price calculated by the State Treasury.

Instead of a price determined by a bidding process, the allocation of the compensation is in fact very close to a central government transfer granted on the basis of a calculation exercise. If paying out this compensation as a central government transfer is considered appropriate, this should be enacted in the relevant legislation. In this case it should be taken into consideration, however, that the central government transfer should be based on actual costs, not the appropriations that are available.

A disabled war veteran may choose between institutional care organised by the local authorities, a veterans' home or other rehabilitation institution relying on state compensation. In order to make institutional care more efficient and to increase genuine competition, the National Audit Office recommends that a model be examined where the provider of institutional care pursuant to the military injuries act would by law be the local government, who could produce the services themselves or outsource them to veterans' homes or other rehabilitation institutions. In the proposed model, the state would continue to pay compensation for the costs incurred by the local government as today.

Regarding the second objective of the audit, the National Audit Office states that it uncovered such shortcomings in the State Treasury's payment commitment procedures, quality assurance associated with the contract award procedure, the auditing of institutional rehabilitation services and the monitoring of care days that appropriate measures should be taken by the State Treasury and the Ministry of Social Affairs and Health as the guiding ministry.