

**LUBBOCK FINE**  
**CHARTERED ACCOUNTANTS**

**SCIENCE AND TECHNOLOGY**

**CENTER IN UKRAINE**

**MANAGEMENT LETTER**

**FOR THE YEAR ENDED 31 DECEMBER 2004**

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 A Hood – Executive Director  
Mr C Bjelajac – Chief Financial Officer  
Science and Technology Center in Ukraine  
21 Kameniariv  
03138 Kyiv  
Ukraine

Dear Sirs

**SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
FINANCIAL AUDIT FOR THE YEAR ENDED 31 DECEMBER 2004  
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 2004.

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 2004 we have also reviewed the Management Letter which we prepared for the year ended 31 December 2003, to ascertain whether the weaknesses identified in 2003 still exist in 2004.

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 8 Observations noted last year, 3 have been addressed and are no longer considered to be an issue. The remaining 5 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. 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.

We now note that this issue, which has been raised at the last four audits, is now being addressed and an agreement has been reached with a company for the supply of a fully integrated accounting and reporting software package, with its implementation likely to happen in the second half of the year. (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. During the course of our review we noted that a number 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 some 42 scientists had claimed grants for more than the permitted 220 days per year. (See Observation No.4).
5. In relation to the technical and financial audits carried out by the USDCAA, it was noted that a number of issues were raised regarding the completion of time cards by participants. In addition issues were raised regarding the identification of project equipment and the verification of time inputs to documentary evidence for one participant. (See Observation No.5).
6. During the course of our review we noted there was no one system for the filing of project invoices. This impairs the efficiency of tracing expenditure back to invoices. (See Observation No. 6).
7. It was noted that the posting of accruals for working cash at the year end was incorrectly carried out. The method used understated working cash and accruals at the year end. (See Observation No. 7).

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



12/19/08

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## **I. AUDIT FINDINGS SUMMARY**

**AUDIT FINDINGS SUMMARY**

<b>Item No.</b>	<b>Title</b>	<b>STCU Comments (Agreed or Not Agreed)</b>
1.	The use of two software packages for the maintenance of financial information.	<b>Agree</b>
2.	Lack of adequate insurance cover.	<b>Agree</b>
3.	Contracts not dated.	<b>Partially Agree</b>
4.	Monitoring of grant payments.	<b>Agree</b>
5.	Technical and financial monitoring of projects	<b>Agree</b>
6.	Filing of invoices for project expenditure	<b>Agree</b>
7.	Method of treating accruals for working cash expenditure	<b>Agree</b>

## **II. AUDITOR'S REVIEW**

**Audit of the Science and Technology Center in Ukraine  
For the Year Ended 31 December 2004  
Management Letter**

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**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) ACCESS acts primarily as a database, 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 of the figures to be undertaken. This then has the effect of obvious errors not being spotted and rectified.

- (ii) The use of two separate systems, in the manner operated by the STCU, means that certain data is entered twice, which is not the most effective use of resources.

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 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.

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**Observation No. 1**

The short-term considerations included in the management letter for the years ended 31 December 2000 to 2003 have now, in the main been, been 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, we are aware that the STCU has now entered in to an agreement with a software company to provide an integrated accounting package which will cater for the various needs of the STCU. This package is due to be operational in late 2005, and therefore the observations noted above will continue to be an issue for a short while yet.

STCU Comment: The STCU concurs with Lubbock Fine's recommendations. As mentioned, the STCU management plans to focus primarily on performing the steps necessary to address the long-term systems issues. The STCU management has accomplished in 2004 and plans to perform the following long-term steps in 2005 to address this observation:

- (i) In November 2004, the project team underwent training on Navision in order to get a better understanding of the system and its functionality. During this period, the project team discussed preliminary design issues related to the implementation.
- (ii) In December 2004, the STCU Board of Governors approved the remaining funds required for the purchase and implementation of Navision.
- (iii) In the second-half of December 2004, the STCU signed the software agreement for the purchase of Navision and remitted payment.
- (iv) In May 2005, the STCU is scheduled to sign the consulting agreement with Innaware (the winner of the tender) for the implementation of Navision.
- (v) At the end of May 2005, the STCU is scheduled to "kick-off" the implementation of Navision with a scheduled "go live" date of Aug. 31, 2005.

