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Employment, Social Affairs and Inclusion DG

Audit, Controls
Shared Management I
Head of unit

Limited¹

**Final Systems Audit² report for
2007RO051PO001 OP Human Resources Development**

A-Rep N° 1554³

**FOLLOW-UP / STATE OF PLAY OF THE ACTION PLAN ISSUED AFTER AUDIT
A-Rep 1445**

Authorities subject to audit: Managing Authority (Ministry of Labour, Family and Social Protection), Certifying Authority (Ministry of Finance)

Country: ROMANIA

Region: BUCHAREST

Period subject to audit: 2007-2013

Dates of the audit field work: 19-23 November 2012

Auditors: Dirk Coddé, Mihai Titire

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Signature

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² Systems audit also includes follow-up missions and thematic missions

³ This number should be mentioned in all correspondence relating to this audit

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1. EXECUTIVE SUMMARY

1.1. Introduction

In the context of compliance with Council Regulation (EC) No 1083/2006, Council Regulation (EC) No 1081/2006 and Commission Regulation (EC) No 1828/2006, Unit H/2 of DG EMPL⁴ conducted a follow-up to an audit performed earlier in 2012 on the systems of the Operational Programme 2007RO051PO001 (hereafter – HRD OP). Between 19.11.2012 and 23.11.2012, the ESF auditors examined the implementation of the action plan issued after audit A-Rep 1445 in April / May 2012.

1.2. Common authorities subject to audit

The following auditees, which were the subject of this audit, have responsibilities and/or functions common to other Structural Funds or the Cohesion Fund:

<u>Authority/Body</u>	<u>Responsibility/Function</u>	<u>Funds</u>
AA (Body associated to the Romanian Court of Accounts)	Art. 62 of Council Regulation (EC) No 1083/2006	ERDF, EFF, CF
CA (Finance Ministry)	Art. 61 of Council Regulation (EC) No 1083/2006	ERDF, EFF, CF

1.3. Findings

The management and control findings, as indicated in audit report A-Rep 1445, as well as the follow up given, are summarised below:

Finding n°	Management and control issue A-Rep 1445	State of play A-Rep 1554
1	KR2; deficient selection procedure	Situation improved regarding minimum thresholds and selection of evaluators New assessment cat. 2 Further follow-up needed, in particular on proposed level of wages, which is still not compatible with Romanian labour market for the same type of services.

⁴ DG Employment, Social Affairs and Equal Opportunities, Directorate I: Audit, Controls, Evaluation, Unit I/3: ESF Audits

2	KR3; deficient guidance to beneficiaries	<p>Situation improved regarding limiting management expenditure within projects and regarding enhanced reporting.</p> <p>New assessment cat. 2</p> <p>Further follow-up needed, in particular on the staffing level</p>
3	KR4; deficient management verifications	<p>Procedures have been modified:</p> <ul style="list-style-type: none"> - instruction 61: extended sampling, but unchanged quality. Correction of 25% appropriate. - instruction 62: introduced too recently to be audited. <p>New assessment cat. 3</p> <p>Further follow-up needed</p>
4	findings within projects	not audited
5	KR6; non-functional IT system	<p>Two IT systems exist in parallel, reconciliation difficult but possible.</p> <p>Assessment remains in cat 2</p>
6	KR10 (KR CA3); deficient system for follow up on identified errors	<p>Procedures have been modified, and should allow for improvement, which could not yet be tested</p> <p>New assessment cat. 2</p> <p>Further follow-up needed</p>

2. OPINION

Based on the audit results, the audit team expresses an opinion on the management and control systems (MCS) in place. The audit opinion is:

Qualified with significant observations:

The ESF auditors reviewed the systems in place and the selected projects in accordance with the audit scope and objectives set out in sections 3.2 and 3.3 of this audit report.

In our opinion, based on the audit methodology (section 3.4) and work performed (section 4), we have reasonable assurance that the management and control systems in place as at 23 November 2012 are functioning effectively and in compliance with the applicable regulations (Council Regulation (EC) No 1083/2006, Council Regulation (EC) No 1081/2006 and Commission Regulation (EC) No 1828/2006); **except for the following significant deficiencies which affect key element(s) of the systems:**

MA – key requirement 4 – adequate management verifications:

Deficient management verifications as regards quality, depth and scope; measures improving the quality and reliability have been taken, but are too recent to be audited.

