

Practice case 1.2.

Personnel costs – Categories - Hourly rates

NOTE: All names for the exercises bellow, are fictitious, and all resemblance with existing entities and persons is coincidental.

The beneficiary INERTIA is a private manufacturing company for the production of agricultural machinery in one EU Member State, operating in euro. In 2014 it has signed a Consortium agreement with several other companies and associations in the EU for a research project, under the H2020 funding programme.

The company does not run other EU-funded projects and has not previously run other EU projects.

The project start date is 1st September 2014 and its 4 reporting periods are set in the Grant Agreement as follows:

PR 1 18 months

PR 2 18 months

PR 3 18 months

PR 4 18 months

INERTIA's project management applies Option 1 for the annual productive hours, i.e., 1720 hours per year and accounts personnel costs on an annual basis. The same approach is being applied throughout the years of the project duration.

12 persons are assigned in INERTIA to work on the H2020 project.

- Among them there are 3 persons internal employees, each of which are sharing their time among other projects within INERTIA.
- There are 2 Chemistry Engineers, freelancers, who due to their special competency profiles, deliver independently analytical services to INERTIA, without being organised and supervised by the INERTIA project management. INERTIA has recruited them via a Temporary Agency, which selected them and assigned them to INERTIA as their client. INERTIA provided them an office space, but are not controlling their presence in the office, as they are free to decide on their work schedule. For their analytical work they are paid an amount per product delivery (specific technical and scientific reports on subjects requested by INERTIA), for which they work partially in teams with other INERTIA staff.
- 2 Researchers were seconded against payment from another company RISINGSON, a legal entity, to work exclusively on the action in the INERTIA's premises, as of 1st February 2015. The annual remuneration for one seconded Researcher at RISINGSON amounts at 76000 euro for 2015 and the same amount also for 2016.
- One Senior Agricultural Equipment Technician is assigned on the project via a freelance contract, for providing in-house service work to INERTIA. He works on a daily basis as part of the team subordinated to the internal project organisational structure, in the same premises where all team members usually work, and he also records his working hours in time sheets.

His contract with INERTIA defines his working time as normally 5 days per week, 8 hours per day, but he is also expected to work during weekends, and beyond the 9h-18h workday. His qualification and tasks are similar to these of other technicians, but he has specific remuneration rules – with a specified daily rate of 650 euro (twice the rate of similar job role in a non-EU-project related work in INERTIA) for Monday-Friday from 9h to 18h, and for the weekends and overtime hours his contract refers to different hourly rates.

- Hours worked during weekdays: 95 euro per hour;
 - Hours worked during weekends: 120 euro per hour
- The rest (4) of the employees are internal staff of INERTIA who are exclusively working on the H2020 project. They are expected to be working 8 hours per day, 5 days a week.
 - 1 Project Engineer Researcher– actual annual remuneration 75000 euro
 - 1 Industrial Design Researcher – actual annual remuneration 71000 euro,
 - 1 Biological Science Technician – he was recruited in February 2015 and his actual annual remuneration for 2015 was 65000 euro; for 2016: 70 000 and for 2017: 70800 euro
 - 1 Financial Administrator – actual annual remuneration 55000 euro
 - The 3 internal staff who are shared employees – hours worked per timesheets:
 - Payroll Assistant Ms Cee
 - 2014 year – 143 hours worked on H2020 project – total payments received during the year (for total working time, not only on H2020): 44 600 euro
 - 2015 – 950 hours – 45 900 euro
 - 2016 – 286 hours – 46 000 euro
 - Accountant Mr Dee
 - 2014 - 204 hours - 53 000 euro
 - 2015 - 860 hours on the H2020 action - 52 000 euro;
 - 2016 - 132 hours – 53 500 euro.
 - Project Management Assistant Ms Fee
 - 2014 - 280 hours on the action and received in total 34 800 euro
 - 2015 - 950 hours on the H2020 action - annual payments amount to 35 000 euro;
 - 2016 she worked 140 hours – 35 600 euro
 - The in-house service provider, Senior Agricultural Equipment Technician, Mr. Kee worked in total:
 - 32 days for 2014 (from September to December)
 - 215 days for the year 2015,
 - and 30 for 2016
 - He has also worked additional hours (overtime):
 - 35 hours in 2014 of which 8 hours during weekends
 - 50 hours in 2015 of which 14 hours during weekends
 - 6 hours in 2016 during weekdays
 - According to his contract the overtime is paid as follows:
 - Hours worked during weekdays and up to 24.00h: 95 euro per hour;
 - Hours worked during weekends: 120 euro per hour

