

**LUBBOCK FINE
CHARTERED ACCOUNTANTS**

SCIENCE AND TECHNOLOGY

CENTER IN UKRAINE

MANAGEMENT LETTER

FOR THE YEAR ENDED 31 DECEMBER 2002

THIS REPORT HAS BEEN PREPARED FOR THE SOLE USE OF THE BOARD OF GOVERNORS AND THE MANAGEMENT OF THE SCIENCE AND TECHNOLOGY CENTER IN UKRAINE AND MUST NOT BE SHOWN TO THIRD PARTIES WITHOUT PRIOR CONSENT. NO RESPONSIBILITIES ARE ACCEPTED BY LUBBOCK FINE TOWARDS ANY PARTY ACTING OR REFRAINING FROM ACTION AS A RESULT OF THIS REPORT.

Mr Y Carmel – Executive Director
Mr C Bjelajac – Chief Financial Officer
Science and Technology Center in Ukraine
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Ukraine

Dear Sirs

**SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
FINANCIAL AUDIT FOR THE YEAR ENDED 31 DECEMBER 2002
MANAGEMENT LETTER – EXECUTIVE SUMMARY**

I. Introduction

We have now completed our audit of the financial statements of the Science and Technology Center in Ukraine (STCU), based in Kyiv, Ukraine, for the year ended 31 December 2002.

Our audit was performed in accordance with internationally recognised Auditing Standards. In planning and performing our audit we have considered the STCU's internal control structure in order to assess the level and nature of auditing procedures for the purpose of expressing an opinion on the financial statements.

In conjunction with our review of internal controls in place for the financial year ended 31 December 2002 we have also reviewed the Management Letter which we prepared for the year ended 31 December 2001, to ascertain whether the weaknesses identified in 2001 still exist in 2002.

In general we have noted that a number of improvements have been made by the STCU in the internal control and recording of transactions, however a number of weaknesses still exist where controls and procedures can be improved. Of the 13 Observations noted last year, 6 have been addressed and are no longer considered to be an issue. The remaining 7 Observations are still considered to be of significance and require some form of corrective action, although we would point out that in relation to some of these issues improvements have been made, and in some cases planned improvements were delayed due to the uncertainty surrounding STCU's premises and the resulting Force Majeure situation. The outstanding matters not yet resolved are all referred to in the body of this letter.

Please find below a summary of the observations, full details of which are set out in section II of the report. These observations were discussed with Curtis "B.J." Bjelajac prior to written comments being obtained, which are incorporated in this report.

II. Observations Summary

1. The use of two software packages, ACCPAC (a dedicated accounting package) and ACCESS (a database package tailored

for STCU's needs) to record financial transactions limits the availability of financial information.

Whilst the short term issues raised in 2000 and 2001 are now being addressed by STCU, in the longer term consideration should be given to the utilization of different accounting packages for the requirements of the STCU. (See Observation No.1).

2. We noted that there was no bonding insurance for the transportation of large amounts of cash from First Ukrainian International Bank to the STCU. (See Observation No.2).
3. The majority of contracts concluded with the project beneficiaries were not dated by all signatories of the contract. (See Observation No.3).
4. It was noted that there was no archival procedures for closed projects on the ACCESS database, and that reports being generated on ACCESS included historic projects that were closed, thus complicating the information provided. (See Observation No.4).
5. It was noted that some 7 scientists had claimed grants for more than the permitted 220 days per year. (See Observation No.5).
6. During the course of the audit, we noted that the quarterly procedures performed vary considerably between project accountants. This impairs the efficiency of any review of the project files. (See Observation No. 6).
7. The majority of quarterly reports do not indicate the quarter end date and supporting schedules do not all show the project number and quarter details. (See Observation No. 7).
8. During the course of the audit, we noted that the Fixed Asset Register has not been updated since the relocation of STCU's offices. (See Observation No. 8).
9. One case was noted during the audit where STCU's Standard Operating Procedure for purchases from the Administrative Operating Budget and Supplemental Budget was not adhered to. (See Observation No. 9).
10. It was noted that a bank account opened in Uzbekistan is not included on STCU's General Ledger. (See Observation No. 10).
11. In relation to the audit of one of the 24 projects audited by the US Defense Contract Audit Agency we noted that there was a significant absence of output/results at one Institute, suggesting that improvements could be made to STCU's monitoring procedures. (See Observation No. 11).
12. During the course of our review, we noted that in many cases timecards are prepared according to budget and not actual hours worked. (See Observation No. 12).