The assessment, per key requirement, is as follows:

Managing Authority/Intermediary Body	Works well	Works, but some improvements needed	Works partially. Substantive improvements are needed	Essentially does not work
Clear definition, allocation and separation of functions between and within the managing authority/intermediate bodies	Not audited			
Procedures for the selection of operations adequate		X		
Adequate information and an adequate strategy to provide guidance to beneficiaries		X		
Adequate management verifications			X	
Adequate audit trail		X		
Reliable accounting, monitoring and financial reporting system exist and in computerised form		X		
Necessary preventive and corrective action where systemic errors are detected by the Audit Authority	Not audited, however audited separately under Nr A-Rep 1545 and assessed in category 3			
Certifying Authority	Works well	Works, but some improvements needed	Works partially. Substantive improvements are needed	Essentially does not work
Clear definition, allocation and separation of functions between and within the certifying authority/intermediate bodies	Not audited			
Adequate audit trail and does a computerised system exists	Not audited			
Arrangements to ensure the certification of expenditure is reliable and soundly based		X		
Satisfactory arrangements for keeping an account of amounts recoverable and for recovery of undue payments	Not audited			

This systems audit represents the assessment and evaluation of the design of the MCS of the HRD OP at a specific point in time. Hence, this systems audit does not provide assurance for future periods in view of risks such as the weakening of the internal controls resulting from changes in conditions, or possible deterioration of the degree of compliance with legal requirements or procedures.

3. THE ENGAGEMENT CONTEXT

3.1. Legal Basis

The legal base for the audit is Articles 72(2) and 73(2) & (3) of Council Regulation (EC) No 1083/2006.

Article 72(2) *"Without prejudice to audits carried out by Member States, Commission officials or authorised Commission representatives may carry out on-the-spot audits to verify the effective functioning of the management and control systems, which may include audits on operations included in operational programmes."*

Article 73(2) *"In determining its own audit strategy, the Commission shall identify those operational programmes for which the opinion on the compliance of systems under Article 71(2) is without reservations, or where reservations have been withdrawn following corrective measures, where the audit strategy of the audit authority is satisfactory and where reasonable assurance has been obtained that the management and control systems function effectively on the basis of the results of audits by the Commission and the Member State"*.

Article 73(3) *"For those programmes, the Commission may conclude that it can rely principally on the opinion referred to in Article 62(1)(d)(ii) with regard to the effective functioning of the systems and that it will carry out its own on-the-spot audits only if there is evidence to suggest shortcomings in the system affecting expenditure certified to the Commission in a year for which an opinion under Article 62(1)(d)(ii) has been provided which contains no reservation in respect of such shortcomings. Where the Commission reaches such a conclusion, it shall inform the Member State concerned accordingly. Where there is evidence to suggest shortcomings, it may require the Member State to carry out audits in accordance with Article 72(3) or it may carry out its own audits under Article 72(2)"*

3.2. Audit scope

The audit is limited to the action plan issued by the Romanian authorities after audit A-Rep 1445 in May 2012, and includes following topics:

- The assessment and selection procedures for new calls for projects; the auditors verified the call type grant n° 115 – the first one to be implemented according to the new procedures;
- The new guidelines for applicants;
- The management verifications; the auditors verified the procedures as recently developed, through:
 - o A sample of 5 expenditure claims selected from the 446 expenditure claims re-verified according to Instruction 61 procedures (increase of the verifications to 75% of the supporting documents);

- A sample of 5 expenditure claims selected from the 75 expenditure claims verified according to Instruction 62 procedures (activity reports including deliverables, comprehensive timesheets with hours worked on ESF projects and other activities);
- The IT system (SMIS);
- The measures taken by the Certifying Authority in order to address the findings of the audit report A-Rep 1445 (revised procedures, not yet applied in practice).

3.3. Audit objectives

The objective of this audit was to examine the effectiveness of the measures detailed in the progress report sent on 18/10/2012 by the Romanian authorities (Ares(2012)1238814), who requested the follow-up audit and stated that the findings of the audit report A-Rep 1445 (Ares(2012)1224214 - 17/10/2012) had been addressed.

3.4. Audit methodology

The audit was conducted in accordance with the general and specific standards for the professional practice of auditing, the Structural Funds Audit Manual, and the European Social Fund Audit Manual. The audit team examined and evaluated, on a test basis, evidence relating to the design and operating effectiveness of the MCS of OP HRD against the criteria established in the "Guidance note on a common methodology for the assessment of MCS in the Member States (2007-2013 programming period)" and other policies, manuals, procedures, directives and guidelines related to OP HRD's execution or implementation.

A letter, announcing this audit, was sent to the Member State on 06 November 2012.

A detailed discussion on, in particular, an appraisal of the progress to date on the implementation of the action plan with a review of a sample of project files and control reports, took place with the Director, Managers, and other key staff members from the Managing and Certifying Authority.

