

Independent Report of Factual Findings on costs claimed under a Grant Agreement financed under the Seventh Research Framework Programme (FP7)

Christopher Green, Director, Office of Sponsored Programs
The University of Texas Health Science Center San Antonio
7703 Floyd Curl Drive
San Antonio, TX 78229
31 October, 2016

In accordance with the terms of reference attached thereto (appended to this Report), we provide our Independent Report of Factual Findings (“the Report”), as specified below.

Objective

We, the Office of Internal Audit and Consulting Services at the University of Texas Health Science Center San Antonio, represented for signature of this Report by Angela D’Anna, Chief Audit Executive, have performed agreed upon procedures regarding the cost declared in the Financial Statements of the TumAdoR grant at The University of Texas Health Science Center San Antonio hereinafter referred to as the Beneficiary, to which this report is attached, and which is to be presented to the European Commission under grant agreement number 602200 TumAdoR for the following periods 01/09/2013 to 28/02/2015 and 01/03/2015 to 29/02/2016 and for the following amounts 258,555 € and 148,806 €, respectively. This engagement involved performing certain specified procedures, the results of which the European Commission uses to draw conclusions as to the eligibility of the costs claimed.

Scope of Work

Our engagement was carried out in accordance with the terms of reference appended to this Report and the *International Standards for the Professional Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors.

As requested, we have only performed the procedures set out in the terms of reference for this engagement and we have reported our factual findings on those procedures in the table appended to this Report.

The scope of these agreed upon procedures has been determined solely by the European Commission and the procedures were performed solely to assist the European Commission in evaluating whether the costs claimed by the Beneficiary in the accompanying Financial Statements has been claimed in accordance with the Grant Agreement. The Auditor is not responsible for the suitability and appropriateness of these procedures.

Because the procedures performed by us did not constitute an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Financial Statements.

Had we performed additional procedures or had we performed an audit or review of the Financial Statements of the Beneficiary in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

Sources of Information

The Report sets out information provided to us by management of the Beneficiary in response to specific questions or as obtained and extracted from the Beneficiary’s information and accounting systems.

Factual Findings

The above mentioned Financial Statements per Activity were examined and all procedures specified in the appended table for our engagement were carried out. On the basis of the results of the procedures, we found:

- For Financial Statements reporting period ending 28/02/2015:
 - the actual cumulative personnel costs paid to employees from the project was 1,055 € less than the allowable costs.
 - the amount of indirect costs claimed was 314 € less than the allowable costs.
 - the exchange rate used was less than the historical exchange rate for 01/03/2015. The costs claimed were 1,628 € less than the allowable costs.

- For Financial Statements reporting period ending 29/02/2016:
 - The exchange rate used was less than the historical exchange rate for 01/03/2016. The costs claimed were 835 € less than the allowable costs.

All documentation and accounting information to enable us to carry out these procedures has been provided to us by the Beneficiary. Except as indicated below, no exceptions were noted.

Exceptions

The Auditor was able to successfully complete the procedures specified with no exceptions.

Use of this Report

This Report is solely for the purpose set forth in the above objective.

This Report is prepared solely for the confidential use of the Beneficiary and the European Commission and solely for the purpose of submission to the European Commission in connection with the requirements set out in Article II.4.4 of the Grant Agreement. This Report may not be relied upon by the Beneficiary or by the European Commission for any other purpose, nor may it be distributed to any other parties. The European Commission may only disclose this Report to others who have regulatory rights of access to it, in particular the European Anti Fraud Office and the European Court of Auditors.

This Report relates only to the Financial Statements specified above and does not extend to any other financial statements of the Beneficiary.

No conflict of interest exists between the Auditor and the Beneficiary in establishing this Report. No fees were paid to the Auditor for providing the Report.

We look forward to discussing our Report with you and would be pleased to provide any further information or assistance which may be required.