This report has been prepared for the sole use of the Board of Governors and the Management of the Science and Technology Center in Ukraine and must not be shown to third parties without prior consent. No responsibilities are accepted by Lubbock Fine towards any party acting or refraining from action as a result of this report.

Yours faithfully,

Lubbock Fine

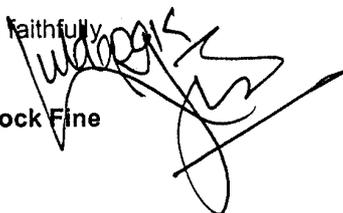


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I. AUDIT FINDINGS SUMMARY

AUDIT FINDINGS SUMMARY

Item No.	Title	STCU Comments (Agreed or Not Agreed)
1.	The use of two software packages for the maintenance of financial information.	Agree
2.	Lack of adequate insurance cover.	Agree
3.	Contracts not dated.	Agree
4.	Archival procedures for closed projects.	Agree
5.	Monitoring of grant payments.	Agree
6.	Consistency and quality of reporting on project files.	Agree
7.	Inadequate labelling of quarterly reports.	Agree
8.	Identification of Fixed Assets.	Agree
9.	Adherence to Procurement Procedures.	Agree
10.	Uzbek bank account not included in General Ledger.	Agree
11.	Technical monitoring of projects.	Partially Agree
12.	Use of timecards.	Partially Agree

II. AUDITOR'S REVIEW

**Audit of the Science and Technology Center in Ukraine
For the Year Ended 31 December 2002
Management Letter**

Observation No. 1

Title: The use of two software packages for the maintenance of financial information.

Description: Currently the STCU uses two different, independent, software packages for the preparation and monitoring of financial information. The principal package used for the preparation of the financial statements is ACCPAC, a recognised, off the shelf, accounting package. The second package, ACCESS, is a database that has been tailored to the needs of the STCU, primarily for the monitoring of project activity.

As a general rule ACCESS is used for the day to day entry of transactions relating to the projects. Specifically, the payments relating to project expenditure are all recorded in ACCESS on a daily basis. New procedures have been adopted by the STCU to record all project transactions on ACCPAC on a monthly basis, ensuring that more accurate information is available and is reviewed throughout the year.

Whilst the ACCESS system developed by the STCU is a powerful tool for monitoring purposes, it is not an accounting package, and accordingly there are limitations in the manner in which financial information can be produced. The problems associated with extracting financial information from ACCESS, and the lack of interaction or integration with ACCPAC are detailed below.

- (i) The macros on ACCESS, which are used to aggregate project data into suitable reports, are controlled by Borys Rovinsky (Project Accountant). Therefore in the absence of Borys Rovinsky there is insufficient knowledge at the STCU to remedy any problems.

It is not desirable to place the knowledge of a particular system in the hands of just one person, especially without that system being documented.

- (ii) ACCESS acts primarily as a database function, and is not an accounting package. As such it does not have the capacity to generate reports that would be associated with a more familiar accounting package. This particularly applies to accounts payable where a standard accounting package would generate reports indicating what liabilities of the organisation are due, when the liability was due, and break it down to components.

The inability to generate reports then prevents an effective review process of the figures to be undertaken. This then has the effect of obvious errors not being spotted and rectified.

Recommendation: It is our understanding that the primary reason for the reliance on ACCESS for the posting of day to day payments, was the dissatisfaction of using the job cost module on ACCPAC. We are further aware that STCU now has an in-house IT department which will take more control over ACCESS and that the system is in the process of being

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Observation No. 1

documented.

We accept that there are advantages of using ACCESS for project management, and that for the short term changes have been made to the current system.

The short-term considerations included in the management letter for the years ended 31 December 2000 and 2001 have now been, or are in the process of, being implemented. For example, the STCU are in the process of documenting the system and are increasing the involvement of the IT department in the control of ACCESS. Also project transactions are now entered onto ACCPAC monthly.

In the longer-term, the STCU should attempt to identify a fully integrated accounting package to cover all of its accounting and project management needs, especially given the increasing project activity at STCU.

