

**LUBBOCK FINE
CHARTERED ACCOUNTANTS**

SCIENCE AND TECHNOLOGY

CENTER IN UKRAINE

MANAGEMENT LETTER

FOR THE YEAR ENDED 31 DECEMBER 2006

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
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Ukraine

Dear Sirs

**SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
FINANCIAL AUDIT FOR THE YEAR ENDED 31 DECEMBER 2006
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 2006.

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 2006 we have also reviewed the Management Letter which we prepared for the year ended 31 December 2005, to ascertain whether the weaknesses identified in 2005 still exist in 2006.

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 6 Observations noted last year, 2 have been addressed and are no longer considered to be issues. The remaining 4 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, Navision (a dedicated accounting package) and Access (a database package tailored for STCU's needs) to record financial transactions limits the availability of financial information (See Observation No.1).
2. 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.2).
3. It was noted that some 26 scientists had claimed grants for more than the permitted 220 days per year. (See Observation No.3).
4. In relation to the technical and financial audits carried out by the USDCAA, it was noted that a number of issues were raised such as the completion of time cards by participants. In addition issues were raised regarding the identification of project staff and a lack of communication between the STCU and the project staff. (See Observation No.4).
5. Accruals for certain project expenses had not been correctly posted for all Navision projects with a quarter ended 31 January 2007. (See Observation No 5).
6. During the course of our review we noted that the bank balance was not being correctly reconciled to the trial balance (See Observation No. 6).

You will appreciate that the inherent limitations in any accounting and internal control system mean that errors or irregularities may nevertheless occur and not be detected. Also, the projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

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

Lubbock Fine

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I. AUDIT FINDINGS SUMMARY

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.

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.	Contracts not dated.	Partially Agree
3.	Monitoring of grant payments.	Partially Agree
4.	Technical and financial monitoring of projects	Partially Agree
5.	Overhead accruals	Agree
6.	Bank reconciliations	Agree

II. AUDITOR'S REVIEW

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.

Audit of the Science and Technology Center in Ukraine
For the Year Ended 31 December 2006
Management Letter

Observation No. 1

- Title:** The use of two software packages for the maintenance of financial information.
- Description:** On 1 October 2005 the STCU implemented Navision, a comprehensive accounting system to replace the combined use of Access and ACCPAC. This is in line with the recommendation we made in the 2004 management letter, however, an effective dual system is still in operation.
- Whilst all new projects signed commencing after 1 October 2005 are only set-up and posted to Navision, approximately 60 projects are still maintained on Access (a database), with a monthly journal then posted to Navision to record the transactions recorded in Access.
- Therefore the limitations of using the Access database as an accounts package still exist, and the same difficulties in monitoring and examining transactions are still apparent.
- Recommendation:** We appreciate that the STCU have implemented a new accounts package which can handle both the monitoring requirements of Access and the accounting requirements of ACCPAC. However, it is noted that for the projects still in operation under Access a method should be devised for the transfer of these projects to Navision from Access (with the aim of phasing out Access for projects by 31 December 2007).
- It is our understanding that the STCU is working towards transferring all Access projects to Navision. We would therefore recommend that it continues to do so with the aim of running all transactions through Navision and moving completely away from using Access.
- Ideally the STCU will transfer over the history of transactions on active Access projects to Navision, however, we understand the cost of this may exceed the benefit of being able to run complete reports for a project under Navision. The STCU should assess whether a material benefit will be obtained in transferring over the history of a project's transactions.
- For closed projects we do not recommend the transfer of the history of projects.
- STCU Comment:** The STCU concurs with Lubbock Fine's recommendations and will work to transfer all active Access projects to Navision by December 31, 2007. During this process, a decision will be taken by STCU management as to the cost/benefit of transferring historical transactions for these projects to Navision. Finally, the STCU agrees with the recommendation of Lubbock Fine not to transfer the history of closed projects from Access to Navision.

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Observation No. 2

- Title:** Contracts not dated.
- Description:** In the management letters for the years ended 31 December 1999 to 2005 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. 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.
- 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 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.
- 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, although the STCU agrees that the dating of signatures is a very good practice, it will not return undated contracts to 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. 3

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 does produce a monthly report showing scientists who have claimed over 220 days however this report does not appear to be followed up with any specific action.