Haphazardly, the ESF audit team selected several projects for desk verification, checking compliance of KR 4. The result of this selection was:

Project number	Beneficiary	Expenditure approved and flagged to be claimed (€)
Re-verified according to instruction 61		
POSDRU/S/3.2/48603	[REDACTED]	1.552.062,86
61654	[REDACTED]	1.150.055,43
POSDRU/17/1.1/G/15288	[REDACTED]	517.323,96

POSDRU/93/3.3/S/51265	[REDACTED]	1.865.684,30
POSDRU/69/6.1/S/41447	[REDACTED]	2.311.850,26
Verified according to instruction 62		
76484	[REDACTED]	71.598,70
75811	[REDACTED]	360.811,16
POSDRU/101/5.1/G/76509	[REDACTED]	303.078,85
POSDRU/99/5.1/G/75491	[REDACTED]	282.621,67
POSDRU/110/5.2/G/89493	[REDACTED]	45.464,30

4. STATE OF PLAY OF THE MANAGEMENT AND CONTROL FINDINGS

The following table refers to the audit report A-Rep 1445 and gives a state of play on the implementation of measures taken to remediate the management and control findings at that time:

Key Requirement	Finding No.	Findings audit A-Rep 1445 – April / May 2012	Recommendations A-Rep 1445	Findings audit A-Rep 1554 – 19-23/11/2012
KR 2	1	<p>During the evaluation and selection process, projects with unsound budgets, disproportionate salaries and unjustified acquisitions have been approved, due to a poor evaluation process or to the fact that the opinion of the evaluators has not been taken into account.</p> <p>1. The evaluation and selection process shows a systemic deficiency in as far as no minimum thresholds are set for the assessment criteria used during the evaluation (relevance, methodology, sustainability and cost-efficiency).</p> <p>A minimum passing mark is set only for the overall project.</p> <p>This allows for the financing of projects which are unsustainable and do not respect the principle of cost-efficiency.</p>	<p>Amend the "Manual concerning the procedure for evaluating and selecting projects", in the following aspects:</p> <p>1. Set minimum passing marks at least for the cost-efficiency and sustainability criteria.</p> <p>Ensure that the project uses the resources in a cost-effective way and that there is concrete proof of the sustainability of the project.</p> <p>Critically assess the financial and administrative capacity of the beneficiary to implement high value budget projects.</p>	<p>The manual has been amended and is available / compulsory for the evaluators. Minimum thresholds have been introduced for each evaluation criterion individually (Relevance, methodology, sustainability and cost efficiency) and an overall pass mark has been set.</p> <p>The general procedure for the handling of Call for proposals nr. 115, launched by the administration in October 2012 as well as the individual files tested show an improved awareness for a qualitative assessment of applications. Within Call 115, the audit team has no observations on the methodology applied. However, due to the specific kind of beneficiaries envisaged (only one directorate within the social security system); Call 115 cannot be considered as representative for the whole HRD OP. The authorities will have to prove a continuous effort for future calls.</p>
		<p>2. The evaluation and selection process does not ensure that sound, qualitative projects are being selected. There is no consistency between the content of the project, the marks given by the evaluators, and the comments and justification relating to the marks given.</p> <p>Projects with unsound budgets or having insufficient added value were recommended for financing.</p>	<p>2. Strengthen the function "evaluation and selection" by ensuring specialised competence and by providing detailed, written guidance to the evaluators on the interpretation and the assessment of the evaluation grid as well as on the corresponding scoring, in order to ensure a consistent approach.</p> <p>This should comprise a critical assessment of the efficient use of the budget and the resources of the project against</p>	<p>a) Improved procedures have been put in place for the selection of the evaluators. The procedure was to a large extent outsourced, but the contract has been adapted to the new requirements. The single evaluators' database has been revised and the number of potential evaluators has been reduced from around 200 to 40, according to stricter qualitative criteria.</p> <p>The evaluators for Call 115 have received training before</p>

Key Requirement	Finding No.	Findings audit A-Rep 1445 – April / May 2012	Recommendations A-Rep 1445	Findings audit A-Rep 1554 – 19-23/11/2012
		<p>Example 1. Project code 88692 of call for projects no 110, the evaluation grids show that the project did not demonstrate a clear added value, it did not contribute to the increase of the employment rate among the members of the target group, activities are not detailed enough, it is not sustainable in the future, the costs and budgetary lines are not well justified, the efficiency of the use of the funds is not demonstrated, etc. In spite of this, the project has received ESF financing;</p> <p>Example 2. Project code 3858 of call for projects 9, according to the evaluator, the budget was not detailed enough to determine whether the HR costs are justified, but the project was nevertheless proposed for financing "on conditions".</p>	<p>the proposed objectives.</p> <p>The electronic format of the filled in application by the beneficiary should be amended so as to allow a better reading and understanding of the text.</p>	<p>starting their assessments. Furthermore, a quality monitoring committee has been installed to assess the work of the evaluators, with possible sanctioning.</p> <p>b) The documents that have to be submitted together with the application form have been adapted to include a compulsory template for a detailed budget that allows for a critical evaluation. It has been used for Call 115.</p> <p>The auditors are of the opinion that the modifications to the procedure may contribute to the selection of qualitative projects. The files tested under Call for proposals nr. 115 were fully satisfactory. However, as said before, this call is not deemed representative for the whole OP. The auditors are in particular concerned about the wage levels in future selected projects. The MA commissioned a study (Study on cost structure and the wage bill) from a service provider to serve as a basis or justification for maximum wage levels to be applied in projects as of Call 115. These new maxima have already been included in the guidelines for applicants, and are some 20% lower as the previous ceilings. The auditors have not audited the study itself, but note that the proposed ceilings are still far above the average salaries in Romania for the same type of services and are to a large extent based on daily fees for long term experts / consultancy. The proposed ceilings might, in the opinion of the auditors, be valid in the very exceptional case where specific hard-to-find skills are needed. However, these skills are not needed in the vast majority of ESF funded projects, in which the salary levels should reflect</p>