Question 1

For two Researchers working exclusively on the action, namely one of the seconded RISINGSON Researchers and the Project Engineer Researcher at INERTIA, the EC auditors found that they have been working on non-H2020 project work for one week in January 2015 (for INERTIA) and in January 2016 (for both). For these days they have attended an International Symposium, delivering speeches for the auditorium. Their participation was not linked to the H2020 funded project, as the topic discussed was essentially different from the project domain and fell beyond the scope of their work on the project. This participation contributed to building network and confirming the reputation of INERTIA for eventual future cooperation with new partners.

What will be the impact on the eligibility of their declared personnel costs in the PR1?

PR 1: 1st Sept 2014 – 29th February 2016 (18 months)	
2014: 25 000 euro	2014: n.a.
2015: 75 000 euro	2015: 76 000 euro
2016: 12 500 euro	2016: 13 818,18 euro
Costs for the INERTIA Researcher for PR1	Costs for the RISINGSON for PR1

Project Engineer Researcher at INERTIA

1774,40 + 1742 = 3416,40 euro ineligible personnel costs for PR1 (for 2015 AND 2016)

2015

75000:1720 ~ 43,60 euro **hourly rate** for 2015

This rate has to be applied on the actually worked hours on the action during the year. Timesheets and alternative evidence should demonstrate the actual working hours.

If proved that all other 11 months, the researcher worked indeed exclusively for the action, then

1720/215 days = 8 hours per day

5 days x 8 hours = 40 hours not worked on the action

Hours actually worked on the action 1720-40=1680

Eligible costs for 2015 = 1680 x 43.6046512 euro = 73 255,81

Ineligible costs = 1744,19 euro

2016

The same hourly rate as of last closed financial year, i.e. 43.60... euro per hour

See the Excel file on Practice Case 1.2

RISINGSON Researcher

2015

Because the Researcher was seconded, against payment, but not hired, i.e. he/she used to work on an employment contract with the in-kind contributor, his costs should be “up to the costs actually incurred by the third party” as referred in the Grant Agreement (art.11.1 from GA and p.76, point 1.3.4 AMGA). In this example, the costs for the RAISINGSON researcher must also be calculated based on an hourly rate method. We use then $(76000 / (1720/12))$ for the hourly rate as the person was already working in RAISINGSON since January. With this hourly rate, the hours actually worked for the 11 months are multiplied, to produce the personnel costs for this researcher for this year.

$76000 : (1720 / 12) \sim 44,19...$ hourly rate 2015

Actual working time on the action for February to December 2015: 11 months

$1720/12=143.33$ hours per month

$143,33 \times 11 = 1577$ hours actual hours worked on the action

Eligible personnel costs $44,19... * 1577$

2016

Eligible costs for 2016

Hours actually worked for 2016 = $(1720/12 * 2) - 40 = 286,66 - 40 = 246,66$

Eligible costs for 2016 = $246,7 * 44.19...$

See the Excel file on Practice Case 1.2

NOTE: The ineligible costs due to the error for the costs of the INERTIA Researcher will have an impact on the basis for the calculation of the indirect costs flat rate 25%. The **indirect costs should be corrected too.**

1. **Discuss the calculation of the eligible costs for the internal employee working exclusively on the action on the position Biological Science Technician.**
 - a. How will the annual productive hours be set up for him?

