

**LUBBOCK FINE
CHARTERED ACCOUNTANTS**

SCIENCE AND TECHNOLOGY

CENTER IN UKRAINE

MANAGEMENT LETTER

FOR THE YEAR ENDED 31 DECEMBER 2000

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.

1 June 2016

Mr L Owsiaci – Executive Director
Mr C Bjelajac – Chief Financial Officer
Science and Technology Center in Ukraine
3 Laboratornyj Provulok
01133 Kiev
Ukraine

Dear Sirs

**SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
FINANCIAL AUDIT FOR THE YEAR ENDED 31 DECEMBER 2000
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 Kiev, Ukraine, for the year ended 31 December 2000.

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 2000, we have also reviewed the report on Internal Control Weaknesses which we prepared for the year ended 31 December 1999, to ascertain whether the weaknesses identified in 1999 still exist in 2000.

In general we have noted that 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 20 Observations noted last year, 13 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. 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, resulted in a number of errors in 2000 with respect to the ability of generating

accounts payable figures.

The errors noted highlighted a number of key issues that need to be corrected with respect to the current system. In particular it was noted that there was an undue reliance on Borys Rovinsky for IT support services. In addition we noted that monthly accounts are not readily available, that accurate reports of accounts payable can not be produced and that the sophistication of reports for liabilities does not facilitate management control.

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. It was noted that there have been some difficulties with the reconciliation of exchange movements with respect to accounting for the Euro. The absence of a formalised reconciliation process is the principle reason for this. (See Observation No.2).
3. The funding percentages used for the write off to costs for a number of projects in progress were incorrect, as they did not account for the effect of a change in funding percentages retrospectively. Accordingly, some of the project write-offs posted to the designated capital accounts of the respective funding parties were incorrect. (See Observation No.3).
4. At the year end, accruals were overstated as a liability as they had been based on the wrong set of reports and had not been thoroughly checked. Some corrective steps are suggested to remedy this issue. (See Observation No.4).
5. During the course of our review we noted that, in general, for at least part of the year, purchase order forms for items over \$500 were used. However, there is as yet no formalised purchase ordering system which covers all purchases. This lack of formal control means that items may be bought for the STCU which are not required, or they may not be the most cost efficient. (See Observation no.5).
6. In certain respects, the storage of project information was poorly organised, with timecards being stored in no specific order. Bank grant letters were also difficult to obtain, because there was no standardised method of filing them between project accountants. In addition certain of the project files were not filed in a systematic manner. (See Observation No.6).
7. We noted that there was no bonding insurance for the transportation of large amounts of cash from the First Ukrainian International Bank to the STCU. (See Observation No.7).
8. In relation to the European Union capital accounts, denominated in Euros, it was noted that certain designated and undesignated funds were not being maintained in separate bank accounts. This lack of segregation caused confusion over the accounting for Euros, giving rise to certain exchange differences. (See Observation No.8).
9. The majority of contracts concluded with the project beneficiaries were not dated by all signatories of the contract. (See Observation No.9).
10. Accounting for administrative revenue was made more complicated as a number of postings are made to this account, which are not required. In particular the issue of the posting of partner fees is raised. (See Observation No.10).
11. We noted that as a result of our audit that a substantial number of

corrective journals were required to make the financial statements of the STCU compliant with International Accounting Standards. A number of the journals that were required related to issues that ordinarily should have been dealt with in the closure of the accounts for the year. It would be beneficial to seek to cut down the number of journals required so that the management accounts of the STCU provide a better analysis of the activities of the Center. (See Observation No.11).

