

## Article 13 'On the Spot' Financial Verification Control Process

The purpose of this document is to assist Contract Delivery Managers in the central managing authority on how the Article 13 'on the spot' financial verifications should be undertaken. This guidance should be used in conjunction with para 4.29 of Manual 4, which describes *the application of Article 13 of Commission Regulation (EC) No 1828/2006*. This guidance is divided into two sections covering non-CFO projects and CFO projects.

### NON - CFO PROJECTS

1. Non-CFO projects cover Technical Assistance, Direct Delivery projects in phasing in and Convergence areas and Innovation and Transnational projects. Details on how the Managing Authority will cover ESFD TA contracts are still to be finalised.

1.1 Non CFO projects are funded on actual costs rather than contract costs. That is, claims for payment must relate to expenditure that has already been incurred and defrayed prior to any ESF payments being made. Such costs must be actual and not notional/ or budgeted to be eligible for ESF payment.

#### Sampling of Non CFOs

1.2 For each non CFO and TA project during a twelve month period, interim claims will be subject to an on the spot check by the central managing authority. On the spot visits will check expenditure included in interim claims against supporting documents including invoices. Under each ESF cost heading (staff costs, participant costs and other), **five claimed costs** will be selected at random (using a random number generated selection process) for checking over a twelve month period ensuring that **claims fall into more than one interim claim period (if available)**.

1.3 For every sample cost selected from the claims, the Contract Delivery Manager may need to acquire a further financial breakdown from the organisation, as the summarised claimed costs may be representative of many individual items of expenditure. As such a second random number generator selection process should be performed, testing a minimum of 5 items of expenditure per summarised claimed cost. Contract Delivery Managers should use their judgement on whether 5 items will be enough where there is a large number of items of expenditure behind the claimed cost selected for testing. These checks will verify the eligibility of the expenditure claimed by projects and the activity supported. Copies of the Article 13 forms used for non CFO and TA activity are included in the Managing Authority Manual 4.

## Financial Checks

### Staff Costs

1.4 A job description will be required for staff that spend 100% of their time on the ESF project. For staff who work part time on the project and for higher management including company directors, authorised timesheets or diary entries must be kept. This should show the actual number of hours worked on the ESF project against the actual number of hours worked for the organisation. A description of the activities undertaken with dates will be required. Timesheets must be signed by an authorised person (usually the manager/ supervisor responsible for the post holder).

1.5 Evidence will be required to demonstrate that project staff have been paid for the hours they had worked on the project in their timesheets.

1.6 Projects will need to demonstrate how they have calculated the hourly rate applied per individual, and that this is correct. The hourly rate\* is multiplied by the actual number of hours the individual had worked on the project. A payslip or payroll detail transaction report and a bank statement or BACS transaction report showing the payment transactions between accounts will be required. If available a P11 should be obtained to help check that the hourly rates are correct. Salaries must have been paid before they can be claimed.

**\* The hourly rate calculation template is at Appendix 1.**

1.7 Hourly rates must be consistent throughout all the documentation supplied. Any variances will need to be substantiated in cases of pay awards etc.

1.8 **Other staff related actual costs** may include training, travel, subsistence and childcare expenses for example. Receipts, invoices, tickets, authorised expense claim forms would be constituted as acceptable evidence. In addition, bank/ BACS statements will be needed to demonstrate that such expenses have been paid, i.e. left and paid into accounts. For items purchased through petty cash, a petty cash register/ log should be maintained and vouchers supplied for every cash transaction made.

### Participant Costs

1.9 Examples may include direct costs such as allowances– evidenced by authorised timesheets and payment transactions between the project and the employer/ participant. In addition, caring allowances/ childcare costs – substantiated with invoices and bank/ BACS statements or accounts transaction reports. Travel and Subsistence – invoices, tickets, receipts, authorised expense claim forms and evidence of payment such as a BACS/ or bank statements or accounts transaction reports. Cash items paid through petty cash should be substantiated with petty cash vouchers and sale receipts.

## Other Costs

1.10 These are all direct costs relating to ESF activity that are not considered to be staff or participant costs.

1.11 Evidence examples may include rent & leases – only applicable where rental or lease costs incurred are for a building that is solely used for ESF activity. Invoices, rental or lease agreements, bank or BACS statements can all be used as evidence.

1.12 Utility bills incurred solely for ESF activity such as water, gas and electricity. Invoices, bills, bank or BACS statements would be required.