The STCU generated a report from Access and Navision showing individuals who worked for more than 220 days in the year ended 31 December 2006 and also showing rolling 12 month totals for each month. This report indicated that some 26 (2005 – 44) scientists had claimed for more than the permitted 220 days, with a total of 380 (2005 – 830) days being potentially being claimed in excess of this limit.

Of particular concern in 2006 was Dr. O. Nazarenko who claimed to have worked 16 hours in one day (8 hours on two separate projects) and had also worked 91 days in the last 92 as at the end of December 2006.

We realise that the circumstances of the projects may have required long hours to have been worked however we would have expected the STCU to have noted the high level of time charged and obtained justification from the participants.

We note that many of the grantees who exceed the limit subsequently fall just below it in later months. This suggests that some communication must be taking place between the STCU and the grantees, however we were unable to find evidence of any such communications in most instances.

Furthermore it was apparent that the project accountants were unaware if permission had been granted to any grantees to extend working days to 242.

The project accountants do not appear to be aware of grantees who break the 220 day rule, and when a scientist works on two separate projects (particularly if they also have two different project accountants) there is no check carried out to investigate any possible mis-claiming of time worked. Indeed it is not clear who is responsible for pursuing a potential breach of the 220 day rule.

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).

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Recommendation: We would make the following recommendations;

(i) In relation to the 26 scientists identified in 2006, and in particular Dr. O. Nazarenko, 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 to which 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.

(ii) In order to ensure that such exceptions do not occur in the future, we recommend the STCU extends their procedure to investigate any cases where scientists work more than 220 days on a monthly basis. This should be extended to include investigations of scientists who are claiming for time spent on two or more projects simultaneously.

Responsibility for these investigations should be clearly delegated and any evidence of such investigations and communications with scientists should be kept on the project files.

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.

STCU Comment: The STCU partially concurs with Lubbock Fine's recommendations. The STCU concurs that the process of following up with those grantees that worked more than 220 days can be improved; however, the STCU disagrees with the specific points made about Dr. O. Nazarenko. In the case of Dr. O. Nazarenko, according to the model project agreement for Non-Governmental Partners (approved by the STCU 17th Governing Board), grantees working only on Non-Governmental Partner projects are not subject to the 220 days restriction. The 220 days restriction is only in effect for those grantees that work on at least one regular or Governmental Partner project. These rules are clearly discussed in STCU Standard Operating Procedure XXIV – Project Participant Participation in STCU projects. Although the STCU agrees that it may seem unlikely that Dr. O. Nazarenko worked 91 of 92 days at the end of 2006, in the end it is the Non-Governmental Partner who dictates the timeline and judges the quality of Dr. O. Nazarenko's work. The 220 day restriction was eliminated from the Non-Governmental Partner Model Project Agreement by the STCU Governing Board precisely to meet the demands of Non-Government Partners who found it difficult to work with the constraints (i.e. 220 day limit, daily rate limit, STCU purchasing policies, etc.) placed on STCU regular projects. Thus, the 220 day limit for Non-Governmental

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Partner projects was removed in order to allow the grantees on these types of projects the freedom required to work the hours necessary to meet tighter deadlines placed on them by the private sector. Given the aforementioned discussion, in the case of Dr. O. Nazarenko or any other grantee that works only on Non-Governmental Partner Projects, the STCU disagrees that this matter requires follow-up by the STCU.

Furthermore, STCU would like to highlight that of the twenty-six (26) grantees that worked more than 220 days, two (2) of them worked on Non-Governmental Partner Projects only (Dr. O. Nazarenko and Dr. V. Nesterenkov), and of the remaining twenty-four (24) grantees that worked more than 220 days, none of them worked more than 242 days. Only Dr. O. Nazarenko and Dr. V. Nesterenkov worked more than 242 days.