Key Requirement	Finding No.	Findings audit A-Rep 1445 – April / May 2012	Recommendations A-Rep 1445	Findings audit A-Rep 1554 – 19-23/11/2012
				the local market in order to assure a sound and efficient management. Therefore, the Managing Authority should take into account additional parameters in determining the wage levels for the majority of projects, (e.g. national ceilings applicable in the public sector).
		3. There is a gap between the evaluation and the contracting phase: comments of the evaluators or issues left open to be solved before contracting are not followed up and/or solved before contracting the projects. (Project 60324/evaluation ID 101128 of call for projects 93 was admitted on the condition and with the observation that the budget is overestimated as 70% of the costs represent HR costs while for the participants only 8% is allocated).	3. Open issues (projects approved on certain conditions) resulting from the evaluation stage should be clearly identified by the MA and IBs in the pre-contracting phase and solved before the contracting of the projects. Projects where uncertainties exist should be clearly indicated in writing by the evaluators and should be followed up until the open issues are solved. Only if the unclear/missing information has been clarified and corrected, the projects should be recommended for financing.	The methodology has been modified by the MA, to take account of the recommendations. In the files tested for Call for proposals nr. 115, still one project had been approved before all issues were cleared. However, it concerned merely some minor details that would not have influenced the assessment or the implementation.
KR 2	1	In general, the methodology for the assessment of project applications and for granting has been modified so that a more qualitative evaluation and a critical examination of the proposed budget could be achieved. Up to the audit, the improvements could only be tested to a very limited extent, as only the files of one – not representative – call (call 115, Oct. 2012) were available. Key requirement 2 can provisionally be put in category 2, however with further follow up in future audits, in particular regarding the level of salaries.		

Key Requirement	Finding No.	Findings audit A-Rep 1445 – April / May 2012	Recommendations A-Rep 1445	Findings audit A-Rep 1554 – 19-23/11/2012
KR 3	2	<p>The guidance to the beneficiaries provided by the MA is deficient. The national eligibility rules are ambiguous in as far as they allow for an inefficient allocation and use of resources for the implementation of the projects.</p> <p>In the field of the Human Resources involved in the projects:</p> <p>1. There are no limits set for the size (number of persons) of the management team.</p> <p>The MA does not guide or advise the beneficiary towards an optimal use of the resources (both management and implementation staff) and thus does not prevent the involvement in the project of non-relevant staff as well as the duplication of functions.</p> <p>This results in unbalanced and disproportionate budgets of the projects (e.g. costs of staff involved in the management team are unbalanced in comparison to the costs of the actual implementation of the activities related to the target group).</p> <p>There is a disproportionate number of staff involved in the management and implementation of the project compared to the achieved results (projects 4006; 4495; 9653; 31494, 8186, 3991, 21121).</p>	<p>Take the necessary action including the revision of the national eligibility rules in order to achieve the following results :</p> <p>1. Limit the number of staff involved in the management of the project according to the complexity of the project and/or the proportion of these costs in the overall budget of the project. Ensure that the resources (management and implementation staff) involved in the project are proportional to the results achieved (e.g. Participants trained). The MA should issue guidance to the beneficiary on good practices regarding a cost-efficient proportion of staff versus results achieved in the project. The beneficiary needs to be made aware that the involvement of staff in the project will be evaluated and approved by reasoning on the necessity and added value brought to the project.</p>	<p>The number of administrative / management staff operating within one project has not been restricted. However, the expenditure for the management of a project is as of Call for proposal nr. 115 subject of a ceiling, depending on the financial value of the project, of 5% to 15% of the total expenditure. The auditors point out, that a very clear description of what is considered to be part of the 'management' of a project is essential.</p> <p>The documents that have to be submitted together with the application form have been adapted and include now a more detailed overview of planned activities and the corresponding staffing level. This should allow the MA or its IB to guarantee an appropriate number of staff, if a critical assessment of input versus output is maintained.</p> <p>The application of the new procedures could only be checked to a very limited extent.</p>
		<p>2. There is insufficient guidance as regards the responsibilities of the beneficiaries in justifying the hours charged to the project in the context of their overall activities outside the given project. National</p>	<p>2. Timesheets and activity reports are not sufficient for justifying the hours charged to a project. The beneficiary needs to report his overall working time during the reporting period, whether it is in the ESF project in</p>	<p>a) Since 'instruction 62' was issued in august 2012, beneficiaries have the obligation to report on individual working time per person working for a project, both within the project, within other funded</p>