STCU Comment: The STCU agrees with both the short-term and long-term objectives of Lubbock Fine's recommendations. As mentioned, although the STCU has made progress toward remedying a number of the short-term shortcomings of the two current systems, there is still some work that needs to be done in order to resolve the remaining short-term issues facing the STCU.

Over the course of the next year, the STCU management plans to address the short-term issues, but also shift the bulk of its resources towards finalising the steps necessary to address the long-term systems issues. The STCU management plans to perform the following steps to address this observation:

Short-Term Steps

- (i) As of the end of 2002, the STCU IT Function reports to the CFO. This change in the STCU organization structure facilitated the final transition from Borys to the IT Database Administrator of the main responsibilities for the ACCESS database: designing, programming, testing, maintaining, and documenting. Borys will still be called upon to perform tasks related to the ACCESS database, however, his primary task during 2003 will be to lead the selection process for the new STCU Enterprise Resource Planning system.
- (ii) The STCU will attempt to minimize the modifications necessary to ACCESS in order to allow the STCU to focus its efforts on the long term systems objectives, yet, still add the necessary functionality to allow the generation of more timely and accurate financial information.

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Observation No. 1

Long-Term Steps

- (i) As part of the STCU 2003 Finance Plan, the STCU is scheduled to present to the 17th STCU Board of Governors in December 2003, a recommendation as to the approach to resolve the long-term objectives of not only the STCU Finance Department, but also the Administrative and Technical Departments.
- (ii) The management of the STCU will develop a detailed list of all preferred functional requirements, in order to determine the “fit” of the STCU’s current systems, as well as determine the “fit” of packaged ERP software available on the market to these requirements.
- (iii) The management of the STCU will perform a Enterprise Resource Planning “systems selection”, which will begin in April 2003 and will end with a presentation of the results to the 17th STCU Board of Governors at the end of FY 2003. The purpose of the “systems selection” is to establish a structured approach to the identification and possible selection of a package software solution. The “systems selection” will involve the following activities described below:
 - ✓ *Organize Project* – This activity involves preparing for the system selection by organizing the project team, assigning responsibilities, and confirming project timing and approach.
 - ✓ *Analyze System Requirements* – This activity involves refining the detailed list of functional requirements developed in step (ii) above, assessing technical requirements (currently available hardware as well as future needs), reviewing vendor requirements (viable, committed to Ukraine), and summarizing these results in order to screen available systems.
 - ✓ *Survey and Screen* – This activity involves utilizing the information obtained from the above segment to assess the available software solutions and choose 2 – 3 “finalists”.
 - ✓ *Evaluate Finalists* – This activity involves preparing a request for proposal (RFP - a formal document asking the software vendor to submit estimates on cost, hardware requirements, consulting, etc.), submitting the RFP to the finalists, performing vendor demonstrations (viewing the software and its functionality) and summarizing the results.
 - ✓ *Complete the Analysis* – This activity involves developing recommendations including: preferred software package, preliminary cost estimates of selected package, cost estimates for selected software modifications (if necessary), and cost-benefit analysis of selected software package vs. the continued utilization of current financial systems.
 - ✓ *Review with Management and Board of Governors* – This activity

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Management Letter**

Observation No. 1

involves preparing the final report, presenting cost-benefit analysis and findings, and discussing next steps with management and the Board of Governors.

- (iv) The management of the STCU will continue to work closely with the management of the ISTC to examine the outcome of the ISTC's implementation of SCALA, and utilize the information obtained to further examine the STCU's current systems. The management of the STCU visited the ISTC in the summer of 2002, and plans to visit again in the summer of 2003 to further review and discuss the results of the implementation.

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Observation No. 2

- Title:** Lack of adequate insurance cover.
- Description:** During our examination of insurance costs, it was found that the current insurance cover of the STCU is insufficient to safeguard its assets in one key respect.
- We noted in the management letters for the years ended 31 December 1999, 2000 and 2001 that there was no bonding insurance for the transportation of cash from the First Ukrainian International Bank to the Center. Given that local grants are paid in cash and that these can amount to \$50,000 per month, this represents far too high a risk for insurance cover not to be in place.
- We would point out that the STCU has attempted to obtain insurance cover, however as yet it has been unable to find a suitable policy.
- Recommendation:** Whilst we acknowledge that the issue of insurance cover is problematic in Ukraine, and the fact that the STCU has attempted to obtain cover, we strongly recommend further investigation be carried out in order that such cover can be obtained.
- STCU Comment:** The STCU concurs with Lubbock Fine's recommendation, and will continue to try and identify additional insurance providers that might provide quotes for a reasonable policy. If a reasonable quote is found, the STCU will utilize the funds provided for this coverage in the 2003 Administrative Operating Budget to secure adequate insurance for this issue.