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**Observation No. 2**

Title:	Lack of adequate insurance cover.
Description:	<p>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.</p> <p>We noted in the management letters for the years ended 31 December 1999 to 2003 that there was no bonding insurance for the transportation of cash from the First Ukrainian International Bank to the Center.</p> <p>We now note the STCU pays all STCU local employees by bank transfer and travel advances for less than US\$3,000, and as a result the volume of cash being withdrawn and transported at any one time has been significantly reduced as has the frequency of withdrawals. We are also aware of the fact that armed security guards now accompany the treasurer when withdrawals of cash are made.</p> <p>We would point out that the STCU has attempted to obtain insurance cover, however as yet it has been unable to find a suitable cover.</p>
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 Administrative Operating Budget to secure adequate insurance for this issue.

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**Observation No. 3**

Title:	Contracts not dated.
Description:	<p>In the management letters for the years ended 31 December 1999 to 2003 we noted that in the majority of cases, contracts concluded with project beneficiaries were not dated by all parties.</p> <p>During the course of our audit it was noted that in some cases, the contracts are still not being dated. However, we would point out that this issue relates primarily to the institutes not dating contracts, and in some instances project partners, the STCU was noted to have dated all contracts.</p> <p>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.</p> <p>Whilst we have noted improvements in this respect since this issue was first noted in the management letter for the year ended 31 December 1999, there were still instances during the year where the contracts were not dated by some of the parties.</p>
Recommendation:	All contracts must be dated by all signatories. 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 partially concurs with Lubbock Fine's recommendations, and will continue to work to ensure that all contracts are dated by instructing the STCU Senior Specialists to work with all parties (e.g. lead institutes, participating institutes, and partners) to ensure that they date their signatures. The STCU agrees that the dating of signatures is standard business practice. However, the STCU must weigh the interest of the Parties to see the project agreements signed in a timely manner in order to meet their non-proliferation goals, versus teaching and enforcing a Western standard business practice. Dating signatures was not a general business practice in the former Soviet Union, which hampers the STCU in its efforts to teach the institute directors this Western business practice. Thus, in summary, although the STCU agrees that the dating of signatures is a very good practice, it will not return those contracts not dated by the signatory parties, because this will slow down even more an already lengthy process of starting an STCU project. The STCU feels that any further delays in the starting of STCU projects would be detrimental to the aforementioned non-proliferation goals of the Parties.

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**Observation No. 4**

- 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.
- The STCU generated a report from ACCESS showing individuals who worked for more than 220 days in the year ended 31 December 2004 and also showing rolling 12 month totals for each month. This report indicated that some 42 (2003 – 14) scientists had claimed for more than the permitted 220 days, with a total of 816 (2003 – 525) days being potentially being claimed in excess of this limit.
- Of particular concern was Mineev who claimed to be working 16 hours a day for the whole of April and May 2004 (on 2 separate projects).
- 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.
- In relation to the issue of the 220 working days per year, which is used as a benchmark by the STCU, we believe that this figure is low, and does not fully reflect the reality of the STCU projects. In addition the situation is further complicated with regard to partner projects where there seem to be less restrictions on the working days rule, for instance a grantee working 12 hours in a day is able to claim 1.5 days (based on an 8 hour standard day).
- We note that as of 1 March 2005 the STCU clarified the situation by specifying an upper limit on days worked per year of 220. This limit can be extended to 242 days upon written approval of the STCU.
- Recommendation: We would make the following recommendations;
- (i) In relation to the 42 scientists already identified, and in particular Mineev, 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.

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**Observation No. 4**

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.

(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 Senior Specialists 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 and that this may be increased to 242 days upon the written approval of the STCU. 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:

(i) The STCU will conduct a thorough review of the time cards of those 42 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.

In the case of Mr. Mineev, the STCU wrote a letter dated March 18, 2005 to Mr. Mineev, as well as the two project managers associated with the projects that he worked on claiming 16 hours per day, asking Mr. Mineev to substantiate the hours claimed on his timecards. On March 23, 2005, the STCU received e-mail responses to the STCU's written letter within which Mr. Mineev and the two project managers associated with the projects charged with the time worked, substantiated the time worked by Mr. Mineev in manner acceptable to the STCU. In short, because of time constraints on both projects, as well as Mr. Mineev's key role on both, he was forced to work substantial overtime hours in order to achieve the deliverables in the timeframes required in the two project workplans. Both project managers reiterated that Mr. Mineev did indeed work the hours indicated in his timecards. .