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		<p>rules allow for a person to have multiple contracts (e.g. A professor having a full time contract with a university outside the ESF project and in addition having one or several part-time contracts for ESF projects).</p> <p>This leads to 12h/day during many consecutive years for which the person receives remuneration. This is in our opinion an artificial inflation of the number of hours worked, which allows the staff involved to receive financing from multiple sources, for performing only the amount of work that corresponds to his full time contract.</p>	<p>question, in other ESF projects or in activities which are not EU funded.</p> <p>Moreover, the hours reported in the timesheets should at any time allow for a concrete link to the activities performed in the project. National rules should prevent staff to be paid from ESF for tasks:</p> <p>a) which they should perform according to their job description in the framework of their basic tasks ("norma de baza" in the field of education)</p> <p>b) for which they already receive remuneration from the state budget (see the example of Finding 15 and point 6 of Finding 3).</p>	<p>projects and for other activities. Moreover, an agreement (co-operation protocol) was reached between the MA and the labour inspection services, to investigate on persons, working (declaring) more than 12 working hours per day.</p> <p>The obligation for the beneficiaries is a step in the good direction; however:</p> <ul style="list-style-type: none"> - no limit has been set for the number of working days per week, which means that under the new procedures still 84 working hours per week are accepted; - the procedure followed to consult the labour inspection services is cumbersome and requires intensive monitoring. The practice could be modified so as to automatically limit the number of hours to 12. <p>b) Instruction 62 also foresees improved reporting templates that would allow for a better reconciliation of human resources versus deliverables. Due to the limited number of files available, this aspect could not yet be tested in practice.</p>
		<p>3. There is a deficient, unfounded remuneration system of the experts involved in the projects.</p> <ul style="list-style-type: none"> - The criteria for the various categories of experts are not detailed enough and are only linked to the years of relevant experience. There is no distinction between experts with or without international experience. <p>This approach, together with a non-rigorous check of the actual competencies and the added value of the proposed expert to the project, allows for the misuse</p>	<p>3. Detail the requirements for determining the category of experts (A, B, C) in order to ensure a fair remuneration which corresponds to the expertise of the experts in question.</p> <p>Amend the existing ceiling for experts' fees with substantiated (based on and justified through a study) hourly rates which are comparable to the market level for the services provided taking into account the cost of similar services, the location and the expertise (e.g.</p>	<p>See the remarks above under KR2, Finding 1, Point 2.</p> <p><i>Outside the scope of this action plan, the auditors would recommend the MA to limit the use of experts on a fee-per-day basis to short term assignments.</i></p>

Key Requirement	Finding No.	Findings audit A-Rep 1445 – April / May 2012	Recommendations A-Rep 1445	Findings audit A-Rep 1554 – 19-23/11/2012
		<p>of the categorisation system.</p> <ul style="list-style-type: none"> - The MA sets <i>maximum ceilings for experts' fees</i> without indicating on what basis the maximum level should be used. This resulted in the majority of the experts using the maximum level of hourly fees which resulted in exaggerated remuneration for the services rendered in comparison to the local market. - There is no explanation on how the levels of the expert fees have been set. There is no comparative study or research to back up the ceilings and there is no link to comparable salaries for the same type of services on the Romanian market. 	<p>international) offered.</p> <p>Establish guidelines, instructions or criteria according to which different levels of hourly rates are to be used.</p>	
KR 3	2	<p>The authorities have taken a number of measures that allow raising the assessment level for key requirement 3 to category 2. Up to the audit, the improvements could only be tested to a very limited extent. Further follow up in future audits is necessary, in particular regarding the staffing level.</p>		