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Observation No. 3

- Title:** Contracts not dated.
- Description:** In the management letters for the years ended 31 December 1999, 2000 and 2001 we noted that in the majority of cases, contracts concluded with project beneficiaries were not dated by all parties.
- During the course of our audit it was noted that in some cases, the contracts are still not being dated.
- As well as not being in accordance with standard business practice, the issue of not dating contracts creates a further difficulty with respect to capital accounts. The accounting policy of the STCU states that a project becomes designated when the contracts are signed. If all participants do not date the contract, then the accounting policy becomes harder to implement, and increases the risk that capital may be wrongly credited to either designated or undesignated project capital.
- Whilst we have noted improvements in this respect since the issue of the Management Letter for the year ended 31 December 2001, there were still instances during the year where the contracts were not dated by all parties.
- Recommendation:** All contracts must be dated by all signatories, at least to the extent that the STCU in all cases dates the contract.
- The project accountant must check that the contract is signed and dated by all parties, before releasing any monies to the institute under the contract.
- STCU Comment:** The STCU concurs with Lubbock Fine's recommendations, and will continue to work to ensure that all contracts are dated by instructing the STCU Project Co-ordinators to not accept any project agreements without dated signatures of all parties (i.e. lead institutes, and participating institutes). The STCU feels that the STCU Executive Director and Acting Executive Directors are now dating their signatures on a consistent basis. Thus, the STCU will concentrate its efforts on ensuring that the institute directors date their signatures. However, it must be stated, that dating signatures was not a general business practice in the former Soviet Union, and that the STCU is limited in its ability to teach the institute directors this Western business practice.

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Observation No. 4

- Title:** Archival procedures for closed projects.
- Description:** In relation to a number of schedules requested from the finance department, it was evident that information for closed projects was still being kept on ACCESS.
- There are two problems related to this:
- (i) The reports generated become unwieldy and as such it makes it more difficult to obtain the relevant information for the active projects, and thus interpret the information.
 - (ii) The storing of closed projects on the current database will limit the amount of memory available for other purposes. By streamlining the number of projects on the system by having an archival system, this will relieve this issue.
- Recommendation:** We would recommend that the IT department at the STCU develops documented procedures for the archival of closed projects.
- It is also recommended that once these procedures are adopted that the project accountants become fully conversant with the system for closed projects and that standardised procedures are adopted in this respect.
- STCU Comment:** The STCU concurs with Lubbock Fine's recommendations, and planned to implement an archival procedure last year. However, upon further investigation of the process, the STCU decided that the removal of old data from active data was too risky. It was then decided that queries and reports would be modified to filter out the closed projects. These modifications were started during 2002, and are scheduled for completion in 2003. Furthermore, the STCU plans to purchase new computers in 2003, which will result in every member of the STCU Finance Department receiving a more robust computer. The combination of these two efforts will mitigate most of the concerns raised in this observation. However, the STCU agrees that the only way to resolve this observation completely, is to archive the closed project data, and maintain that data in a separate data table. The STCU will address this archival procedure further during its system selection project mentioned in Observation #1.