For the Financial Reporting:

- Period 1 (1/2/2014 – 29/2/2016) – the person was recruited February 2015

$1720/12 = 143,33$ hours per month

$143,33 \times 11$ months = 1577 productive hours for 2015

Use an hourly rate based on the 1577 productive hours for his costs for 2015.

Hourly rate 2015 is $65000/1577=41,22$ euro

Use the **same hourly rate** from 2015 for months January and February 2016.

- Period 2

1720 productive hours for 2016 (**January** to December)

2016 Hourly rate $70000/1720=40,69$ euro

Use the **same hourly rate** from 2016 for the personnel costs for him for 2017 January-August.

- b. What will auditors expect to find as evidence for his personnel costs?
 - i. Prove for exclusive work time – Declaration and reconciled with alternative evidence.
 - ii. In case of findings conflicting the Declaration and no time records, what will auditors look for and how will the costs eligibility be defined?

They will try to understand the work performed by the person, by questioning, interviews with colleagues, review of documents with his signature, or reports of meetings he attended, emails, other alternative cross-checks, based on his pass within the Beneficiary's organization. They will do an estimation of the time needed to perform these tasks.

2. Calculate the eligible costs for PR1 for the internal employee Ms Cee who are sharing their work time among other projects.

First, we have to calculate the hourly rates per employee, based on the Productive Hours Option 1, mentioned in the main text, which is 1720. We have to use the Total Annual Actual Costs and the 1720 Productive Hours. The eligible personnel cost to be declared will be then calculated with the respective hourly rate and the actual hours worked on the action.

For Ms Cee:

$44\,600 : 1720 = 25.93$ euro per hour (2014)

$25,93 \times 143 = 3\,708$ euro for 2014

$45\,900 : 1720 = 26,69$ euro per hour (2015)

$26,69 \times 950 = 25\,352$ euro for year 2015

$26,69 \times 286 = 7\,633.34$ euro for 2016 (the same hourly rate as for 2015)

3. Identify the cost category (discuss your arguments) for Mr Kee's costs, the in-house consultant.

- These are not personnel costs, as her costs are calculated in a very different way than those for the internal employees (regarding overtime), with a significantly higher daily (resp. hourly) rate, so it is a Service Contract (so Other Direct Costs). In addition to the general eligibility criteria, his costs must have also been incurred on the "best value for money" principle. They can only be actual costs.

Timesheets should support the claimed number of days (8 hours per day) and overtime.

4. How will the costs related to the chemistry-engineers be analysed? Think of the approach auditors would undertake – what will they ask and what possible scenarios of conclusions can be drawn.

- a. Has there been sufficient evidence to classify these freelancers as personnel?
As the contracts with these persons are not direct between them and the Beneficiary, they are not qualified as personnel costs, but Service Contracts.
- b. In what case these freelancers can be accounted as subcontracting, and what needs to be considered to support the subcontracting costs?

- i. The Temporary Agency must be delegated certain “action tasks” / “Work packages” to manage, for the delivery of which INERTIA should have a contract with it.
- ii. Approval by the EC on the delegating of these action tasks/ work packages to be subcontracted (in the GA, indication in Annex 1 and Annex2, amendment or simplified approval)
- iii. Evidence of best value for money procedure, procurement procedure
- iv. General eligibility criteria
- v. Impact on the calculation of the indirect costs

5. For the two Seconded Senior Researchers what particular conditions on the costs applies?

- Indirect costs of the third party related to these personnel costs are not eligible (as the seconded persons work in the beneficiary’s premises).
- All general eligibility criteria in art. 6 should apply to the costs of the seconded persons.
- The costs should be supported, and their justifying documentation should be readily available and accessible by EC auditors, OLAF and ECA.
- Receipts may need to be reported corresponding to the costs declared.