Internal Invoicing
Nightmare or Challenge?

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Internally invoiced costs
– the problem in a H2020 project

Within organizations there are centralized core facilities that provide products and services to projects. All subject to internal invoiced costs.

The selling core facility usually calculate the costs using allocation keys, average costs and sometimes include some indirect costs.

The challenge is: How to make sure that there are no hidden indirect cost, allocation keys or average costs in internally invoiced unit costs charged in the H2020 project?
The SUHF Model of Sweden

All University’s in Sweden applies a model for calculating indirect costs introduced by the Association of Swedish Higher Education. The model divides the activities into main activities (research and education) and support activities.

Indirect costs: Costs that are common to several or all cost carriers, and consist of costs for university, faculty and department functions. Indirect costs are allocated to cost carriers.

The Support activities are divided into six functions:
• Management
• Education and research support
• Financial and HR service
• Library
• Other / level specific

Core facilities are regarded as core business as agreed with other institutions in medical schools.

Cost for Premises are not charged to Horizon 2020 projects and costs normally considered as indirect cost are not reported as direct costs in Horizon 2020 projects.

Most often personnel that works with financial and HR normally are defined as indirect costs which also Office equipment and office materials, office space and postage are defined as.
Internal Invoicing an example
Internal Invoicing an example
Rules concerning Internally Invoiced Costs - Overview

**FP7 (Financial Guide):**
Taking the needs of internal invoiced costs into account. Acceptance of average costs per types of cost and eligibility as other direct costs.

**Horizont 2020 (AGA):**
Disregard to real nature of internally invoiced costs. No average costs allowed, no cost types and no allocation keys.
Horizon 2020 Regulations – MGA (Version 1-3)

- Splitting-up in H2020 cost categories.
- H2020 formal time records and hourly rate calculation for each service.
- No acceptance of average costs per type of cost or accountancy of cost types (bundles of equipment depreciation, materials and services).

+ Internal invoices normally include the accounting for certain cost types per usage or time (e.g. use of laboratory, MRT, mouse per week).

+ Internally invoiced costs naturally contain a mixture of costs for the usage of equipment, services and material.

+ Service included in the cost type is not measured by H2020 time records (via minute protocols). Instead the internal invoice offers an auditable trail how much time was spent by personnel on the action.
H2020 Regulations – Reality check

Tests with lab animals e.g. cost-type „mouse week“ =

Other examples:
- DNA sequencing
- Usage of a cleanroom
- Climate chambers etc.
Together with other European partner organisations the Helmholtz Association addressed a joint position paper on internal invoicing to the European Commission in January 2016.

The Helmholtz Associations was called on by the European Commission to choose experts of the undersigning organisations. These experts were able to put forward concrete examples for internal invoicing and submitted their cases and relevant data to the European Commission.

On the 17th of June 2016 these experts met the European Commission in Brussels to present their cases and discuss possible solutions.
Costs of internally invoiced goods and services directly used for the action are eligible, if:

(a) they are declared on the basis of a unit cost calculated in accordance with the beneficiary’s usual cost accounting practices;

b) the cost accounting practices used are applied in a consistent manner, based on objective criteria, regardless of the source of funding

c) the unit cost is calculated using the actual costs for the good or service recorded in the beneficiary’s accounts, excluding any ineligible cost or costs included in other budget categories.

The actual costs may be adjusted by the beneficiary on the basis of budgeted or estimated elements. Those elements must be relevant for calculating the costs, reasonable and correspond to objective and verifiable information;

(d) the unit cost excludes any costs of items which are not directly linked to the production of the invoiced goods or service.
Positive changes

Acceptance of beneficiaries usual accounting practices

Unit costs can include personnel costs, material and equipment – no splitting up any more!

Estimated cost elements allowed

No more time sheets necessary for personnel costs if auditable trace is provided
### Other costs

<table>
<thead>
<tr>
<th>Cost Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Courses, training</td>
<td>227 664</td>
</tr>
<tr>
<td>Service of equipment</td>
<td>304 798</td>
</tr>
<tr>
<td>Bedding</td>
<td>330 043</td>
</tr>
<tr>
<td>Forage</td>
<td>426 209</td>
</tr>
<tr>
<td>Consumables</td>
<td>190 000</td>
</tr>
<tr>
<td>Depreciation costs</td>
<td>2 474 278</td>
</tr>
<tr>
<td>Energy costs; electricity, heat, cold</td>
<td>2 413 000</td>
</tr>
<tr>
<td>Cleaning costs</td>
<td>442 320</td>
</tr>
<tr>
<td>Laundry costs</td>
<td>576 565</td>
</tr>
<tr>
<td>Rent for EBM</td>
<td>7 919 580</td>
</tr>
<tr>
<td>Fee for IT-network and service</td>
<td>353</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15 304 809</strong></td>
</tr>
</tbody>
</table>

