

**FINANCIAL REGULATIONS OF
THE SCIENCE AND
TECHNOLOGY CENTER IN
UKRAINE**

PREAMBLE

The Governing Board (hereinafter referred to as "the Board") hereby adopts the following financial regulations of the Science and Technology Center in Ukraine (hereinafter referred to as "the Center").

These regulations shall govern the financial administration of the Center, which shall be carried out in accordance with sound and prudent financial management principles with a view toward safeguarding the Center's financial resources and maintaining the Center's ability to meet its financial obligations.

These financial regulations come into force on the date they are approved by the Board. The Board may modify these regulations whenever deemed necessary.

In the event of a conflict between the provisions of these regulations and the Statute of the Center (hereinafter referred to as "the Statute"), the provisions of the Statute shall govern.

SECTION I - General Framework

A. Roles and Responsibilities

(1) Executive Director. The Executive Director is responsible for establishing and maintaining strong internal controls which promote the efficient operation of the Center and provide reasonable assurance that (a) property and financial resources are properly safeguarded, (b) accounting records are properly maintained, (c) financial reports and statements are accurate and fairly presented, (d) employees comply with the Statute and regulations of the Center, and (e) the objectives of the Center are achieved.

(2) Deputy Directors. Deputy Directors are responsible for advising the Executive Director, the Chief Financial Officer, and the Chief Administrative Officer regarding any and all aspects pertaining to R&D projects in which the Center is involved, and in any matter that may be of interest to the smooth functioning of the Center. These responsibilities include:

- (a) technical progress on projects (milestone completion);
- (b) budget execution (variance between planned and actual cost); and
- (c) compliance with the terms and conditions in project agreements (e.g, recording of labor hours worked on projects, and usage of equipment).

(3) Chief Financial Officer. The Chief Financial Officer is responsible for managing the Center's financial resources and for maintaining strong internal controls pertaining to recording, processing, summarizing and reporting of financial data and information.

The Chief Financial Officer:

- (a) manages the banking operations of the Center, including the transfer of funds between the Center's accounts and accounts of participating institutions and vendors in support of Board approved and funded projects and the administrative operating budget and supplemental budgets;
- (b) prepares bank reconciliations;
- (c) prepares interim financial reports, as required by Center management, and the annual financial statements;
- (d) assembles the Center's administrative operating budget, with appropriate input from the staff;
- (e) monitors revenues and expenditures against the administrative operating budget, supplemental budgets, and project agreements to ensure that the Center remains within established ceilings;
- (f) supervises the Center's accounting function and related activities;
- (g) maintains accurate records of amounts due from the funding parties for projects and operation of the Center;
- (h) coordinates the performance of required audits of the Center and projects with the appropriate audit organization;
- (i) provides Deputy Executive Directors and project managers at institutes periodic financial reports which facilitate the monitoring of project expenditures;
- (j) controls the issuance and use of Center credit cards;
- (k) approves payment of purchases upon receipt of documentation evidencing (i) authorization for the purchase, (ii) approval of source selection and reasonableness of price, and supporting documents, and (iii) after ascertaining that sufficient funds are available either in the project budget, administrative operating budget, or supplemental budgets;
- (l) accounting for center property and capital equipment purchased for projects; and

(m) maintaining the register of capital property, plant, and equipment described in Section VI, paragraph 5.

(4) Chief Administrative Officer. The Chief Administrative Officer is responsible for interpreting project agreement terms and conditions, and resolving disputes related to project agreements.

He or she has the overall responsibility for approving the purchase of goods and services in support of projects and for purchasing goods and services for the Center. In performing this function, he or she will:

(a) develop and maintain a data base of generic items of supplies and equipment which will fulfill the majority of needs of the Center and projects;

(b) develop and maintain a system for forecasting equipment requirements for the Center;

(c) ensure that purchases are cost effective and that economic order quantities (EOQ) are considered to the maximum extent practical;

(d) ensure that purchases are made so as to meet the timing requirements of the Center and institutions performing projects;

(e) authorize purchases from the Center's working cash fund; and

(f) develop procedures for and monitor the performance of the annual inventory of capital items in accordance with Section VI, paragraph 6.

He or she will supervise staff members responsible for:

(a) establishing and maintaining payroll records of grant recipients at the Center and recipient institutions;

(b) coordinating with the lessor of the Center building and appropriate Ukrainian authorities regarding terms and conditions of the Center's lease, maintenance of facilities, and provision of utilities and security service for the Center; and

(c) controlling and accounting for Center property and property furnished project recipients.

(5) General Staff Responsibilities. All members of the Center staff are responsible for helping to ensure that the Center's financial and other resources are properly safeguarded and are used effectively for their intended purpose.

B. Commitment and Expenditure of Administrative Funds.

All financial commitments and expenditures for administrative activities of the Center must be consistent with the administrative operating budget approved by the Board.

Financial commitments and expenditures for administrative activities of the Center must be approved in advance in accordance with procedures established by the Executive Director. The Executive Director may permit certain types of expenditures, below an established nominal threshold or for emergency reasons, without prior approval. Center staff members may not make oral commitments of Center funds without prior written approval.