Key Requirement	Finding No.	Findings audit A-Rep 1445 – April / May 2012	Recommendations A-Rep 1445	Findings audit A-Rep 1554 – 19-23/11/2012
KR 4	3	<p>Management verifications show a systemic deficiency as regards the methodology applied for sampling supporting documents which results in a very limited volume of supporting documents being checked. In addition, checks don't cover sufficiently aspects like reality of activities, double financing, etc.</p> <p>1. The checks performed lack thoroughness in the sense that they don't address sufficiently the substance and the added value of the projects, the reality of the activities in the project and the link between expenditure and the activities of the projects.</p>	<p>Taking account of the COCOF "Guidance Note on Management Verifications", amend the overall methodology for management verifications in order to achieve the following results:</p> <p>1. Checks should comprise a more in depth verification to ensure the reality of the expenditure and its link to the activities of the project.</p> <p>Time sheets and activity reports are not exhaustive elements that prove the reality of the activities.</p> <p>The checks need to collect, depending on the activity in question, concrete proof of individual activities (e.g. working papers, intermediate products, etc.).</p>	<p>Since 'instruction 62' was issued in august 2012, enhanced reporting requirements are put in place:</p> <ul style="list-style-type: none"> - a detailed activity report, linked to the staff working hours; - a declaration on the individual working time per person. <p>These measures, complemented by an update of the guidance to beneficiaries as well as guidance for the use of action web, may contribute to improve the quality of the management verifications.</p> <p>Due to the limited number of files available, this aspect could not yet be tested in practice.</p>
		<p>2. The risk analysis and scoring for the sampling of expenditure items does not cover sufficiently the real risk related to the eligibility of expenditure. The existing methodology allows for the majority of the projects to be in a low category of risk, which means that only a limited number of supporting documents are checked (2/3 of the projects are currently in the lowest risk category, which requires the check of only 1 expenditure item per category of cost). The insufficiency of the checks is proven by the errors identified during the 8 projects' visits - see "Summary of financial findings"</p>	<p>2. The sampling methodology based on which a particular number of supporting documents is requested from the beneficiaries should be amended:</p> <ul style="list-style-type: none"> - The importance of the factors related to the risk of ineligible expenditure should have a stronger influence on the category of risk attributed to the projects; - The number of supporting documents requested for the lowest category of risk (Cat A) should be increased to cover at least a given minimum % of the declared expenditure so as to guarantee that errors stay below the materiality threshold of 2%; - Each payment claim should be accompanied by the list of all supporting documents (at least in electronic form). <p>All supporting documents should be numbered in order</p>	<p>Immediately after the audit A-Rep 1445 in May 2012, the MA has issued 'Instruction 61', thus raising all projects to the highest risk category. Hence for all projects, 75% of all expenditure items are verified. The measure included the re-verification of 446 payment claims, already checked under the old methodology.</p> <p>The auditors have performed a desk check of 5 files of these 446 re-verified claims. It is noted that the number of expenditure lines verified has increased significantly. However, the 'problematic issues' as observed in audit A-Rep 1445 (exaggerated salaries, exaggerated staffing, unjustified investment...) are not tackled by checking more expenditure lines. The</p>

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			<p>for the verification officer to easily identify which supporting documents have been chosen to be part of the sample. This will facilitate the extension of the sample;</p> <p>- A sample extension should take place in accordance with the evaluation of the errors found; there should be a methodology to determine the additional steps to be taken when errors are found (eventually the possibility of MA to apply flat rate correction in order to speed up the process, use of statistical basis for sampling, etc.).</p>	<p>auditors note that at the time of the management verifications the tools are lacking to avoid excessive amounts being claimed that were approved in the selection / granting phase.</p> <p>The auditors conclude that for all payment claims verified under instruction 61 an equal correction % (25%) has to be applied as agreed earlier for past expenditure (Ref. Ares(2012)1323907 - 09/11/2012).</p> <p>Parallel with instruction 62 in August 2012, a new methodology for defining the risk categories was developed. The reallocation of the risk level will soon be communicated to all beneficiaries. The new method includes elements, such as:</p> <ul style="list-style-type: none"> - higher risk for public bodies, based on previous experience; - higher risk for beneficiaries with multiple projects; - the risk level is adapted after an on-the-spot check. <p>It will lead to an increase in the number of expenditure items to check as compared to the situation before instruction 61 and to a better allocation of resources to the high risk areas identified</p> <p>The audit team included the desk verification of 5 files that were handled by the administration under the terms of instruction 62. Some improvements, in particular regarding the documents submitted by the beneficiaries, could be observed. However, instruction 62 dates only from August 2012; hence too few the number of files followed already (partially) the new requirements to express an opinion.</p>

Key Requirement	Finding No.	Findings audit A-Rep 1445 – April / May 2012	Recommendations A-Rep 1445	Findings audit A-Rep 1554 – 19-23/11/2012
				Further follow-up is necessary and the assessment / necessary correction will largely depend on how the MA addresses the issues of exaggerated salaries / exaggerated staffing level / unjustified investment – also for projects approved under previous rules.
		3. On-the-spot checks are not covering complementary elements of assurance like the reality of the activities and public procurement. In addition, they suffered big delays.	3. The procedure for the on the spot checks should be reviewed in order to complement the desk checks and to provide additional assurance not provided by those. This includes checking the reality of the activities in the project, in depths check of PP as well as covering the risk of double financing, (see also point 6 below)	A new methodology for on the spot checks introduced recently includes the recommended enhancements. It will be applied for all future visits. The application of this new method into practice could not yet be audited.
		4. The MA has identified public procurement (PP) as a risk area. However, checks on PP take place only during the financial on-the spot visits which are done on a sample basis. As such, only a small proportion of expenditure related to PP is being checked. In addition, there is no critical check done by the MA on the procurement plan submitted by the beneficiaries. The checklist used for non-contracting authorities contains and documents only a limited number of elements which do not ensure an in-depth check. Moreover, it is not clear what the last updated requirements of the MA are as regards checks on PP, as different approaches were noticed across the different bodies of the MCS. Given the above, there is a high risk of accepting procurements which are not in line with the projects' activities, artificial splitting, etc. (projects 31494, 21121, 3991)	4. The PP plans submitted by the beneficiaries should undergo a critical review from the side of the MA/IBs. The methodology used for the checks on PP for beneficiaries which are non-contracting bodies should be amended so as to include a documented, more detailed check of all the essential elements of PP. A cross check should take place for beneficiaries with multiple projects in order to avoid unjustified acquisitions.	New instructions concerning PP are being prepared, but are not yet operational.