Respectfully Submitted,



Angela D'Anna
Chief Audit Executive

Enclosures: Attachment A – Terms of Reference
Attachment B – Table of Findings

Attachment A – Terms of Reference for an Independent Report of Factual Findings on costs claimed under a Grant Agreement financed under the Seventh Research Framework Programme (FP7)

The following are the terms of reference ('ToR') on which The University of Texas Health Science Center San Antonio 'the Beneficiary' agrees to engage The University of Texas Health Science Center's Office of Internal Audit and Consulting Services 'the Auditor' to provide an independent report of factual findings on a Financial Statements prepared by the Beneficiary and to report in connection with a European Union/European Atomic Energy Community financed grant agreement concerning the Seventh Research Framework Programme (FP7), concerning (the 'Grant Agreement'). Where in these ToR the 'European Commission' is mentioned this refers to its quality as signatory of the Grant Agreement with the Beneficiary. The European Union is not a party to this engagement.

1.1 Responsibilities of the Parties to the Engagement

'The Beneficiary' refers to the legal entity that is receiving the grant and that has signed the Grant Agreement with the European Commission.

- The Beneficiary is responsible for preparing a Financial Statement for the Action financed by the Grant Agreement in compliance with such agreements and providing it to the Auditor, and for ensuring that this Financial Statement can be properly reconciled to the Beneficiary's accounting and bookkeeping system and to the underlying accounts and records. Notwithstanding the procedures to be carried out, the Beneficiary remains at all times responsible and reliable for the accuracy of the Financial Statement.
- The Beneficiary is responsible for the factual statements which will enable the Auditor to carry out the procedures specified, and will provide the Auditor with a written representation letter supporting these statements, clearly dated and stating the period covered by the statements.
- The Beneficiary accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Beneficiary providing full and free access to the Beneficiary's staff and its accounting and other relevant records.

'The Auditor' refers to the Auditor who is responsible for performing the agreed-upon procedures as specified in these ToR, and for submitting an independent report of factual findings to the Beneficiary.

The Auditor must be independent from the Beneficiary.

- The Internal Audit Office is an independent appraisal function responsible for monitoring the fiscal and administrative operations of the Health Science Center. The Internal Audit Office is sanctioned by the University of Texas Board of Regents' Rules and Regulations and the State of Texas Internal Auditing Act.
- The procedures to be performed are specified by the European Commission and the Auditor is not responsible for the suitability and appropriateness of these procedures.

1.2 Subject of the Engagement

The subject of this engagement is the Financial Statements in connection with the Grant Agreement for the periods covering 01/09/2013 to 28/02/2015 and 01/03/2015 to 29/02/2016.

1.3 Reason for the Engagement

The Beneficiary is required to submit to the European Commission a certificate on a Financial Statement in the form of an independent report of factual findings produced by an auditor in support of the payment requested by the Beneficiary under Article II.4 of the Grant Agreement. The Authorising Officer of the Commission requires this Report as he makes the payment of costs requested by the Beneficiary conditional on the factual findings of this Report.

1.4 Engagement Type and Objective

This constitutes an engagement to perform specific agreed-upon procedures regarding an independent report of factual findings on costs claimed under the Grant Agreement.

As this engagement is not an assurance engagement the Auditor does not provide an audit opinion and expresses no assurance. The European Commission derives its assurance by drawing its own conclusions from the factual findings reported by the Auditor on the Financial Statement and the payment request of the Beneficiary relating thereto.

The Auditor shall include in its Report that no conflict of interest exists between it and the Beneficiary in establishing this Report, as well as the fee paid to the Auditor for providing the Report.

1.5 Scope of Work

1.5.1 The Auditor shall undertake this engagement in accordance with these ToR and in accordance with the *International Standards for the Professional Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors.

1.5.2 Planning, procedures, documentation and evidence

The Auditor should plan the work so that the procedures can be effectively performed. For this purpose he performs the procedures specified in 1.9 of these Terms of Reference ('Scope of Work – Compulsory Report Format and Procedures to be Performed') and uses the evidence obtained from these procedures as the basis for the Report of factual findings.

1.6 Reporting

The Report of factual findings, an example of which is attached to this ToR, should describe the purpose and the agreed-upon procedures of the engagement in sufficient detail in order to enable the Beneficiary and the European Commission to understand the nature and extent of the procedures performed by the Auditor. Use of the reporting format attached as Annex VII of the Grant Agreement is compulsory. The Report should be written in the language indicated in Article 4 of the Grant Agreement. In accordance with Article II.22 of the Grant Agreement, the European Commission and the Court of Auditors have the right to audit any work carried out under the project for which costs are claimed from the Community, including the work related to this engagement.