C. Commitment and Expenditure of Project Related Funds.

Center staff should inform all potential project participants of the requirements that must be satisfied before Center funds may be committed to, or expended for, projects, particularly the requirements for Board approval, identification of financing parties, and a signed project agreement. Staff members should make it clear to potential project participants that any assistance that they provide in developing and processing proposals in no way implies for purchasing goods and services a commitment of Center funds.

SECTION II – Preparation and Execution of the Administrative Operating and Supplemental Budgets

A. Administrative Operating Budget

(1) The Center's administrative operating budget shall encompass one fiscal year, beginning on January 1 and ending on December 31 (calendar year).

(2) The administrative operating budget is a key managerial tool used to plan, and control operations of the Center. It is the Center's action plan for the coming fiscal year; actual actions can subsequently be compared to plans in order to measure performance.

(3) The administrative operating budget shall identify expected revenues to be received and resources to be expended in accomplishing the objectives of the Center for the coming fiscal year. It shall identify resource requirements for activities to be initiated in the coming year as well as those required to honor commitments carried over from administrative operating budgets of previous years.

(4) The Chief Financial Officer shall:

- (a) issue detailed instructions, including an activity schedule, to the Center staff for preparation of the annual administrative operating budget;

(b) prepare interest revenue projections for the coming fiscal year, by funding party, on funds held in off-shore interest bearing bank accounts;

(c) prepare a schedule of budgeted versus year-to-date actual administrative expense for the current fiscal year;

(d) prepare a schedule of financial staff on hand and required for the coming fiscal year;

(e) receive administrative operating budget inputs from the Center staff and assemble the administrative operating budget for review by the Executive Director, and

(f) upon approval of the administrative operating budget by the Board, prepare a schedule detailing the contributions required of the funding parties and submit it to the Executive Director.

(5) The Chief Administrative Officer shall prepare:

(a) a schedule of procurement office staff on hand and required for the coming fiscal year;

(b) an estimate of administrative expenses to be incurred (and paid) for the remainder of the current fiscal year; and

(c) a schedule of open contractual actions, indicating those which are expected to be closed (paid) during the current fiscal year and those which will remain open during the coming fiscal year;

(d) a schedule of contractual actions which are expected to be initiated during the coming fiscal year; and

(e) the administrative expense and procurement portions of the annual administrative operating budget.

(6) The Deputy Executive Directors shall prepare schedules of project management staff on hand and required for the coming fiscal year.

(7) The Executive Director:

(a) reviews the annual administrative operating budget and submits it to the Board for approval; and

(b) based on the Board's decision, informs each funding party of the amount of its contribution to the administrative operating budget. Such notification shall include supporting computations.

(8) The Board shall approve the administrative operating budget, along with any amendments, and return it to the Executive Director for execution.

(9) The administrative operating budget constitutes authority for the Executive Director to enter into contracts and expend funds for the purposes and within the limits specified in the administrative operating budget. Subject to priorities and limitations established by the Board, the Executive Director may exceed, within a limit of 10%, the amount specified for any given administrative operating budget line item, provided that he or she (a) notifies the Board in advance of any such action, and (b) the total amount of the administrative operating budget is not exceeded.

(10) The Executive Director may prepare an extraordinary administrative operating budget request for submission to the Board if needed to accommodate unanticipated requirements or prevent undue disruption of Center operations.

(11) Administrative funds not committed or spent at the end of each fiscal year shall be applied to the administrative operating budget for the following fiscal year.

B. Supplemental Budgets

(1) The Financing Parties may provide financial resources for specific activities that are not funded under the Administrative Operating Budget or under project funding. Such activities shall be approved by the Board.

(2) Supplemental Budgets shall be financed by the Financing Parties on a voluntary basis.

(3) The Executive Director shall develop terms of reference and financial procedures for the implementation of activities funded through Supplemental Budgets.

(4) The Center shall maintain separate accounting for each Financing Party, for the Administrative Operating Budget, Project Budgets and Supplemental Budgets. Specific requirements for Financing Party will be defined in the bilateral agreements between the Center and this Party. The Center will keep records of expenditures and appropriations for each of these separate accounts.

SECTION III – Authorizing Officers

A. The budgets shall be executed according to the principles of separation of authorizing and accounting officers.

B. The Executive Director has the power to sign any project agreement, contract, payment order, or fund transfer or disbursement instruction. The Executive Director may delegate such

power to appropriate members of the Center staff, provided such delegations are in writing and are made available to the funding parties.

C. The Chief Administrative Officer may authorize purchases from the Center's petty cash fund.

SECTION IV – Management of Funds

A. The Center shall establish and maintain hard currency bank accounts in Western banks located outside the Commonwealth of Independent States of the former Soviet Union. These bank accounts will be used to receive contributions of funds from the funding parties and to disburse funds pursuant to project agreements and the administrative operating and supplemental budgets of the Center.

B. The Center shall separately account for the funds of the funding parties on the books of the Center for the purpose of determining fund balances and earned interest.