The STCU will implement the recommendations presented in the following manner:

- (i) The STCU will conduct a thorough review of the time cards of those twenty-four (24) (excluding Dr. O. Nazarenko and Dr. V. Nesterenkov) 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 request that the responsible Senior Specialist provide permission for them to work more than 220 days, but less than 242 days, as per STCU policy. If the responsible Senior Specialist does not agree to the increase in days worked to 242, then the STCU will send a letter to the applicable grantees, 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.
- (ii) The STCU will run the 220 day report as part of its month-end closing procedure, and will follow up any exceptions noted with the grantee(s) involved. The STCU will identify who (project accountant, etc.) is responsible for identifying those grantees that work more than 220 days in order to ensure that each case is followed up in order to obtain documented permission from the responsible senior specialist which will then be placed in the appropriate project folder.
- (iii) The STCU Finance Department will increase their communication and coordination with Senior Specialists in order to better prevent scientists from claiming grants not due to them.

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Observation No. 4

Title: Financial and Technical monitoring of projects

Description: At the request of the U.S. Department of State, the STCU completed 27 U.S. sponsored technical and financial project audits in FY2006. The STCU worked closely with the U.S. D.O.S., Defence Contract Audit Agency (USDCAA), 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 P-119, AZ-02(j), 3515, 3486, and P-247 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 P-247 the USDCAA noted that there was insufficient documentary evidence to verify the work carried out by particular project participants.
- (c) In relation to Projects 3004, 1911, P-114, 1903, 1954, Uzb-47(J), Uzb-54, Uz-111j, 2208, Uzb-118, Uzb-42(j), Uzb-99(j), AZ-029(j), 3515, P-240, and P-247 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.

- (d) In relation to Projects 3515, P-240, and P-247, it was noted that a number of the participants were related. In one case, work performed by these participants could not be verified, in another these relationships had not been disclosed in the project agreements and were such as to call into question the organization's objectivity & legitimacy.
- (e) In relation to Project 3515, it was noted that the submanager had delegated his responsibilities to another person who was not being

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compensated for the hours he was working on the project.

- (f) In relation to Project P-247, it was noted that two participants were paid the maximum rate of \$35 per day even though they had no scientific backgrounds.
- (g) In relation to Projects 3004 and 1954, it was noted that information per the quarterly financial reports did not agree to the timecards. This led to participants being underpaid.
- (h) In relation to Projects 3622, Gr-105, Ge-111, Ge-115 and Ge-130, it was noted that a lack of communication between the STCU, ISTC and CRDF meant that there was a possibility of over charging of time by project participants.
- (i) In relation to project 3515, it was noted that there was lack of communication between the Senior Specialist, project manager and sub-manager on the project.

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) In relation to the individual project participants the STCU should request the individual to present appropriate documentary evidence to the technical co-ordinator at the STCU to determine whether the work carried out was in agreement with the amount of time claimed.
- (c) 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.
- (d) With regard to family members' participation in projects, we would recommend that the STCU identify and justify family members' participation in projects as part of their proposal submission. We also recommend that the STCU include guidance that institutes must inform the STCU of all family relationships which exist between participants, sub-managers and project managers.
- (e) In relation to the delegation of sub-managers responsibilities to another person, we note this is a difficult area to identify but recommend that the STCU review the allocation of project hours to ensure that those receiving payment are the same people who are completing the work for the project.
- (f) In relation to the payment of the maximum daily rate to those with no scientific background, we recommend that the STCU reviews the

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basis of pay for project participants where this appears to be unreasonable given the technical experience of the participant.

- (g) In relation to the discrepancies between the quarterly financial reports and the timecards, we recommend that the STCU review its system for verifying the reported information to ensure that it is adequate and that the reported incidents are isolated.
- (h) In relation to the possibility of over charging of time as a result of lack of communication between the STCU, ISTC and CRDF, we recommend that the STCU should review its procedures for assessing whether the time being charged to STCU projects is reasonable given the other activities of participants.
- (i) In relation to the lack of communication on Project 3515, the STCU should remind the senior specialist of the importance of good communication, and endeavour to improve the level of communication between those involved in the project.