1.13 Other - Premises related direct cost that is not covered by the above.

1.14 Any depreciation costs claimed must be in line with the organisation's policy on calculating depreciation, usually calculated from a minimum of 3 years. Such costs are ineligible if a building or asset has already received EU support. Providers should provide evidence to demonstrate they have purchased the asset together with any depreciation calculations and accounting policies. If no organisational policy exists then they should adhere to British standard accounting policies when calculating depreciation costs. *See Manual 1 – 1.10.11 for depreciation of buildings & 1.10.17 onwards on depreciation of equipment.*

1.15 Examples of other item direct costs may include consumables, equipment hire, small capital items (under £1000), training materials, leasing property and external courses. Suitable evidence may include invoices, bills, purchase orders, leases to demonstrate incurred costs and bank/ BACS statements to show costs have been paid/ defrayed.

1.16 Any revenue generated will need to be off-set in the claim along with a description of what has generated it. An example is a project that is selling the products they make.

1.17 There is no section for indirect costs in the claim form. Such costs cannot be easily identified/ attributable to ESF. Shared overheads such as gas, electricity, water and rent are examples of indirect costs. Providers do not need to retain evidence to substantiate indirect costs.

1.18 A new requirement of the 2007-2013 programme is that organisations need to agree with ESFD at the start of the project a flat rate percentage to be used for all indirect costs. The percentage ceiling is up to 20% of direct costs. Indirect costs in claims are calculated by applying the agreed flat rate percentage to the total direct costs; the percentage rate remains the same for the life of the project. *See Manual 1, paras 1.10.24 – 1.10.29.*

## Non – financial checks

1.19 Contract Delivery Managers must to ensure the following are tested:

- **Contracts** - Activities are delivered in accordance with contracts, achievement of outputs against targets and expenditure against profiles are examined. *See Manual 3 para 3.15.*
- **Cross Cutting Themes (CCTs)** – Adequate measures should be in place to monitor the implementation and promotion of cross cutting themes on equal opportunities, gender equality and sustainable development during the whole lifespan of the project. Organisations should have produced CCT policies/ plans within the first 12 months of delivering activities. Evidence of these and how they are monitored against is required. *See Manual 3, Para 3.19...*
- **Publicity** - ESF is appropriately publicised through the use of plaques at the main provider office and at the main premises of any delivery partners/ sub contractors; logos must be used on websites, marketing/ publicity materials, advertisements and key project documentation as well as participant documents such as enrolment forms. Checks should be made to see if participants are being made aware that their provision is being part funded through ESF... *See - Manual 3, para 3.7.*
- **Document Retention** – Providers and their sub contractors/ delivery partners (if applicable) must adhere to the ESF requirements on Document Retention. *See Manual, para 3.17.*

## CFO OPERATIONS

2 CFOs will be subject to one on the spot visit per year for each priority on a rolling basis, to test a minimum of 20% of claimed expenditure for verification at prime contractor and sub contractor level. Visits will check expenditure included in interim claims against supporting documents. These checks will include providers.

2.1 CFO providers are paid on the basis of contract costs. This means that payments are related to outputs, milestones and results (for example job starts/ outcomes for JCP or training qualification for the LSC). On the spot visits will be undertaken for each priority in which the CFO operates. Since providers are selected through competitive tendering there is no requirement for them to provide evidence of actual eligible expenditure, unless there are direct costs related to the delivery such as child care and travel, in which case invoices or other supporting documentation will be examined CFOs must retain evidence that services agreed and paid through contract cost arrangements have been provided in accordance with the contract. Claims from CFOs for reimbursement of ESF relating to administrative costs must follow the rules on actual eligible expenditure, as these costs must be based on actual expenditure.

## Sampling of CFO providers (including match funding contracts)

2.2 The LSC and DWP perform their own risk assessment checks for providers and ESFD can use this information to help carry out their own internal risk assessment checks as demonstrated below. CFO baseline review set out how each organisation carries out risk assessments on its providers.

2.3 The process by which a sample of CFO providers and sub-contractors is chosen to achieve the minimum **20 percent** value of claim coverage is set out below. The sampling consists of a two stage process:

### Stage 1

2.4 The contract providers that make up the regional CFO claim will be subject to an initial random selection process. It is important that there is the potential for every provider and therefore, their sub-contractors to be selected during the course of the life of the programme. All providers in the claim will be ranked in order of selection. The first provider selected at random will be subject to the on the spot check unless they were selected during the previous monitoring visit in which case the second provider will be chosen.

### Stage 2

2.5 The second provider selected will be on the basis of risk. Prior to the on the spot check the MA will agree with the CFO a ranking of providers on a risk basis. A standardised set of risk criteria has been drawn up and is set out in the table below. Risk factors consist of elements such as project size and experience as well as the assessment of the CFO. The highest ranked provider in terms of risk will be selected for a check. If this happens to be the provider selected randomly under stage 1, or they have been subject to a recent inspection by either the CFO or the Audit Authority, then the second ranked provider in terms of risk will be chosen for the on the spot check.

2.6 If a third provider is required to ensure the minimum level of coverage then stages 1 and 2 are repeated. The next provider is taken from the random list, if a fourth is required from the risk based list, and so on.