C. The Center shall establish and maintain bank accounts in Ukraine, or other CIS countries that have acceded to the Agreement, as necessary for financing the administrative activities of the Center and for distributing funds to project recipients. The Board shall approve the establishment of each banking relationship.

D. The Chief Financial Officer shall negotiate with banks in order to maximize the interest earned on deposited funds and to minimize the fees for banking services.

SECTION V – Awarding of Contracts

A. The Chief Administrative Officer shall be responsible for entering into contracts on behalf of the Center pursuant to project agreements and the administrative operating and supplemental budgets.

B. The Chief Administrative Officer shall obtain the Chief Financial Officer's certification of funds availability prior to entering to contracts on behalf of the Center.

C. The procedures for awarding of contracts are as follows:

(1) Below \$2,500: Formal price comparisons are not required, but the reasonableness of the price must be considered in selecting the contractor.

(2) Between \$2,500 and \$25,000: Direct Placement. Several informal written quotations shall be obtained for analysis and determination of price reasonableness. The Chief Administrative Officer may negotiate directly with the vendor.

(3) Between \$25,000 and \$75,000: Restricted tender. At least three written proposals shall be obtained under a standardized formal procedure. Contracts shall be awarded based on an evaluation of the proposals.

(4) Over \$75,000: Open Tender. Contracts shall be awarded based on an evaluation of written proposals after all interested candidates are given adequate notification and an equal opportunity to submit proposals.

D. The Chief Administrative Officer shall ensure that proposals are not subdivided in order to circumvent the thresholds established above.

E. The Executive Director may approve a deviation from the above procedures when fully justified by the Chief Administrative Officer. Examples of justification include, but are not limited to:

(1) for urgent reasons, it is not possible to wait for the applicable tendering procedure;

(2) the call for tenders does not produce any result, or where, after a survey or study conducted by the CAO, prices quoted are determined to be reasonable;

(3) for technical or legal reasons, the supply of goods and services can only be provided by a particular vendor; or

(4) a contract is technically linked to a previous contract.

F. Goods and services required by the Center and project recipients shall, to the maximum extent possible, be procured from nations that are parties to the STCU agreement. The Chief Administrative Officer shall develop and the Executive Director shall approve procedures for ensuring fair and open competition on tenders. In the case of restricted tenders, these procedures shall ensure that all vendors on tender lists receive a letter of invitation to tender with all necessary documentation and a clear indication of deadlines. For open tenders, invitations to tender shall be published whenever practical in appropriate publications.

The Chief Administrative Officer shall chair a formal meeting for opening the tenders and shall sign a record of the meeting. The financial and technical merits of tenders shall be evaluated separately with results documented by an evaluation report.

G. When advance or partial payments are required by a vendor or when final settlement is made before a vendor's liability is fully discharged, the Chief Administrative Officer shall ensure that satisfactory performance of the contract is covered by a bid bond or performance bond, whenever possible. If a bid bond or performance bond is not obtained, the CAO should advise the ED, who in turn should inform the Board.

SECTION VI – Accounting

A. The Center shall maintain its accounting records in a manner consistent with the format and line items contained in the administrative operating and supplemental budgets, and project agreements. The accounting system shall be capable of accurately recording, processing, summarizing and reporting financial data and information relative to operating and project revenues and expenditures.

B. The Center's financial staff shall make all entries into the accounting system relating to operation of the Center and costs incurred by project recipients. The financial staff shall also prepare quarterly reports on project costs incurred for use by Center and institute project managers in managing their projects.

C. Project recipients (both lead and supporting institutes who work on Center projects) shall record the hours worked on projects on time cards in accordance with the instructions contained in the project agreement. Completed time cards, along with a listing of personnel who worked on each project and the total hours worked, shall be forwarded to the Center on a monthly basis. Other costs incurred (and paid) by project recipients shall be listed on a spreadsheet in accordance with instructions contained in the project agreement and forwarded to the Center on a quarterly basis.

D. The Center shall maintain a register of capital property, plant and equipment (hereinafter referred to as "capital items") purchased for the Center and project recipients. Capital items included in this register should satisfy the following criteria:

- (1) having a useful life in excess of two years;
- (2) retaining separate identities during their useful life;
- (3) not being consumable in the course of their use; and
- (4) having an original value of not less than \$2,500 for projects and \$100 for the Center.

The register shall allow ready identification and location of the capital items and shall, to the extent possible, identify individuals responsible for their custody.

E. The Center and project recipients shall perform annual physical inventories of all capital items in accordance with procedures developed by the Chief Administrative Officer.

F. Within two months after the end of each fiscal year the Executive Director shall submit the Center's financial statements to the funding parties (statement of revenues and expenditures, statement of cash flows covering operating and project activities, and the year end balance sheet).

SECTION VII – Records Retention

The Center shall retain its financial documentation for a period of five years following the date of the transaction. Project recipients shall retain their financial documentation for a period of two years following project completion.

SECTION VII – Dissolution of the Center

When all parties agree to terminate the STCU agreement, the unutilized funds shall be returned to each funding party.