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Observation No. 5

- Title:** Monitoring of grant payments.
- Description:** As part of our review of the project costs incurred during the year we attempted to ascertain whether any of the scientists or support personnel receiving grants had claimed for more than 220 days a year, which is deemed to be a normal working year.
- There are added complications in 2002 due to the suspension of some projects. We were unable to ascertain whether any scientists had worked for more days than the maximum given the assumption that the maximum of 220 days should be reduced to account for the suspension.
- The STCU generated a report from ACCESS showing individuals who worked for more than 220 days in the year ended 2002 and also showing rolling 12 month totals for each month. This report indicated that some 7 (2001 – 10) scientists had claimed for more than the permitted 220 days, with a total of 123 (2001 – 129) days being claimed in excess of this limit.
- Of particular concern were Oreshkin, who regularly works in excess of 20 days per month and worked 33 extra days during 2002, and Dovbnnya, who worked 85 days in one quarter of 2002, an excess of 30 days, although this appears to have been an isolated incident.
- Whilst STCU has the ability to run a report showing individuals who work more than 220 days in a year, this is done retrospectively at the end of each quarter. At present no action is taken to prevent the scientists from exceeding this limit in the future.
- In addition, we noted that the requirement for scientists to work no more than 220 days per year on STCU-funded projects is not included in the agreement between the individual scientists and STCU. It is therefore possible that the scientists are not aware of this requirement and this increases the likelihood that scientists will exceed this limit.
- Recommendation:** We would make the following recommendations;
- (i) In relation to the 7 scientists already identified, and in particular Oreshkin and Dovbnnya, we would recommend that the STCU undertakes a thorough review of the grants claimed by these individuals. This will involve identifying all of the projects that they have worked on and then obtaining copies of their time sheets for these projects. The time sheets should then be compared and any duplications identified.
- If duplications are identified, steps should be taken to recover the grants that the individuals were not entitled to.
- If no duplication occurred and the scientists genuinely worked the amount of days claimed, STCU should write to the scientists reminding them of the 220 day limit and requesting that they keep better control over the number of days they work in the future.

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Management Letter**

Observation No. 5

(ii) In order to ensure that such exceptions do not occur in the future, any exceptions noted when the number of days worked is reviewed should be followed up with the scientists concerned.

As a further measure the finance department should ask the project coordinators to report to them instances where they believe that certain individuals are claiming more grants than they are entitled to.

(iii) The agreement between STCU and the individual scientists should be amended to include the requirement that the scientist may not work for more than 220 days per year on STCU funded projects. The agreement should also stipulate the requirement to calculate this total on a rolling basis.

STCU Comment: The STCU concurs with Lubbock Fine's recommendations, and will implement the recommendations presented in the following manner:

Short-Term Steps

- (i) The STCU will conduct a thorough review of the time cards of those 7 scientists identified in order to ensure that there are no occurrences of payments made for duplicate time worked on multiple projects. If duplication is found to have occurred, then the STCU will take appropriate action. If no duplication is found, then the STCU will send a letter to the scientists, with a copy to the appropriate Project Managers and Institute Directors of the projects associated with these scientists, informing them of the situation and requesting them to ensure that there is no reoccurrence of this issue in on-going and future projects.

Long-Term Steps

- (i) The STCU will incorporate a step within the documented project quarterly financial reporting procedure that will be drafted in the upcoming year in response to Observation #6 – Consistency and quality of reporting on project files, which will require the following to be performed by the project accountants:
- ✓ *Generate Report and Monitor >220 Days Worked* – The project accountant will generate a report which will detail those scientists that have worked more than 220 Days in the year to date. The STCU will perform the same steps outlined in the Short-Term Steps above for any scientist found working more than 220 Days in the previous year.
- (ii) The STCU will discuss the 220 working day policy with the STCU Governing Board, the body responsible for approving the STCU Model Project Agreement, with the aim of incorporating the following into the Model Project Agreement:

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Observation No. 5

- ✓ *The 220 working day policy into the body of the MPA*
- ✓ *The definition of a year as being a rolling 12-month period*

(iii) Furthermore, the STCU will emphasize to the STCU Board of Governors the difficulty in enforcing the 220 working day restriction, because the STCU only becomes aware of the violation after the fact. In other words, the grantee reports the days worked, and only after checking the timecards, does the STCU become aware of a violation. Thus, at best, the STCU can only warn scientists that they may work a certain amount of days in the upcoming quarter. The STCU, in principle, would never have the ability to stop a grantee from working once he has reached either restricted total.