12. 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.12).
13. During the course of the audit, we noted that bank statements from Bank Generale were unnecessarily complicated and failed to offer the STCU financial information in a coherent format. In addition, bank statements are not always provided on a timely basis. We would therefore recommend that a meeting is held with the bank, with a view to improving the quality of services. (See Observation No.13).
14. Some grant payments were made on the basis of faxed timecards rather than source documents. The legibility of such documents is less clear and so the likelihood of incorrect grant payments increases. (See Observation No.14).
15. A few instances were noted where grant advances were being made to scientists detailed in the work plan, but who did not work on the project. Whilst there may be legitimate reasons for this, such instances were not being investigated to ascertain the reasons for this. (See Observation No 15).
16. The accounts receivable module was being used for the United States and Japan, when it was not necessary to do so. (See Observation No 16).
17. During the course of our review we noted one instance where a Project Manager claimed a grant when he was in hospital, and not working on the project. (See Observation No 17).
18. The General Conditions which form an integral part of the project agreements concluded between the STCU and the recipient institutions, state that grant costs for a specific period of time may not be claimed by the recipient institute, if they are receiving reimbursement from other funding sources for the same period of time. During the course of our site visits and review of the STCU's own records we were unable to confirm that the projects were not receiving funding from other sources. (See Observation No.18).

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.	Partially Agree
2.	Reconciliation of exchange differences on Euros.	Agree
3.	Errors in the calculation of the projects in progress write off.	Agree
4.	Accuracy of accruals.	Partially Agree
5.	Purchase orders.	Partially Agree
6.	The storing of project information.	Agree
7.	Lack of adequate insurance cover.	Agree
8.	Banking procedures with respect to EU funds in Euros.	Agree
9.	Contracts not dated.	Agree
10.	Accounting for administrative revenue.	Agree
11.	Reduction in number of audit journals and close down of ACCPAC.	Agree
12.	Archival procedures for closed projects.	Agree
13.	Bank Generale.	Agree
14.	Grant payments made on faxed timecards.	Agree
15.	Advances made to scientists who did not work on project.	Agree
16.	Accounting for accounts receivable.	Agree
17.	Scientist claiming for work not carried out	Agree
18.	Funding of Projects from other sources	Partially Agree

II. AUDITOR'S REVIEW

**Audit of the Science and Technology Center in Ukraine
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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. The entries for project payments and expenditure are then entered on to ACCPAC at the end of the year by means of one journal, in order to produce a trial balance for the use of preparing the Financial Statements.

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) During the course of a year it is not possible for the STCU to check the accuracy of its accounts payable balances on ACCESS. This is due to the fact that the opening balances for individual projects are not entered on to ACCESS at the beginning of the year. ACCESS only records the transactions entered on to it in the year. Accordingly the STCU is not able to generate a list of project balances for which payments are due, at any point in the year. In order to arrive at the correct payable figures at the end of the year, the STCU provided the auditors with a list of net movements, which were then added to the opening balances to arrive at the closing position.

As a result of the fact that the opening balances are not input in to ACCESS, the overall accounts payable figures, and overhead retainage, were wrong as a number of the amounts due to the projects were over or under stated. The errors have arisen due to a combination of human error and errors in the macros that are used to compile and report financial information on ACCESS.

It is an accepted practice that an entity is able produce an accurate record of its liabilities at any point in the year. Due to the problems noted with the use of the ACCESS system, the STCU is currently not able to produce an accurate list of liabilities, at any given time, without undertaking a significant amount of work.

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We would point out that the time taken to rectify the problems with the accounts payable was considerable. Four members of the STCU staff had to work a whole weekend, as well as devoting a large period of time over one working week to correct these errors.

- (ii) An accurate trial balance can not be generated from ACCPAC at any time during the year. This means that the STCU can not easily generate a set of financial statements at any given point, which will allow it to assess its financial position.
- (iii) Part of the difficulty in resolving the problems with accounts payable was that there was only Borys Rovinsky (Partner Project Accountant) who could change the macros in ACCESS to generate more appropriate accounts payable figures. The macros are what enables the project data on ACCESS to be aggregated into suitable reports. This problem was compounded by the fact that as there were no documented system notes to follow. Therefore in the absence of Borys Rovinsky (Partner Project Accountant) there is insufficient knowledge at the STCU to remedy such 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.

- (iv) ACCESS acts as primarily 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 breaks 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, as was evidenced this year.

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 accept that there are advantages of using ACCESS for project management, and that in the short term changes will have to be addressed using the current system.

However there are some immediate actions that we believe should be undertaken short term. In addition there are certain longer-term considerations that should also be looked at.

