

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.

How much are the ineligible costs related to the declared personnel costs for these two persons 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

For 2015

For 2016

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Seconded Researcher from RISINGSON

2015

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See the Excel file on Practice Case 1.2

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?
 - b. What will auditors expect to find as evidence for his personnel costs?

- i. Prove for exclusive work time
 - 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?
- 2. Calculate the eligible costs for PR1 for the internal employee Ms Cee who is sharing her work time among other projects.**
- 3. Identify the cost category - discuss your arguments - for Mr Kee, the in-house consultant.**
- 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?
 - b. In what case these freelancers can be accounted as subcontracting, and what needs to be considered to support the subcontracting costs?
- 5. For the two Seconded Senior Researchers what particular conditions on the costs applies?**