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**Observation No. 4**

- (ii) The STCU worked closely with the ISTC to review and incorporate its policy in this matter. As a result of the discussions with the ISTC, the STCU developed a policy (entitled "SOP XXIV - Project Participant Participation in STCU Projects") within which the STCU allows project participants to work up to 242 days within one rolling calendar year with the permission of the senior specialist, and stipulates courses of action for those participants who work more than 242 days.
- (iii) As was noted above, in the past when the STCU discovered that a scientist worked more than 220 days in a rolling calendar year, the STCU generated a warning letter to the project participant with a cc: to the project manager. With the newly implemented (effective as of March 1, 2005) policy mentioned above, the STCU will allow project participants to work more than up to 242 days with the permission of a senior specialist. In addition, the STCU project accountants will increase their cooperation with senior specialists in order to better prevent scientists from claiming grants not due to them.
- (iv) In 2004, the STCU amended the agreement between the STCU and the project participants to include the statement that the project participant may not work for more than 220 days per year on STCU funded projects, calculated on a rolling calendar year basis. Thus, the STCU will update the agreement again in 2005 to incorporate the details outline in the newly developed policy described above.

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**Observation No. 5**

- Title: Financial and Technical monitoring of projects
- Description: At the request of the U.S. Department of State, the STCU recently completed 11 U.S. sponsored technical and financial project audits. 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 these audits the following issues were noted:
- (a) In relation to Projects 1538, 1556 and Uzb-39 (J) it was noted that participants were not completing their timecards properly, either because the timecards were not completed on the day of the work, they were being filled out in advance or they were potentially being completed by other people.
  - (b) In relation to Project Uzb-39 (J) it was noted that institute directors were claiming more hours than permitted by STCU regulations.
  - (c) In relation to Project P115 the USDCAA noted that there was insufficient documentary evidence to verify the work carried out by a particular project participant.
  - (d) In relation to Projects 1538, 1556, 1700, 1580 and 1766 the USDCAA has raised an issue concerning the overclaim of overhead costs resulting from the inclusion of VAT in total project costs.
- According to the project agreements, overheads are to be charged at a fixed % of total allowable costs. At present projects claim overheads on the total costs, however according to the USDCAA, VAT is not an allowable expense and should therefore be deducted from the total project cost before calculating the overhead payable. On this basis the USDCAA has calculated that a number of projects have been overpaid overhead costs because of the inclusion of VAT in the calculation.
- We would point out that in general the level of overpayment is very small, and it should be borne in mind that it has always been the practice to include VAT as there is no practicable mechanism to recover the VAT from the authorities.
- Recommendation: In relation to the above we would make the following recommendations:
- (a) With regard to the completion of the time cards we would recommend that the STCU reminds all project managers, at the various projects, of the manner in which time cards should be completed. The project managers should in turn be required to reiterate the procedures to the individual participants.
  - (b) Overclaim of hours by institute directors we recommend the STCU carry out procedures as described under observation number 4
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**Observation No. 5**

regarding the monitoring of grant payments.

- (c) In relation to the individual project participant the STCU should request the individual to present appropriate documentary evidence to the project manager at the STCU to determine whether the work carried out was in agreement with the amount of time claimed.
- (d) With regard to the issue of excess overheads being claimed due to the inclusion of VAT in project expenditure, we would recommend that either the STCU develops a mechanism to recover the excess VAT or it amends the project agreements to ensure that the VAT element is allowable.

STCU Comment: The STCU concurs with Lubbock Fine's recommendations and plans to perform the following steps to address this observation:

- (i) The STCU will require all senior specialists and project accountants to reinforce to all project participants of all projects including 1538, 1556 and Uzb-39 (J) the requirements of Article 8.1.7. (b) Annex II General Conditions, Part C (Allowable Costs) of the Model Project Agreement, which states the following: "Individual participants must personally complete their time cards each day and in ink, and must sign their own time cards at the end of each month.". Furthermore, the STCU will require all senior specialists and project accountants to reinforce to all project managers and participating institute managers of all projects including 1538, 1556 and Uzb-39 (J) the requirements of Article 8.1.10. (c) Annex II General Conditions, Part C (Allowable Costs) of the Model Project Agreement, which states the following: "ensure that individual participants correctly record the hours worked on this project according to the procedure described in Article 8.1.7.". Again, this reinforcement will occur throughout the year when project managers bring in their project's monthly timecards, as well as during the regularly scheduled STCU monitorings. Particular emphasis will be placed on time card procedures and policies during the first monitoring, which as per STCU Standard Operating Procedure VIII – Project Monitoring Policy is scheduled to occur within the first six months of the operative commencement date of the project. Furthermore, The STCU will develop a standard training program for project managers and participants in order to inform them about the changes to procedures brought about by the installation of Navision (scheduled for implementation in late summer '05), and will include a section about the requirements related to timely and accurately completion of their timecards.
- (ii) The STCU will require all senior specialists and project accountants to reinforce to all recipient signatories, deputy

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**For the Year Ended 31 December 2004**  
**Management Letter**

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**Observation No. 5**

recipient signatories, and project managers of all projects, including Uzb-39, the requirements of Article F of STCU Standard Operating Procedure VI – Project Financing.

Furthermore, in the case of Uzb-39, the STCU followed up on DCAA's recommendation and secured the appropriate request for increased participation of the institute director from the project, which the STCU approved on in January 2005. A copy of this request with appropriate approval signatures is set out in Annex 1 to the Management Letter.

- (iii) In the case of the project participant on project P115 without satisfactory documentation to substantiate his hours on the project, the STCU followed up on DCAA's recommendation and sent a letter to the project manager emphasizing the importance of maintaining timely and accurate documentation. A copy of this letter is set out in Annex 2 to the Management Letter.

Furthermore, this matter will be reviewed again by a Senior Specialist during the final monitoring of this project.

- (iv) The STCU still views the recovery of STCU VAT as the ultimate resolution to this observation, and will continue its efforts to work with the recipient party governments to recover these funds. At the same time, the STCU worked closely with the management of the ISTC in July 2004 to clarify how the model project agreements are worded for the projects with that Center, and the STCU will modify its own model project agreement to mirror that of the ISTC's and present it to the STCU Governing Board for approval.

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For the Year Ended 31 December 2004  
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**Observation No. 6**

- Title:** Filing of invoices for project expenditure
- Description:** During the course of our audit, we noted that there was no systematic method of filing of project invoices. This caused difficulties in the tracing of project expenditure to invoices, for a number of projects for which there was a large volume of purchases. It was noted that some of the invoices were filed by invoice date, some by payment date, and a number seemed to be filed in no logical order.
- This issue has become more of a problem than the past when expenditure for each project tended to be much smaller and there were far fewer invoices per project. However, projects, such as P123, which had non-labour expenses during the year of \$458,767, have a much larger volume of invoices. With no consistent system for the filing of invoices it has become much more difficult to trace project expenditure to invoices.
- Recommendation:** In relation to the above it is recommended that consistent policy for the filing of invoices should be adopted. This system should be designed to allow any individual to trace a purchase made from the financial records to the invoices utilising referencing and a systematic way of filing the invoices.
- STCU Comment:** The STCU concurs with Lubbock Fine's recommendations and will develop a new policy for the filing of invoices in a consistent manner, allowing the tracking of transactions from the financial records to the invoices utilized.

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**Observation No. 7**

- Title: Method of treating accruals for working cash expenditure
- Description: During the course of our audit we noted that an incorrect method was being applied for the treatment of accruals for working cash expenditure. At the year end, an entry was made for the total expenditure paid out of working cash in 2004 which wasn't entered into ACCPAC until the 2005 working cash replenishments, as follows:
- Dr Expenditure  
Cr Working cash
- The impact of this treatment was an understatement of working cash and accruals of \$17,768 at 31 December 2004.
- Recommendation: At the year end, a regular accrual should be made for any expenditure incurred in the financial year which hasn't been recorded in the current year. The journal entry is as follows:
- Dr Expenditure  
Cr Accruals
- This accrual should be reversed at the beginning of the following year.
- STCU Comment: The STCU concurs with Lubbock Fine's recommendations, and will ensure that the recommended entry for all working cash expenditures will be utilized for the generation of the accruals for the year end December 31, 2005 financial statements.