Short Term Objectives

- (i) It is essential that the current system is properly documented. An

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operations manual should be prepared which explains how the current ACCESS reporting function has been devised and works. This process will obviously require the considerable input from Borys Rovinsky (Partner Project Accountant) but nevertheless should be written by a member of the in house IT department, so that they have a clear understanding of the system. The manual prepared must be reviewed by a senior official proficient in information technology to attest the clarity of the report.

- (ii) We also recommend that, if possible, the ACCESS database is maintained by the in-house IT department and that any changes in the system are carried out by the IT department first. Borys Rovinsky (Partner Project Accountant) is often out of the office on partner visits. To ensure that the accounting system runs smoothly requires some one who is present throughout the year. By making the IT department responsible for the maintenance and report writing on ACCESS will allow a greater segregation of duties between the software users and the maintainers of the software. This will allow greater objectivity in assessing the system, which should facilitate refinement of it.
- (iii) The inability to generate adequate reports for accounts payable and overhead retainage was caused to a large extent by not including opening balances to combine with the movements. Lubbock Fine will submit reports showing the opening balances for each project. The STCU must take steps to ensure that the balances produced by ACCESS include opening balances to produce meaningful figures.
- (iv) As the process of preparing a list of accounts payable was only performed at the end of the year, a number of errors had not been corrected in the data that had been inputted or the macros using that data. The macros on ACCESS determine the data that is utilised and how the reports are put together. If the macros have been wrongly assimilated then the reports that are generated will be incorrect. If accounts payable reports were run monthly, then the likelihood of these errors being picked up would be greater. Effective month end procedures for payments and expenditure, which are then inputted into ACCPAC, would then allow the STCU to generate more effective financial statements.
- (v) Combined with the issue of the errors noted above, was the fact that the accounts payable figures were combined with the accruals. These two liabilities are quite separate and must not be combined, as this provides an unnecessary complexity. We would advise that two reports are generated on ACCESS for each type of liability and then posted to separate nominal ledger codes on ACCPAC.
- (vi) The output relating to accounts payable and expenditure must be reviewed for its accuracy when produced (hopefully monthly). A

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senior member of the accounting staff, probably Eugene Pashkovsky (Deputy Chief Financial Officer), must do this.

Longer Term Objectives

- (i) In the longer term the STCU should attempt to identify a fully integrated accounting package that covers all of its accounting and project monitoring needs.

STCU Comment: The STCU agrees with both the short-term and long-term objectives of Lubbock Fine's recommendations. This issue is not new to the STCU, and has been listed on every management letter dating back to the audits provided by the Defense Contract Audit Agency.

The management of the STCU would like to address this issue by breaking it down into two parts (1) the short-term objectives, and (2) long-term objectives.

Short-Term Objectives

The management of the STCU agrees with the statement made by Lubbock Fine that, "ACCESS acts as primarily 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."

Borys Rovinsky (Partner Project Accountant) developed the ACCESS project accounting system, at the request of the first STCU CFO. This request was made because the job cost module of ACCPAC did not meet the project management needs of the STCU. It is important to make the distinction between project management and project accounting functionality. ACCPAC meets the project accounting needs of the STCU, although clumsily; however, ACCPAC does not meet the project management needs of the STCU. Each of these needs is equally important to the STCU.

The project management functions provided by ACCESS include but are not limited to the following: time reporting, verification of hours worked by scientist per quarter and year, verification of hours worked by scientist on more than one project, travel advances and settlements, bank documentation for travelers outside of Ukraine, etc..

The project accounting functionality is the focus of this management letter, and what the management of the STCU is committed to resolving. Over the last 5 years, ACCESS has been developed with both needs in mind; however, the majority of the effort has been focused on the project management needs. Starting last year, the focus of ACCESS development has been shifted to improving the project accounting functionality. Thus, in last year's management letter Lubbock Fine pointed out, "At any point in the year, the STCU can not check that bank balances have been accurately posted onto ACCPAC." Already, this situation has been resolved, and the STCU has currently posted all

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project transactions to their respective bank balance and reconciled them to the bank statements for the first 5 months of FY 2001 (exception: Uzbek transactions have not been reconciled to the bank statements, because the STCU is currently having difficulty obtaining bank statements from Uzpromstroybank).