1.7 Timing

The Report should be provided by 31 October 2016.

FP7 Grant Agreement – Annex VII – Form D

Attachment B

Procedures performed by the Auditor

The Auditor designs and carries out his work in accordance with the objective and scope of this engagement and the procedures to be performed as specified below. When performing these procedures the Auditor may apply techniques such as inquiry and analysis, (re)computation, comparison, other clerical accuracy checks, observation, inspection of records and documents, inspection of assets and obtaining confirmations or any others deemed necessary in carrying out these procedures.

The European Commission reserves the right to issue guidance together with example definitions and findings to guide the Auditor in the nature and presentation of the facts to be ascertained. The European Commission reserves the right to vary the procedures by written notification to the Beneficiary. The procedures to be performed are listed as follows:

Procedures	Standard factual finding and basis for exception reporting
Personnel Costs	
<p>1. Recalculate hourly personnel and overhead rates for personnel (full coverage if less than 20 employees, otherwise a sample of minimum 20, or 20% of employees, whichever is the greater), indicate the number of productive hours used and hourly rates. Where sampling is used, selection should be random with a view to producing a representative sample. 'Productive hours' represent the (average) number of hours made available by the employee in a year after the deduction of holiday, sick leave and other entitlements. The auditor obtained the calculation of the productive hours after inspecting all necessary records, national legislation, labour agreements, contracts, any other relevant documentation. The calculation should be based on the period(s) corresponding to the Financial Statement(s) or on the last closed financial year (whichever is used by the beneficiary).</p>	<p>The percentage of an employee's salary and benefits charged to the project is in accordance with the percentage of effort spent working on the project. Effort is the time individuals spend on an activity, expressed as a percentage of all the time spent on Health Science Center job duties. The Auditor reviewed all eight employees paid with project funds. For each employee, the Auditor obtained the personnel costs (salary and employer's costs) from the payroll system and compared the percentage of personnel costs paid with project funds to the total personnel costs for the employee. The percentage of personnel costs paid to employee with project funds was compared to the percentage of effort employee spent working on grant.</p> <p>For Financial Statement period ending 28/02/2015, the percentage of personnel costs paid from project was slightly less than the percentage of effort spent on the project. For Financial Statement period ending 29/02/2016, the percentage of personnel costs paid from project agreed to the percentage of effort spent on the project.</p> <p>The Auditor recomputed the hourly rate by dividing the monthly personnel costs for each employee by 140 productive hours per month (1680 productive hours per year). The productive hours calculation corresponds to the usual accounting practice of the Beneficiary. The calculated hourly rate was multiplied by the productive hours spent on the project to obtain the allowable costs for each employee. This amount was compared to the actual personnel costs paid to employee from the project.</p> <p>For Financial Statement ending 28/02/2015, the actual cumulative personnel costs paid to employees from the project was 1,055 € less than the allowable costs. For Financial Statement ending 29/02/2016, the actual personnel costs paid to employees agreed to the allowable costs.</p>

2. For the same selection examine and describe time recording of employees (paper/ computer, daily/weekly/monthly, signed, authorised).	Employees record their percentage of effort semi-annually on a computer-based system. Effort must be certified by a responsible person with suitable means of verifying that the work has been performed.
3. Employment status and employment conditions of personnel. The Auditor should obtain the employment contracts of the employees selected and compare with the standard employment contract used by the Beneficiary. Differences which are not foreseen by the Grant Agreement should be noted as exceptions.	For the employees selected, the Auditor inspected their employment documentation and found that they were: - directly hired by the Beneficiary in accordance with its national legislation. - under the sole technical supervision and responsibility of the latter, and - remunerated in accordance with the normal practices of the Beneficiary.
4. Use of average personnel costs.	N/A - Beneficiary uses actual costs.
Subcontracting	
5. Obtain a written description from the Beneficiary regarding 3rd party resources used and compare with Annex 1 to the Grant Agreement.	N/A - No costs of this category have been charged to the project by the Beneficiary.
6. Inspect documents and obtain confirmations that subcontracts are awarded according to a procedure including an analysis of best value for money (best price-quality ratio), transparency and equal treatment. Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.	N/A
Other Direct Costs	
7. Allocation of equipment subject to depreciation is correctly identified and allocated to the project. Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.	N/A - No depreciable equipment was purchased with project funds.
8. Travel costs correctly identified and allocated to the project (and in line with Beneficiary's normal policy for non-[EU] [Euratom] work regarding first-class travel, etc.) Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater. The Beneficiary should provide written evidence of its normal policy for travel costs (e.g. use of first class tickets) to enable the Auditor to compare the travel charged with this policy.	The Auditor inspected all travel costs and found that the Beneficiary had allocated travel costs to the project by marking of invoices and requisitions with the project reference, resulting in traceable allocation in the project account. The costs charged were compared to the invoices and found to be the same. No VAT or other identifiable indirect taxes were charged. There was no use of first class travel.