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		<p>5. The eligibility of the target group is not being checked effectively in order to ensure that only participants belonging to the target group are involved in the project. This results in expenditure which relates to participants outside the target group being charged to the project. (Projects 4995,9653)</p>	<p>5. The check on the eligibility of the participants should be reinforced. The formal declaration of the beneficiary/participant relating to the affiliation to the target group is not sufficient.</p> <p>The MA/IB should perform, to the extent possible, the necessary checks to ensure that only expenditure relating to the target group is being reimbursed.</p>	<p>Since 'instruction 62' was issued in august 2012, verification of a sample of participants takes place as part of the management verifications. The auditors checked the files of 5 payment claims, verified under instruction 62. The verification of participants is welcomed and does not lead to remarks.</p>
		<p>6. The risk of double financing is high as there is no cross checking of expenditure from beneficiaries involved in multiple projects at the same time</p> <p>There is no cross check in cases where a single beneficiary has several projects managed by different IBs or by the MA (projects 31494, 8186, 3991, 21112).</p>	<p>6. Measures should be taken to avoid that expenditure is declared twice.</p> <p>For staff involved in multiple projects and having multiple contracts, a cross-check to avoid double financing is necessary.</p> <p>The MA is requested to report to the EC which tools it has put in place to avoid the risk of double financing and to re-check the 4 projects (31494, 8186, 3991, 21112) for this particular aspect.</p>	<p>The new methodology for on the spot checks foresees an approach per beneficiary. In case a beneficiary has multiple projects, cross checks will be performed over all projects to avoid double financing.</p> <p>The application of this new method into practice could not yet be audited.</p> <p>As above, a general check on staff working in multiple projects is made possible by the new reporting arrangements under instruction 62.</p> <p>The application thereof into practice could not yet be audited.</p>
KR 4	3	<p>The management verifications for expenditure claimed up to the date of the audit did not function as required. This is true for expenditure verified by the MA / IB according to the old procedures, as well as for the expenditure re-verified subsequent to issuing instruction 61 – expenditure which is not yet claimed to the Commission. Hence for this expenditure, a correction should be applied equal as the one agreed previously.</p> <p>The authorities have taken a number of measures that might lead to an improvement of the situation. However, the changes could only be tested to a very limited extent. Also remains to be seen whether the improved management verifications will lead to reductions in salaries / staffing level / investment when these were approved in previous application rounds. The assessment level for key requirement 4 can be raised provisionally to category 3.</p>		

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n/a	4	<p>Final beneficiaries: [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]</p> <p>- Projects numbers: 21121, 8186, 31494, 4006, 4495, 9653, 3991</p> <p>In the above mentioned projects the high Human Resources (HR) costs are not justified by the activity reports or other supporting documentation. HR costs seem excessive and not proportional to the performed activities.</p> <p>Upon examining the payroll, timesheets and activity reports of the employees within the projects we noticed that the activities (described by the personnel - long and short term experts, did not justify the hours submitted in their timesheets. In addition, the timesheets prepared contained the maximum hours of work as per labour / collaboration contracts and were not corroborated with the details included in the activity reports.</p> <p>Furthermore, we inquired about the supporting documentation related to the activities performed but such evidence was not kept on file and was neither provided to us upon request.</p>	<p>The MA and the IBs have the obligation to comply with Art. 14 and Art. 60 of R 1083/2006 according to which they are responsible to implement the OP and therefore select and approve operations as well as verify the legality and regularity of expenditure in accordance with the principle of sound financial management.</p> <p>For the above mentioned projects the MA/IB needs to re-perform a thorough check of all the expenditure claimed so far in order to assess the respect of the principle of sound financial management. It will need to report back to the EC on the justification of the involvement of the staff in the project, eventual duplication of roles, expenditure claimed twice, respect of the target group, actual results achieved against the hours charged in the project and against the timesheets and activity reports.</p> <p>In addition, the MA should extend its verifications, eventually re-check past expenditure and inform the EC about the projects not respecting the principle of sound financial management at OP level. This would allow the EC to estimate the financial correction to be applied to the expenditure which has already been declared to the EC. In this regard, due account should be taken of the results of the study referred to in Recommendation 2, point 3.</p> <p>In order to avoid the reoccurrence of the above mentioned deficiencies, projects submitting expenditure declarations after the date of the audit should be subject</p>	<p>The follow-up of findings related to these projects was not within the scope of the audit.</p> <p>The Managing Authority mentioned in the progress report sent on 18/10/2012 that the ineligible amounts will be recovered from the final beneficiaries and all the recommendations will be implemented.</p> <p>An update of the state of play will be requested for the follow-up mission A-Rep 1565 foreseen at the end of January 2013.</p>