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Observation No. 6

- Title:** Consistency and quality of reporting on project files.
- Description:** During the course of our audit, we noted that the quarterly procedures documented on project files vary considerably between the four project accountants. It appears that checks are frequently performed but not documented, giving no proof that the check has been carried out. Also project accountants use different reconciliation reports to check the project data.
- In several cases we noted reconciliation reports which had been annotated illegibly and then ticked 'ok'. This required us to re-perform the reconciliation in order to satisfy ourselves that the amounts reported were in fact correct.
- In particular it is difficult to agree amounts for travel stated in the quarterly report to supporting documents since travel is paid in advance with any differences settled on completion and bank payments are not reconciled to quarterly reports.
- This inconsistency in reporting causes two main problems:
- (i) The lack of a clear audit trail makes it extremely difficult for checks to be made, either internally or by the external auditors, to ensure that the project transactions have been recorded correctly and the balances reconcile.
 - (ii) If a project accountant were to be absent for a substantial period of time or were to leave STCU, the inconsistencies make it much harder for another project accountant to familiarise themselves with the projects and take over the workload.
- Recommendation:** We recommend that the quarterly procedures for project reporting are clearly documented, and that the project accountants are made familiar with these procedures. Regular checks should be carried out to ensure that the procedures are being followed.
- Specifically the following existing reports should be completed clearly and filed with the quarterly report on the project file each quarter:
- (i) Project Balance Reconciliation of cash spent to total expenses – any reconciling items other than those listed on the report should be explained fully.
 - (ii) Petty Cash Report – total on hand at the end of the quarter should equal total of unspent advances on the Bank Reconciliation Form (box 6).
 - (iii) Bank Reconciliation Report – difference should be zero, subject to rounding errors (box 12). Any differences should be investigated and clearly explained.

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Observation No. 6

Additionally, we would recommend the following procedures are also performed:

- (i) Reconciliation of grants due per quarterly report to grants actually paid. There is often a difference due to settlement of travel expenses, but the make-up of this difference is not documented. The reconciliation should include a list of scientists for whom travel was being settled and for how much. In addition, STCU should consider including more detail in the narrative for grant payments indicating the gross amount of grants and the travel expenses deducted to arrive at the net amount paid.
- (ii) For travel expenses, a breakdown of the amounts stated in the quarterly report to enable individual transactions making up these amounts to be identified.

STCU Comment: The STCU concurs with Lubbock Fine's recommendations, and will ensure that all reporting is clearly documented, and that the project accountants are made familiar with these procedures. Furthermore, regular checks will be carried out by both the CFO and Deputy CFO to ensure that the procedures are being followed.

In addition, the STCU will ensure that all of the specified reports are completed clearly and filed with the associated quarterly report. Finally, the STCU will implement the recommended procedures related to the reconciliation of "grants due" to "grants paid", and breakdown of travel expenses.

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Observation No. 7

Title:	Inadequate labelling of quarterly reports.
Description:	<p>As part of our testing of project expenditure, we noted that quarter end dates are not always shown on the quarterly reports submitted by the various institutions. The quarter end date is vital when checking accruals at the year end and certified project costs for the year.</p> <p>If the date is not shown on the quarterly report it has to be derived by looking at the start date of the project as per the project agreement. This is clearly time consuming.</p> <p>In addition, the supporting schedules and reconciliations do not always show the relevant project number and quarter number. This would create a problem if schedules became detached from the front cover of the report.</p>
Recommendation:	<p>We strongly recommend that a date field is included on the front page of the quarterly reporting pack. Project accountants should ensure that this field is completed by project managers, and if the quarter end date is absent it should be added manually.</p> <p>Furthermore, the project number, quarter number and quarter end date should be included on all pages of the quarterly report.</p>
STCU Comment:	The STCU concurs with Lubbock Fine's findings and will implement the recommendation.

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Observation No. 8

Title:	Identification of Fixed Assets
Description:	<p>The fixed asset register is an important tool to ensure that the assets of the STCU are documented in order to monitor their location and existence.</p> <p>During the course of our review, we noted that the Fixed Asset Register has not been updated for assets purchased in 2002. The failure to regularly update the fixed asset register increases the risk that new equipment is insufficiently monitored.</p> <p>In addition, following the relocation of STCU's offices, the location details for each asset have not been updated on the Fixed Asset Register. As a result it is hard to identify specific assets listed on the register.</p>
Recommendation:	<p>STCU should update the Fixed Asset Register to show new locations of assets and to include all assets purchased to date.</p> <p>The fixed asset register should be reviewed regularly for accuracy by Eugene Pashkovsky, Deputy Chief Financial Officer, and he should provide evidence of review.</p>
STCU Comment:	The STCU concurs with Lubbock Fine's findings and will conduct a physical inventory as per STCU Standard Operating Procedure XVI – Physical Inventory by August 2003.