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

- (a) The STCU will continue to require all senior specialists and project accountants to reinforce to all project participants (including the Institute Director) of all projects including P-119, AZ-02(j), 3515, 3486, and P-247, the requirements of Article 8.1.8. Annex II General Condition, Part C (Allowable Costs) of the Model Project Agreement, which states the following: "payments to individual participants will be based on properly completed time cards." In addition, Annex II, Article 8.1.7 states Individual participants must record the hours worked on STCU projects on time cards according to the following procedures: (a) Individual participants must complete a separate time card for each STCU project they work on. (b) Individual participants must personally complete their time cards each day and in ink. (e) Hours recorded on time cards must not be more than the actual hours worked. 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.
- (b) The STCU will not work with project P-247 in the future to address this issue, as this project was terminated because of a number of issues (including the issue outlined by Lubbock Fine above) by the partner as of December 1, 2006.
- (c) The STCU still views the recovery of STCU VAT as the ultimate

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resolution to this observation, and will continue its efforts to work with the recipient party governments to recover these funds. However, 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 at the December 2005 the STCU Governing Board approved a revised model project agreement which eliminates the payment of overhead based on a percentage of allowable costs. Of course, for those projects signed using the old model project agreement, this is still an issue.

- (d) In relation to family members working on STCU projects, the STCU incorporated the following guidelines into the instructions for proposal submissions as well as STCU Standard Operating Procedure #6 (Project Financing):

1. STCU GUIDELINES FOR RELATIVES WORKING ON PROJECTS

All persons listed on the payroll of Projects managed through STCU should be fully qualified for the job. At the time of submission of the proposal to STCU the Project Manger must disclose existing family and marital relations in writing. This is reviewed by STCU's Senior Specialists and the following aspects are considered:

- a) Is the person on the job because of his or her relationship with the project manager or someone else working on the project?
- b) Does the person have the necessary technical or administrative qualifications (appropriate education, skills, background or other experience) that indicate that he or she is fully qualified for performing the job on the project?

The Senior Specialist makes the determination. In the case where a Senior Specialist cannot decide, then his or her recommendation will be referred to the supervising DED for final decision. STCU's decision is placed into the record of the Project.

A relative is considered to be one or more of the following:

1. Husband
2. Wife
3. Brother
4. Sister
5. Mother
6. Father
7. Uncle
8. Aunt
9. Brother-in law
10. Sister-in-law
11. Mother-in law
12. Father-in-law
13. Son

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- 14. Daughter
- 15. Niece
- 16. Nephew

- (e) The STCU will work with the sub-project manager of project 3515 to ensure that he indeed has the ability to perform the required work. If not, the STCU will make the suggestion to substitute the sub-project manager with someone capable of fulfilling the duties required of this position within the project.
- (f) The STCU will not work with project P-247 in the future to address this issue, as this project was terminated because of a number of issues (including the issue outlined by Lubbock Fine above) by the partner as of December 1, 2006.
- (g) The STCU will continue to reinforce to all project managers the necessity to complete the "check yourself" procedures included within the Quarterly Financial Reporting (QFR) workbook, specifically checkpoint number three, which states all project participants' time included in the Financial Report be checked against individual project time cards by at least two persons. The STCU created this QFR workbook in order to ensure better accuracy within the QFR process, and will work with the Project Managers to ensure that the workbook guidelines are followed. Furthermore, the STCU will continue the procedure of project accountants sampling hours/days reported on the QFR and comparing them to the participants' time cards.
- (h) The STCU disagrees with Lubbock Fine's recommendation related to the STCU reviewing its procedures to ensure that the project participants are charging reasonable time to the STCU given their other activities for the following reasons:
 - 1. There is no documentation that states an STCU project participant is not allowed to work more than 220 days on concurrent STCU and ISTC projects, let alone on these plus CRDF projects. The STCU Project Agreement and other STCU project documentation states that the project participant is not allowed to work more than 220 days on STCU projects. The STCU notes that its project-related documentation does state that project participants cannot get paid for the same work provided to the STCU by another organization. But "dual sources of funding for the same work" does not limit a project participant from working on other, separate projects financed by other organizations; STCU merely restricts participants from receiving funds for the exact same work financed by STCU projects.