Thus, with the shift in development emphasis to the project accounting functionality of ACCESS, the management of the STCU is trying to eliminate the most significant weaknesses of the ACCPAC/ACCESS relationship.

Finally, the management of the STCU would like to reiterate that even if all of the weaknesses with ACCESS and the integration of the two systems are resolved, the "shored up" system will never be as desirable as a fully-functional and integrated "off the shelf" package. The question of if and when to move to a different system is discussed in the long-term objective portion of the STCU's comment.

The following is the STCU's response to each of Lubbock Fine's short-term objective recommendations:

- (i) The management of the STCU agrees that ACCESS is inadequately documented. As of January 1, 2001, the management of the STCU reorganized the STCU and created an Information Technology Group. One of the main thrusts of the reorganization was to bring "under one roof", the responsibility for all of the STCU's IT needs. In addition, the STCU created and filled the position of IT Administrator. This person is responsible for coordinating all of the IT functions of the STCU including the accounting, administrative, and STCU project databases. The management of the STCU will instruct the IT Administrator to work closely with Borys Rovinsky (Partner Project Accountant) to prepare a manual of the ACCESS functionality which will be reviewed by the CFO to verify the clarity of the report.
- (ii) The STCU has recently hired a western expert to fill the newly created role of IT Administrator. The management of the STCU will ask him to work with the CFO to assess the situation with the financial databases, and make a recommendation to the Executive Director as to the approach that should be taken in order to maintain these databases. The assessment will determine the skill sets required to administer the financial databases, as well as the skills of those individuals available in each department. Based on this information, the IT administrator and CFO will be able to recommend the roles and responsibilities of each member of the finance and IT departments, in order to ensure the most effective approach to administering the financial databases.
- (iii) The management of the STCU agrees with this recommendation, and is currently determining a manner to track accounts payable by item. The opening balances for FY 2001 will be incorporated into

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the newly developed process for tracking accounts payable by item. The Finance Department has implemented a "task list" which tracks the required changes to ACCESS and dates required to attain those changes. Currently, this system change is a high priority and will be fully implemented in the ACCESS database for FY 2001.

- (iv) This item specifically refers to accounts payable; however, the management of the STCU would like to point out that the Finance Department is working to provide a number of additional improvements besides accounts payable on a timelier basis. With the implementation of item (iii) above, the STCU intends to prepare monthly financial statements for FY 2001, with the exception of the accrual for grants and overhead for projects not completed in the month of the financial statement.
- (v) The management of the STCU agrees with this recommendation, and will split the amounts for accounts payable and overhead accruals on the monthly financial statements.
- (vi) The monthly financial statements will be reviewed monthly by both the CFO and Deputy CFO.

Long-Term Objectives

It is common to expect that a packaged ERP solution, selected via a system selection process, will usually meet approximately 80-85% of an organization's needs straight out of the box. The experience of the management of the STCU at other organizations, as well as the experience of the ISTC (the ISTC has performed 7 different modifications to SCALA) during its recent implementation, have shown this statement to be accurate. Having said this, the question that the management of the STCU is consistently asking itself is, "What percent of the STCU's requirements does the current ACCPAC/ACCESS system provide?".

The discussion by Lubbock Fine points out a number of glaring weaknesses within the current STCU system, that the management of STCU agrees need to be resolved as soon as possible. However, the ACCPAC/ACCESS system also has a number of strengths, which have allowed the STCU to effectively administer and account for project activity over the last five years.

Thus, back to the question raised earlier, "What percent of the STCU's requirements does the current ACCPAC/ACCESS system provide?". If the answer is 80%, than management's response to any suggestion of moving to a different system is, "Why pay an estimated \$80,000 - \$120,000 for a system that provides the same percentage of functionality as the current STCU system?". Currently, the management of the STCU believes that even without the changes discussed above

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incorporated into the ACCPAC/ACCESS system, the current system provides approximately 80% of the STCU needs. Thus, the management of the STCU intends to raise the functionality of the ACCPAC/ACCESS system by incorporating the aforementioned changes. However, the management of the STCU also realizes that as the STCU grows, the ability of the current system to satisfactorily meet the needs of the STCU diminishes.