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Observation No. 9

Title:	Adherence to Procurement Procedures
Description:	<p>With effect from 1 March 2002, STCU implemented a comprehensive Standard Operating Procedure (SOP) concerning purchases from the Administrative Operating Budget and Supplemental Budget.</p> <p>Specifically, the SOP sets out tendering procedures required for various levels of expenditure as follows:</p> <ul style="list-style-type: none">• Below \$2,500: Formal price comparisons not required.• Between \$2,500 and \$25,000: Direct Placement – two or more informal written quotations must be obtained.• Between \$25,000 and \$75,000: Restricted Tender – at least three written proposals must be obtained from a selected list of vendors, contract awarded based on formal evaluation process.• Over \$75,000: Open Tender – Formal evaluation of written proposals after all interested candidates are given adequate notification. <p>During the course of our audit, we noted one instance where a piece of equipment costing \$8,500 was purchased without obtaining two or more written quotations. This instance occurred when both the CAO and the CFO were absent, and the equipment was ordered and approved by their respective deputies.</p>
Recommendation:	<p>As a general point, STCU should ensure that all staff are aware of requirements set out in any SOPs which affect their tasks. In particular, the Deputy CAO and Deputy CFO should be aware of the procurement procedures and should only approve expenditure if the correct procedures have been followed.</p> <p>We would also recommend that the STCU undertakes a detailed review of procurement procedures.</p>
STCU Comment:	<p>The STCU concurs with Lubbock Fine's findings and will ensure that all staff are aware of STCU Standard Operating Procedure III – Purchases from the Administrative Operating Budget (AOB) and Supplemental Budget (SB). Furthermore, with the arrival of a new Chief Administrative Officer in April 2003, the STCU will work closely with the new CAO to perform a detailed review of procurement procedures.</p>

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Observation No. 10

Title: Uzbek bank account not included in General Ledger

Description: A bank account has been opened in Uzbekistan to facilitate payment of grants to scientists and office expenses.

At present, as amounts involved are small and are usually advanced to the Uzbek bank in anticipation of specific expenditure, expenses are recorded directly as they are transferred from the Ukrainian bank account. However at the year end, there was a balance of \$50 which was not included as a cash balance.

Recommendation: For accuracy of the accounting records, it is important that STCU includes the Uzbek bank account on the General Ledger as a separate bank account.

STCU Comment: The STCU concurs with Lubbock Fine's findings and will immediately add the new Uzbek bank account to the General Ledger.

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Observation No. 11

Title: Technical monitoring of projects

Description: At the request of the U.S. Department of State, the STCU recently completed 24 U.S. sponsored technical and financial project audits at 37 institute locations. The STCU worked closely with the U.S. D.O.S., Defense Contract Audit Agency, and a select group of technical auditors to perform integrated financial and technical audits.

In relation to the audit of project Uzb-23, the technical audit disclosed a significant absence of a work product at the Institute of Nuclear Physics, Tashkent, which was the lead institute on this project. There were no work books or any other documentation to justify that any work had been carried out, despite the fact that grants amounting to \$ 18,258 had been paid to project participants at the Institute.

The DCAA believes that the project was proposed as a joint venture with the lead institute being located in Tashkent, Uzbekistan, in order to improve the chances of the project being approved.

We understand that as a result of the DCAA's findings, STCU has suspended work on this particular project pending investigations.

Recommendation: We recommend that STCU undertakes a thorough review of its monitoring procedures in order to prevent such occurrences from happening again. In particular we recommend that the periodic technical reviews of STCU projects are performed by a project co-ordinator other than the project co-ordinator assigned to the project, in order to provide a more independent review.

In relation to ongoing monitoring projects we would recommend that the STCU requests that all project participants fill in a daily work book, which should detail the work undertaken and results on any particular day. The work book should also be signed off by the local Project Manager, on a daily basis, with a note of the actual hours worked being made. As a control measure for all projects, the projects should be informed that on a periodic basis they will be required to submit copies of their work books for cross-checking against time cards.

In addition it is important when considering projects for approval that STCU ensures all participating institutes will be contributing significant effort to the project and that the respective contributions of each institute are monitored throughout the life of the project.