## **ANNEXES**

## **ANNEX 1**

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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. No responsibilities are accepted by Lubbock Fine towards any party acting or refraining from action as a result of this report.

To: Deputy Executive Director  
Esa Manninen  
Project Coordinator  
N.M. Dudko

From: Project Manager  
T.F. Bekmuratov  
Date: 21.01.2005.

Re: About an establishment of percent of participation N.O. Nabiev in the project

## ***“Development of the Cryogenic-Optical Sensor for the Highly Sensitive Gravity Meters”***

*Project manager: Bekmuratov Tulkun Faiziyevich, Doctor of Technical Sciences, Professor*

*Phone: +998 71 169-1266; 162-8946 Fax: + 998 71 162-8946*

*E-mail: tulkin@cyber.uzci.net, omonuz@mail.ru*

*Participating institution: The Scientific Research Institute “Algorithm - Engineering” of Academy of Sciences of Uzbekistan*

*Financing parties: USA*

*Operative commencement date: 01.AUG.2002*

*Project duration: 3 years*

*Date of submission:*

Dear Esa Manninen,

In connection with necessity of the great volume works execution on creation of the new algorithms on filtration, noise compensation and modeling gravimetric gauge I ask you to resolve Nabiev Ozad Malikovich - the director of scientific research institute "Algorithm-Engineering" 68 percent for work in the project participation. Nabiev O.M. is well-known expert on signals modeling and processing. He took part in signals processing and was the supervisor of this subject. His qualification and experience are also necessary in the software development. For the period of the project execution the duty of the director will be partially carry out his assistant on scientific work.

Project manager  
(Uzbekistan)



Professor T.F. Bekmuratov

PC

DED

*agreed 14.02.05*  
*for Manninen 16.02.05*

## **ANNEX 2**

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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. No responsibilities are accepted by Lubbock Fine towards any party acting or refraining from action as a result of this report.



Zamira Golubenko Ph.D  
Project Manager  
Project #P115

February 21, 2005

Dear Ms. Golubenko,

As you are aware, representatives of the STCU, DCAA, and USDA recently audited your project, P115, "Characterization of Phytoalexins from the Malvaceae in Uzbekistan" on November 5, 2004. During that audit a number of issues were discovered and discussed with you that require corrective action on your part, as well as on the part of the project participants. The following items were discussed with you during the audit, and we would like to request again that you ensure follow up on these items in the manner described below:

- During the audit it was discovered that not all project participants were keeping timely and accurate laboratory notebooks describing the work they had completed. Thus, at the time of the audit, it was difficult for the project participants to show results of their efforts. This in turn made it very difficult for the auditors to feel comfortable that project participants were actually performing the work that they were being paid for by the STCU. As you would agree, this is not a desirable situation. Thus, please ensure that the project participants are aware that timely and accurate laboratory notebooks are not only good scientific practice, but also extremely important if your project would ever like to patent any of its work. For your information, the STCU has developed "Project Notebook Principles and Guidelines" which can be found on STCU's website at the following web address:

[http://www.stcu.int/documents/general/Lab\\_Notebook\\_Guidelines.pdf](http://www.stcu.int/documents/general/Lab_Notebook_Guidelines.pdf)

- During the audit it was discovered that a project participant was working on a machine and processing cultures for both the institute and the STCU project, but charging all of his time to the STCU project. According to Article 8.1.10. (c) Annex II General Conditions, Part C (Allowable Costs) of the Model Project Agreement, the project manager should "ensure that individual participants correctly record the hours worked on this project according to the procedure described in Article 8.1.7.". Thus, please work with all project participants to ensure that they are completing their timecards for actual time worked on STCU projects, and not for time worked performing work required by the institute.

The STCU urges you to follow-up on these matters as soon as possible, in the manner indicated above. Furthermore, if you have any questions or comments related to this observation and follow-up actions, please feel free to contact your responsible project coordinator or project accountant. The STCU is more than happy to help clarify any questions or comments you might have.



Furthermore, if you have any questions or comments related to the contents of this letter, please feel free to contact me directly at 380-44-490-7150. Thank you for your time and consideration.

Sincerely,

Curt "B.J." Bjelajac  
Chief Financial Officer

Science and Technology Center in Ukraine



Cc: Mr. Shovkat Salikhov, Director, A.S.Sadikov Institute of Bioorganic Chemistry  
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