### Salary/Year

<table>
<thead>
<tr>
<th>Position and Facility</th>
<th>Name</th>
<th>Salary/Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive officer</td>
<td>Göran Larson10%, Mary-Jo Wick50%, Carina Mallard10%</td>
<td>1 132 302</td>
</tr>
<tr>
<td>Head of dep.</td>
<td>Data below are totals that are split between facilities</td>
<td>Salary/Year</td>
</tr>
<tr>
<td></td>
<td>Executive officer</td>
<td>1 132 302</td>
</tr>
<tr>
<td></td>
<td>Head of dep.</td>
<td>618 567</td>
</tr>
<tr>
<td>Facility manager</td>
<td>Facility manager</td>
<td>704 245</td>
</tr>
<tr>
<td>Veterinary</td>
<td>Veterinary</td>
<td>2 802 837</td>
</tr>
<tr>
<td>Research Administrator</td>
<td>Research Administrator</td>
<td>469 999</td>
</tr>
<tr>
<td>Research Coordinator</td>
<td>Research Coordinator</td>
<td>433 033</td>
</tr>
<tr>
<td>Economist</td>
<td>Economist</td>
<td>321 995</td>
</tr>
<tr>
<td>Technical staff</td>
<td>Technical staff</td>
<td>1 588 308</td>
</tr>
<tr>
<td>Service Staff</td>
<td>Service Staff</td>
<td>1 171 164</td>
</tr>
<tr>
<td>Washing dep</td>
<td>Washing dep</td>
<td>1 542 636</td>
</tr>
</tbody>
</table>

- The unit cost is calculated using the actual costs for the good or service recorded in the beneficiary’s accounts, excluding any ineligible cost or costs included in other budget categories.
- Unit costs *could* be adjusted according to beneficiaries budgeted or estimated elements.
### New budget Table

**Financial Statement for [Beneficiary [name]]/Linked Third Party [name] for Reporting Period**

<table>
<thead>
<tr>
<th>A. Direct personnel costs</th>
<th>B. Direct costs of subcontracting</th>
<th>C. Direct costs of fin. support</th>
<th>D. Other direct costs</th>
<th>E. Indirect costs</th>
<th>F. Costs of ...</th>
<th>Total costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.1 Employees (or equivalent)</td>
<td>A.4 SME owners without salary</td>
<td>A.4.1 Financial support</td>
<td>D.1 Travel</td>
<td>Total [L1]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.2 Natural persons under direct contract</td>
<td>A.5 Beneficiaries that are natural persons without salary</td>
<td>A.4.2 Prizes</td>
<td>D.2 Equipment</td>
<td>Total [L2]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.3 Seconded persons</td>
<td>A.6 Personnel for providing access to research infrastructure</td>
<td>D.3 Other goods and services</td>
<td>D.4 Costs of large research infrastructure</td>
<td>Total [L3]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.6.1 Personnel for providing access to research infrastructure</td>
<td></td>
<td></td>
<td>D.5 Costs of internally invoiced goods and services</td>
<td>Total [L4]</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Form of costs

<table>
<thead>
<tr>
<th>A.</th>
<th>B.</th>
<th>C.</th>
<th>D.</th>
<th>E.</th>
<th>F.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit</td>
<td>Unit</td>
<td>Unit</td>
<td>Unit</td>
<td>Unit</td>
<td>Unit</td>
<td>Unit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A.</th>
<th>B.</th>
<th>C.</th>
<th>D.</th>
<th>E.</th>
<th>F.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total b</td>
<td>No hours</td>
<td>Total c</td>
<td>e</td>
<td>Total d</td>
<td>f</td>
<td>g</td>
</tr>
</tbody>
</table>

**Formula**

\[ \text{Total} = \text{a} + \text{b} + \text{c} + \text{d} + \text{e} + \text{f} + \text{g} + \text{h} \]

\[ \text{Flat rate} = 25\% \times \text{a} \]

\[ \text{Total} = \text{a} + \text{b} + \text{c} + \text{d} + \text{e} + \text{f} + \text{g} + \text{h} \]

\[ \text{Total} = \frac{\text{a} + \text{b} + \text{c} + \text{d} + \text{e} + \text{f} + \text{g} + \text{h} + i}{j} \]

\[ \text{Total} = \frac{\text{a} + \text{b} + \text{c} + \text{d} + \text{e} + \text{f} + \text{g} + \text{h} + i}{\text{Total [L1]} + \text{Total [L2]}} \]

**Notes**

1. Eligible costs (per budget category)
2. [Beneficiary [name]/Linked Third Party [name]]
3. Short name beneficiary/linked third party
Indirect costs

"Indirect costs are costs that are not directly linked to the action implementation and therefore cannot be attributed directly"
Indirect costs in most organisations

Definitely indirect
- General management
- Registry
- Human Resources
- Legal Department
- Libraries
- Communications
- Procurement
- Postage
- Administrative, clerical staff
- General Water and Electricity
- Desktop computer and telephones
- Insurances
- Maintenence of equipment

Not always indirect
- General IT
- Office space
- Basic Lab materials
- Electricity for ex. clean rooms
Discussion

How do you calculate unit costs in your organisation?

What is considered as indirect costs?

What to wish for in FP9?