STCU Comment: The STCU partially concurs with Lubbock Fine's findings, and will perform the following next steps related to each of the points raised above:

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Independent Monitorings

- ✓ By the middle to end of FY2003, all financial project monitorings will be conducted by independent project accountants (those project accountants not responsible for the financial management of the project).
- ✓ Currently, all technical monitorings of Uzbek and Georgian projects are conducted by independent project co-ordinators (those project co-ordinators not responsible for the technical management of the project). As a general rule, the STCU believes that the current practice of technical monitoring brings value to the project, and the STCU will maintain this practice in its current form. However, the STCU will investigate the necessity and feasibility of introducing independent technical audits that would be performed above and beyond the current technical monitorings.

Laboratory Workbooks

- ✓ The STCU will provide all project participants with STCU approved laboratory workbooks and instructions on how to complete those workbooks, in order to ensure the proper recording of activities and results. However, the STCU would like to further investigate the frequency that Project Managers should be required to sign the workbooks. The STCU will investigate a suitable frequency for signed verification by the Project Manager of laboratory workbooks (i.e. similar to STCU timecards – monthly, etc.) and implement that policy accordingly.

Verification of Institutes Contribution to Project

- ✓ The STCU is reviewing this issue during its ongoing technical review of project Uzb-23, and based upon the findings of this technical review, will review its procedures for the approval of projects, especially joint venture projects, accordingly.

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Observation No. 12

Title:	Use of timecards
Description:	During the course of our review, we noted that some timecards do not appear to have been completed on a daily basis and they are often completed according to budgeted hours. This finding is also supported by the DCAA's review, specifically for project Uzb-26, where although the audit took place mid-September, one participant had already recorded his budgeted hours for the whole month.
Recommendation:	<p>We recommend that project participants record all work performed on the project, irrespective of budgeted hours. If the maximum is exceeded, it should be noted on the timecard that less hours are claimed than were worked. This increases the reliability of the timecards as evidence of hours worked.</p> <p>As noted in the recommendation in Observation 11, we would further recommend that all project participants are required to complete a daily work book. The project participants should be informed that they will be required to submit a copy of their work books on a random basis, or may be subject to on-site inspection. The threat that there may be some form of cross-checking would hopefully deter participants from blindly filling in their timecards according to budget.</p> <p>In order for the cross checking to be carried out their would have to be close co-operation between the STCU's financial department and technical project co-ordinators, as the project co-ordinators will have a better understanding of the work undertaken noted in the work books.</p>
STCU Comment:	<p>The STCU partially concurs with Lubbock Fine's findings, and will perform the following next steps related to each of the points raised above:</p> <p><i>Timecards Completed with Budgeted Hours</i></p> <p>✓ The STCU recognizes that all STCU project agreements in substance are "fixed-price" contracts, whereby project participants may only charge the budgeted amount of time stated in the project workplan, and that his or her institute must absorb any overrun in hours and costs.</p> <p>Furthermore, the STCU recognizes the situation that is caused by the substance of the model project agreement (fixed price contract) and the form of the model project agreement (recording actual hours worked as if it was a cost reimbursement contract).</p> <p>Thus, the STCU will discuss this situation with the STCU Governing Board, the body responsible for approving the STCU Model Project Agreement, with the aim of resolving this situation. The resolve may take a number of forms, including but not limited to: changing the</p>

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Model Project Agreement, changing the timecard recording procedure (as recommended above by Lubbock Fine), etc..

Laboratory Workbooks

- ✓ As discussed in Observation #11, the STCU will provide all project participants with STCU approved laboratory workbooks and instructions on how to complete those workbooks, in order to ensure the proper recording of activities and results. As with timecards, the STCU will require that project participants complete their lab workbooks on a daily basis. Furthermore, laboratory workbooks will be subject to the same inspection and monitorings as all other project generated documents. The STCU agrees with Lubbock Fine that the combination of timely and accurate timecards and lab workbooks will provide a better record and audit trail of the activities and results of projects, than just timecards alone.

Cooperation between STCU Finance and Technical Staff

- ✓ The STCU will continue to encourage the STCU Finance and Technical Staff to closely work together to determine if project participants are actually performing their duties and tasks as per the project workplan and hours indicated on their timecards. Historically, the STCU has always conducted its internal technical and financial monitorings together. This approach will be continued in the future, while additional steps will be taken to investigate better ways for the two to work together.