Communication campaign
How to avoid financial errors in FP7

Welcome

Brussels, 19 March 2012
Agenda for today

- Value for money in research funding: balancing science and financial accountability

- 10 Most recurrent errors in FP7 research grants

- Communication campaign: How to avoid financial errors in FP7
Value for money in research funding: balancing science and financial accountability

Brussels, 19 March 2012
Wolfgang Burtscher
The 10 Most Recurrent Financial Errors in FP7

Brussels, 19 March 2012

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## Consequences of errors

### Beneficiaries:
- Non-optimal use of funding available
- Delayed payments
- Recoveries
- Liquidated damages
- Extrapolation

### European Commission:
- Scrutiny of the Budgetary Authority and ECA
- Increased error rate
- Increased ex post audit efforts
- Corrective measures
Legal background

The model Grant Agreement for the 7th Framework Programme (Annex II, Article 22.1) states that:

“The Commission may, at any time during the implementation of the project and up to five years after the end of the project, arrange for financial audits to be carried out, by external auditors, or by the Commission services themselves including OLAF”.

......

“Such audits may cover financial, systemic and other aspects (such as accounting and management principles) relating to the proper execution of the grant agreement.”
Audit findings

87% of audit findings are the result of errors
How to avoid common errors identified in FP7 cost claims

To help you we have prepared a document containing the 10 most recurrent errors you will find it in your welcome pack and it will be published on CORDIS

Most of these errors occur due to:

- **misunderstanding of the rules; or**

- **lack of attention to the detail of the provisions of the FP7 grant agreement.**
1. Costs claimed not linked to project and not substantiated

**All costs claimed should be based on the actual costs incurred:**

- They must be supported by proper documentation
- They must be linked to the funded project
- Neither budgeted, nor estimated amounts
2. Sub-contracting

The use of sub-contractors should be identified in the Description of the Work as defined in Annex 1 of the Grant Agreement:

- If this is not the case then send an amendment request to the Commission

- Subcontracting between partners of the consortium is not allowed
3. Depreciation

Do not charge the full cost of equipment at acquisition:

- Depreciate durable equipment over its useful life
- Spread the cost over the duration of the project
- Do not charge any residual values
3. Depreciation

- **Project start**
- **Acquisition: cost**
- **Charge**
- **Project end**
- **Do not charge**
- **Useful life**

Year 1 | Year 2 | Year 3 | Year 4
4. Indirect Cost Model

- If a full cost accounting system is used then indirect costs claimed must be actual (neither estimated nor budgeted) and linked to the project.

- If the actual indirect costs cannot be established then use a flat rate for charging indirect costs to the project (20% or 60% depending on the status of the organisation).
5. Indirect Costs - Ineligible items

- Remove any ineligible items from the pool of indirect costs

- Examples of ineligible items:
  - Marketing & sales costs
  - Financing costs
  - Exchange rate losses
  - Costs with no relationship to the project
6. Personnel costs: Establish a correct hourly rate

\[
\text{PERSONNEL direct costs declared} \quad \frac{\text{Number of HOURS spent on EC project}}{} \times \text{HOURLY PERSONNEL rate}
\]
6. Personnel costs: 
Establish a correct hourly rate

- **Total Annual Personnel Costs of an employee**
- **Total Annual Productive hours of an employee**
6. **Example** of annual productive hours

<table>
<thead>
<tr>
<th>Productive hours calculation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total days in a year</td>
<td>365</td>
</tr>
<tr>
<td>Less: Weekends</td>
<td>104</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>261</td>
</tr>
<tr>
<td>Less: Annual Holidays</td>
<td>21</td>
</tr>
<tr>
<td>Less: Statutory Holidays</td>
<td>15</td>
</tr>
<tr>
<td>Less: Illness &amp; Others</td>
<td>15</td>
</tr>
<tr>
<td><strong>Productive days per year</strong></td>
<td>210</td>
</tr>
<tr>
<td><strong>Hours per day</strong></td>
<td>8.0</td>
</tr>
<tr>
<td><strong>Productive hours per year</strong></td>
<td>1,680</td>
</tr>
</tbody>
</table>

If actual productive hours exceed the standard, use actual hours. Do not use billable (commercial hours) as they do not represent the total productive time of the personnel.
7. Hours charged to the project

*Time charged to the project:*

- Ensure a reliable time-recording for all employees charged to FP7
- List hours charged by activities: RTD, Management, Demonstration, Others
- Sign and have the time charged approved

*Do not charge time when:*

- The person is on leave
- Attending conferences unrelated to the project
8. Use of average personnel cost

It is now permitted to use average personnel costs for the calculation of staff costs under the condition that:

- They reflect the usual cost accounting practice **declared by the beneficiary**
- They are based on actual personnel costs as registered in the statutory accounts (**without estimated or budgeted elements**)
- They exclude ineligible cost items and **any costs claimed under other cost categories (to avoid double funding of the same costs)**
- The number of productive hours **corresponds to usual management practice**

If the criteria for the use of average personnel costs can not be met, then actual costs should be declared.
9. SME owners

SME owners may choose to:

- Pay themselves a salary
  *For their research work*
  - Claim the salary as a cost under the FP7 project

- No salary
  - Charge Marie Curie flat rates to the FP7 project
10. VAT

- VAT, whether recoverable or not, is ineligible

- Please ensure that VAT is always excluded from all cost claims
ADDITIONAL INFORMATION

How to avoid common errors identified in cost claims

In the welcome pack and soon on CORDIS

Guide to FP7 Financial Issues


And in case of doubts, do not forget:

http://ec.europa.eu/research/enquiries
Thank you very much for your attention!

Questions?