2.7 Contract Delivery Managers have the option of using a random number selection generator by accessing the following website:

[www.random.org](http://www.random.org)

Risk assessment criteria for CFOs – Stage 2 only

The table below sets out the risk assessment criteria to be used.

<b>Criteria</b>	<b>Variable</b>	<b>Risk weighting</b>
Sector type	Public	1
	FE	2
	Voluntary sector and others	3
Applicant/ provider	a) new and no track record	2
	b) existing and questionable track record	1
	c) existing and proven track record	0
Standard of claims	Good standard	0
	Generally acceptable	1
	Poor standard	2
Number of contracts awarded to applicant/ provider (ESF & Match).	Two or more	1
	One	0
* Feedback from other monitoring visits/ audit visits/ other sources	Good feedback	0
	No feedback or minimal problems	1
	Significant causes for concern	2
Performance	Generally in line with profile	0
	Minimal deviations from profile	1
	Significant deviations from profile	2
Concerns identified in appraisal process	None identified or those identified acted upon	0
	Areas identified and not yet acted upon	1
<b>Total score out of 16</b>		

\* This will take into account risk rating from CFOs.

## Evidence required for CFO claims

2.8 Evidence will be required to demonstrate payments made to providers have been made out in accordance with the contracts, which will stipulate the evidence requirements. Contract Delivery Managers should note that the LSC make an annual claim for admin costs on a retrospective basis. Evidence to demonstrate the payment of admin costs may or may not be available at a regional level depending on the timing of the visits.

2.9 **Administration costs** will also need to be substantiated with evidence. As these will chiefly represent staff costs (please refer to the paragraph above about evidence required for Staff Related Costs in Non CFO projects section). 5 items under Admin costs should be selected randomly for testing. See *Manual 1, para 1.9.2- 1.9.9.*

2.10 **Other costs** – relate to any actual costs required for reimbursement outside any contractual arrangements. Evidence on how the costs were incurred and paid such as invoices and bank/ BACS statements would normally suffice.

2.11 Both the LSC and DWP operate centralised systems on contract procurement, MI and finance. Linking outcomes with payments may result in the visiting officer having to do ‘on the spot’ checks at the central office as well as the regional office to reconcile documents.

## DWP

- Providers only claim for job outcomes. As the delivery payment is paid automatically there is no actual claim by the provider.
- Each region has a database holding details from job outcome forms (ESF 10). Contract Delivery Managers will be able to access job outcome details from these databases via Regional ESF teams... Evidence of job outcomes consists of validation by employers, declarations for self employed people, client self declaration and off benefit checks for Provider – led Pathways to work contracts.
- There are 4 Regional Payments Teams supporting the 9 English regions. For example, West Midlands process payments for London, North West process payments for North East, Y&H process payments for South West etc. It should be possible therefore, to link outcomes with payments at a regional level.
- Participant records are retained at the providers’ premises.
- Contractual information can be acquired from the ESF Contract Management Team and Commercial Procurement Programme Management Team for Match contract details. ESF Delivery and Performance team has a full list of ESF and Match contract numbers

including sub contractor details. DWP use the Contract Management Framework (CMF) as a tool to assess provider performance and risk.

- DWP Information Directorate produces Management Information for the DWP CFO.
- The two main IT systems used are the Contracting and Funding System (CFS) and the Labour Market System (LMS) supporting customer start and leaver information.
- EG Finance produces financial data to enable the DWP CFO to compile ESF claims.
- ESF clients and match provision data are extracted for claims before being transferred to ESFD for entry onto the Integrated National ESF System (INES).
- DWP/ JCP use the Resource Management System to record staff time and make payments to providers.

## LSC

- As mentioned above the LSC make a central admin claim broken down by region, but evidence of paid admin costs is not all available at a regional level. Contract Delivery Managers may need to contact the National Office at Coventry if this for evidence not held regionally.
- ESF claims are compiled by regions on the CODA payments system. All substantiating evidence for claims will be kept with the claim in the region.
- The LSC uses the CMA system to record outcomes. CMA is a national LSC application and is administered by National Office in Coventry. Each region has access to CMA and each region can report and monitor all their ESF contracts.
- The LSC uses the TS2000 system to record project staff time. It will be possible for regions to generate reports and produce evidence upon request by ESFD.
- All participant records are retained at the providers' premises.

## Participants

2.12 Contract Delivery Managers will require a full list of participants per provider from the claim tested, from which they will randomly select a sample of between 5 - 20 participants.

- 2.13 The provider will be asked to provide evidence of existence and eligibility of the selected participants. Ideally some of the participants should be briefly interviewed, but in practice this will not always be possible. .