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		<p>Also, upon examination of the list with the management team and the implementation team we noted that there are cases where no clear distinction is made amongst the description of responsibilities of several experts which appear redundant:</p> <ul style="list-style-type: none"> - Financial responsible and expert accountant - Legal counsellor and outsourced legal services supplier / legal expert 	<p>to the new procedure of management verifications that has to be put in place by the MA in accordance with Recommendation 3, but also taking into account Recommendation 2.</p>	

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KR 6	5	<p>Declarations to the EC are not generated directly from the SMIS (Single Monitoring and Information System). The MA submits monthly payments of expenditure to the CA. The MA inserts data in SMIS only after completion of management verifications and payment to beneficiaries. However, there are claims which are paid to the beneficiaries but are not yet being included in the claim to the CA as they have not yet been inserted in SMIS. These delays in inputting data in SMIS create discrepancies between the financial data existing in SMIS and the data at the level of the MA and CA.</p> <p>The MA keeps track in parallel of items which have not been included in the claims to the CA and which should be included at a later stage. To this end they perform manual checks to follow-up past and current claims. This procedure is burdensome and hinders the reliability of the data.</p> <p>At the level of the CA, a check that total amounts declared to the EC correspond to aggregated amounts in SMIS cannot be performed. In order to do that the CA applies filters of the individual payment claims of the beneficiaries included in a given claim of the MA and satisfies itself based on this that the amounts in SMIS match the amounts declared to the EC. However, the system doesn't permit the verification whether those claims were not included in a claim of the CA of an earlier stage. Therefore, the system</p>	<p>Up to the moment of writing this report, no information on the progress achieved has reached us. Therefore, we request the MS to report to the EC on the progress achieved in ensuring a reliable accounting, monitoring and financial reporting system in computerised form.</p>	<p>For the ESF, two IT systems exist: Action-web and SMIS.</p> <p>Action-web is a fully integrated financial- and monitoring system, with data directly inputted by the beneficiaries. All necessary information is available. However, Action-web lacks a module able to generate expenditure declarations to the CA / COM.</p> <p>SMIS has such a module, but has neither data input by beneficiaries nor automatic transfer of data out of Action-web. Hence data from Action-web are manually re-encoded from Action-web to SMIS, a fairly useless and time consuming exercise with a considerable risk of errors.</p> <p>As both systems are mainly financed out of structural funds technical assistance, the cost-efficiency of this procedure is highly questionable.</p> <p>Anyhow, the audit team has performed a reconciliation of the data in both systems on a number of files, and has not noted any deviations.</p>

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		<p>cannot be considered reliable. We were nevertheless able to reconcile the individual list of projects with the amounts in SMIS.</p> <p>While on the spot, the MA has assured the EC that it is currently working on inputting and reconciling all the data in SMIS in order to allow for the reconciliation of individual expenditure items and to generate the declarations to the EC from SMIS. The EC has demanded an update of the progress as soon as this is available and it has been assured that this process should be finalised by beginning of May 2012.</p>		
KR 6	5	The parallel existence of two IT systems is not an optimal solution; however, no errors have been detected in the reconciliation. The assessment level for key requirement 6 remains in category 2.		

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KR3 (CA)	6	On one hand, the MA registers substantial delays in implementing the recommendations issued by the CA. On the other hand, problems identified by the CA are not followed by adequate actions (e.g. flat rate correction, expenditure declarations not processed, etc.). Although the CA systematically discovers through their checks deficiencies in the checks of the MA and attributes a high risk to this body, it doesn't categorise its findings as systemic and the gravity of these findings is not reflected in corresponding action plans, in order to permanently correct the deficiencies at the level of the MA/IBs.	<p>The MA should urgently implement all the recommendations issued by the CA.</p> <p>The CA should ensure that deficiencies noticed are categorised according to their gravity and that the assessment of the MCS is linked to the detected deficiencies and their gravity. Corresponding corrective recommendations and follow-up from the side of the CA should lead to the correction of the deficiencies. Payment requests should only be declared to the EC if systemic deficiencies have been followed-up and remedied.</p>	<p>The CA has modified its procedures and these should allow that potential systemic issues, affecting the expenditure to be declared to the Commission, are identified and treated.</p> <p>The audit team has reviewed the procedures, without testing their application as no expenditure has been certified.</p>
KR 3 (CA)	6	The modification of the CA's procedures allows raising the assessment of key requirement CA3 from 3 to 2. Further audit work remains necessary.		