<p>9. Consumables correctly identified and allocated to the project. Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.</p>	<p>The Auditor inspected the sample and found that the Beneficiary had allocated consumable costs to the project by marking of invoices and purchase orders with the project reference, resulting in traceable allocation in the project account.</p> <p>The costs charged were compared to the invoices and found to be the same. Costs for VAT or other identifiable indirect taxes were removed from the grant.</p>
--	--

Indirect Costs

<p>10. Obtain and review a detailed breakdown of Indirect costs (reconciled to the accounting records) and confirm that the following costs are not present:</p> <p>a. identifiable indirect taxes including value added tax, b. duties, c. interest owed, d. provisions for possible future losses or charges, e. exchange losses, cost related to return on capital, f. costs declared or incurred, or reimbursed in respect of another Union or Euratom project, g. debt and debt service charges, excessive or reckless expenditure.</p> <p>The above does not apply to beneficiaries using a flat rate to claim indirect costs in accordance with Annex II of the ECGA attached to the grant agreement being reviewed. In such case the procedure to apply is:</p> <ul style="list-style-type: none"> • The auditor confirmed that the flat rate applied on the Financial Statement(s) is consistent with the one provided in Annex II of the ECGA. • The auditor recalculated the indirect costs claimed on the basis of the flat rate for arithmetical accuracy. 	<p>N/A - Beneficiary uses a flat rate to claim indirect costs.</p> <p>The Auditor found:</p> <ul style="list-style-type: none"> - that the flat rate has been charged in accordance with Annex II of the ECGA and computed on direct eligible costs excluding costs for sub-contracting and the costs of resources made available by third parties which are not used on the premises of the Beneficiary. <p>For the Financial Statements period ending 28/02/2015, the amount of indirect costs claimed were 314 € less than the allowable costs.</p> <p>For the Financial Statements period ending 29/02/2016, there were no exceptions.</p>
---	---

<p>11. Assess use of a simplified method of calculation of overheads at the level of the legal entity. The Beneficiary may use a simplified method of calculation (either due to the lack of analytical accounting or legal requirement to use a form of cash-based accounting). This does not permit the use of a generalised estimate, or the use of a 'standard' rate that is not derived from the accounting records of the period in question. Thus the rate (but not the methodology) should be updated for each accounting period.</p>	<p>N/A - The Beneficiary uses a flat rate to claim indirect costs.</p>
---	--

<p>12. Inspect and compare exchange rates into Euros.</p>	<p>The Auditor compared the exchange rates use for conversion with the applicable official exchange rates established by the European Union and the Beneficiary used: - the rate applicable on the first day of the month following the end of the reporting period.</p> <p>For the Financial Statements reporting period ending 28/02/2015, the exchange rate for US dollars to Euros used was slightly less than the historical rate. This caused less allowable costs to be claimed on the Financial Statements totaling 1,628 €.</p> <p>For the Financial Statements reporting period ending 29/02/2016, the exchange rate for US dollars to Euros used was slightly less than the historical rate. This caused less allowable costs to be claimed on the Financial Statements totaling 835 €.</p>
<p>13. Identification of receipts. The Beneficiary is obliged to declare in its claim any receipts related to the project (income from events, rebates from suppliers, etc.)</p>	<p>N/A - The Beneficiary has no receipts related to the project to declare.</p>
<p>14. Identification of interest yielded until 31.12.2012 on prefinancing. The Beneficiary, when it is the coordinator of the project, is obliged to declare interest yielded until 31.12.2012 on prefinancing</p>	<p>N/A - The project started 01/09/2013.</p>