## Non – financial checks of CFO projects

2.14 Contract Delivery Managers will need to ensure the following is tested for CFOs:

- **Competitive Tender** – Evidence is made available to demonstrate that a tender exercise has taken place in a fair, open and competitive way. Usually through a 2 stage PQQ/ITT process as used by DWP and the LSC. See *Manual 2 paras 2.11.1-2.13.4*.
- **Contracts** - Activities are delivered in accordance with contracts, achievement of outputs against targets and expenditure against profiles are examined. See *Manual 2 paras 2.14-2.17*.
- **Cross Cutting Themes (CCTs)** – Adequate measures should be in place to monitor the implementation and promotion of cross cutting themes on equal opportunities, gender equality and sustainable development during the whole lifespan of the project. CCTs should also be incorporated into the tender and contractual phases. Organisations should have produced CCT policies/ plans within the first 12 months of delivering activities. Evidence of these and how they are monitored against is required. See *Manual 2, paras 2.34.1-2.34.13*.
- **Publicity** - ESF is appropriately publicised through the use of plaques at key offices (CFOs and their delivery partners), logos used on websites, marketing/ publicity materials, advertisements and key project documentation as well as on participant documentation such as enrolment forms. Checks should be made to ensure participants are being made aware their provision is part funded through ESF. In addition progress against publicity plans should be tested. See *Manual 2, paras 2.18.1-2.18.4*.
- **Document Retention** – CFOs, providers, partners and sub contractors are adhering to the ESF requirements on Document Retention. See *Manual 2, paras 2.29.1- 2.29.6*.

## OTHER CFO PROJECTS

### National

2.15 National Offender Management Service (NOMS) – operated as a CFO from April 2009 and uses contract costs.

### East Midlands

2.16 The Local Authority Consortium – actual cost approach except for Leicester City Council that uses a hybrid costing approach based on actual costs and contract costs based on delivery outcomes.

**East of England**

2.17 EEDA - Regional Development Agency – contract costs.

Luton Borough Council - Local Authority - contract costs.

Central Bedfordshire Council - Local Authority - contract costs.

**London**

2.18 LDA - Regional Development Agency - contract costs.

London Councils - Local Authority - contract costs.

**South East**

2.19 SEEDA - Regional Development Agency - contract costs.

**Community Grant Projects**

2.20 ESF Community Grants up to the value of £12,000 for small third sector organisations are awarded and administered by Grant Co-ordinating Bodies (GCBs). The intention is to deliver the majority of Community Grants through LSC Co-financing arrangements with GCBs selected through open and competitive tendering.

The exceptions are London (co-financed by the London Development Agency and administered by Greater London Enterprise) and North West (Community Foundation for Merseyside); the latter is managed directly by the regional managing authority.

2.21 The requirement is for Contract Delivery Managers to carry out one on the spot visit per year to the Grant Coordinating Body (GCB) and visit one grant recipient. A total of five grants awarded will need to be tested to ensure they have been appraised, awarded and their performance monitored against agreed regional priorities and outcomes. Checks should be made to ensure the GCBs are publicising the availability of grants and that calls for applications are in line with agreed regional priorities.

2.22 Checks will need to be made at grant recipient level to ensure awards are spent on delivering employment and skills activities to disadvantage people. *See Manual 2 paras 2.31.1 – 2.31.23 and Manual 3 para 3.23 (Merseyside) for evidence that should be retained by both the GCBs and grant recipients.*

**ON THE SPOT REPORTS**

2.23 Draft report will be written within 10 working days of the field work undertaken.

2.24 Responses to action points of draft report are required within 20 working days of field work undertaken.

2.25 The final report should be completed within 30 working days of the final completion of the field work undertaken.

## Appendix 1

Hourly Rate Template

<b>Name of CFO/ Non CFO</b>		
<b>Quarterly period of claim</b>	<b>From:</b>	<b>To:</b>
<b>Employee Name</b>		
<b>Job Title</b>		

<b>Annual available working days</b>		
	Annual days (52 weeks x 5 days)	
<b>Less</b>	Annual leave entitlement	( )
	Bank Holidays	( )
<b>=</b>	Total annual available working days (supported by contracts / company policy)	
<b>x</b>	Contracted daily hours	
<b>=</b>	Total <b>A</b> - annual available working hours	

<b>Annual cost of Employee</b>		<b>£</b>
	Annual Gross salary	
<b>+</b>	Employers NI	
<b>+</b>	Employers pension	
<b>+</b>	Other (e.g. healthcare but only if supported by company policy / terms and conditions)	
<b>=</b>	Total <b>B</b> - annual cost of employee (supported by Pay slips, Payroll, BACS, Bank Statements)	

Total B / Total A = £\_\_\_\_\_ Hourly rate to be applied to ESF hours worked (supported by timesheets)

Signed: \_\_\_\_\_ (senior manager)

Date: \_\_\_\_\_