The STCU understands that, because of the unique ISTC/STCU membership of the Republic of Georgia, a case could be made to limit Georgian participants to 220 days on

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concurrent STCU and ISTC projects. However, to enforce this rule with Georgian participants, project-related documentation at both Centers would have to be changed and approved by the respective STCU and ISTC Governing Boards, as currently neither ISTC nor STCU requires common project participants to adhere to a combined 220 day limit for concurrent ISTC and STCU projects. Once the documentation is changed, the ISTC and STCU would then have to exchange information in order to track the 220 day limit for concurrent project participants. However, STCU wishes to point out that there are a limited number of STCU projects in Georgia, and recent analysis by ISTC of prior-year STCU and ISTC project data for Georgia in December 2006 revealed no instance of a participant exceeding 220 work days on concurrent ISTC and STCU projects. Therefore, STCU feels, the risk of Georgia scientists exceeding 220 days on concurrent STCU/STC projects is small.

2. Although the ISTC and STCU are both multilateral, inter-governmental organizations with a largely common set of funding shareholders (EU, US, and CA), CRDF is a private foundation of primarily bilateral (U.S. government only) or private sector financing sources. Thus, while ISTC and STCU are similar organizations, CRDF is a different class of organization. Further, there are several other programs, bilateral and multilateral, which are not related to STCU activities, but which also support science-based research grants in the same region and with similar goals as STCU: NATO, USAID, European programs, etc. Thus, the same reasoning for exchanging information with CRDF would likely apply to many other distinct programs, as well as any possible commercially or privately financed contract research activities that may also involve STCU participants. In short, all organizations or individuals that could possibly pay an STCU project participant for his time would have to be communicated to the STCU in order to ensure that the labor charged to the STCU was reasonable. The management of the STCU views such an undertaking as beyond the scope of the STCU's control function.
 - (i) The STCU will continue to work with all Senior Specialists of all projects including 3515 to ensure more effective communication with the project and sub-project managers of the projects for which they are responsible.

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Observation No. 5

Title:	Overhead accruals
Description:	<p>Project expenses (grants, overheads, other direct costs, etc) should be accrued as at 31 December 2006 for all projects with a quarter end 31 January 2007 and 28 February 2007.</p> <p>It was noted that the overhead expense for all projects with a quarter ended 31 January 2007 had been posted as at 31 January 2007 for all 3 months. This meant that the overheads had not been included in the financial statements for the 2 months ended 31 December 2006, and therefore accruals and project expenses were understated by US\$34,463.</p> <p>The equivalent journals for projects with a quarter ended 28 February 2007 had been correctly posted at 31 December 2006. Therefore it is anticipated that this is an isolated administrative error.</p>
Recommendation:	A proportion (2 months / 1 month) of project invoices relating to the current year for projects with quarters ending 31 January and 28 February after the year end should be posted on 31 December each year so that they are included in the correct accounting period.
STCU Comment:	The STCU concurs with Lubbock Fine's recommendation and will ensure that this error does not occur again in the December 31, 2007 financial statements.

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Observation No. 6

Title:	Bank reconciliations
Description:	<p>Each bank account has its own individual ledger or 'Card' in Navision, showing all transactions passing through that account and the closing cash book balance at any time.</p> <p>The STCU regularly reconciles the cash book position of each of these cards to the bank statements.</p> <p>It was discovered, however, that the reconciled position on the card did not always agree to the balance shown on the general ledger. At the 31 December 2006 it was noted one bank account balance was US\$13,871 less than the balance recorded in the Navision trial balance.</p> <p>This error was adjusted by the STCU for the year ended 31 December 2006 so that the financial statements showed the correct cash balance.</p>
Recommendation:	When reconciling the cash book balance to bank statements, this should then be reconciled to the general ledger to ensure that the correct cash balance is always shown in the financial statements.
STCU Comment:	The STCU concurs with Lubbock Fine's recommendation and will ensure that the reconciliation of banks is done both to the bank card balance and corresponding general ledger bank account balance shown in the trial balance.