The management of the STCU believes that if the STCU continues to grow at its current pace (project expenses are forecast to be: \$8M in 2001, \$9.5M in 2002, and \$11M-\$12M in 2003), the need to change the system becomes stronger. During the September 2000 STCU Advisory Committee Meeting, the members of the management committee discussed the ACCPAC/ACCESS issue highlighted in the 1999 Management Letter. The conclusion of the Advisory Committee meeting was "to recommend making the necessary changes (i.e. replacement) to the financial accounting system if STCU's project turnover reaches approximately \$15M per year, and to assess the pros and cons following the ISTC implementation of a new system." At the STCU's current level of project turnover, \$7.1M in 2000, the expenditure of \$80 - \$120K for the purchase and installation of a new system is not justifiable. However, if the STCU grows to a higher level of project turnover (i.e. \$12M - \$15M), then the project becomes more justifiable. In the case of the ISTC, their project turnover for FY 2000 (the year SCALA was chosen to be implemented) was \$43.9M.

In conclusion, the management of the STCU will do the following to ensure that the long-term objectives of this issue are addressed:

- ✓ The management of the STCU will work closely with the management of the ISTC to examine the outcome of the ISTC's recent implementation of SCALA, and utilize the information obtained to further examine the STCU's current system. The ISTC expects to "go live" with SCALA on September 1, 2001. The management of the STCU would like to visit the ISTC in the middle of 2002 to review and discuss the results of the implementation.
- ✓ The management of the STCU will continue to examine the ability of the ACCPAC/ACCESS system to meet at least 80% of the STCU's requirements. This examination will intensify as the STCU continues to grow and reach the \$12M - \$15M of project turnover a year.

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Observation No. 2

- Title:** Reconciliation of exchange differences on Euros.
- Description:** During the course of the audit we noted that there was an apparent lack of understanding as how to account for the exchange differences arising on the European Union capital accounts, denominated in Euros, and the Euro bank account.
- It was noted that in January and February 2000 net exchange losses were incurred. This was due to the fact that funds for the Administrative budget, which were remitted by the European Union in Euro's, were not transferred to the Administrative bank account, which is denominated in US dollars, at the beginning of the year, but were instead transferred in the middle of February. In the intervening time the Euro weakened and exchange losses were suffered.
- If a reconciliation had been performed between the designated and undesignated Euro accounts, as well as the bank account, this exchange issue would have been found earlier.
- Recommendation:** This issue was discussed at great length with Curtis Bjelajac (CFO) and it was proposed that Alyona Khort (General Accountant) undertake a monthly reconciliation between the capital accounts and bank accounts for exchange movements.
- This should in most cases would be a very short exercise to validate the accuracy of her figures, but in the example illustrated above would identify prominent issues should a large difference arise.
- It should be noted that there will be small differences in such a reconciliation due to timing differences and thus small fluctuations should not be investigated.
- STCU Comment:** The STCU concurs with the Lubbock Fine's findings and will implement a new reconciliation procedure for all Euro-denominated accounts into the monthly closing procedure. The procedure will incorporate a monthly reconciliation of all accounts that are denominated in Euro, which include but are not limited to the following accounts: designated and undesignated capital, cash in bank, and accounts receivable.
- The specific situation mentioned by Lubbock Fine arose due to the change in the Chief Financial Officer position, which occurred in the middle of 1999. However, as mentioned, the situation would have been avoided if the aforementioned reconciliation recommendation was already in place.

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Observation No. 3

Title:	Errors in the calculation of the projects in progress write off.
Description:	<p>In relation to all active projects, the funding split between the different funding parties is set and approved at a Board of Governors meeting. This ratio dictates the amount of funding each party is due to contribute and also the ratio in which project costs are to be written off each year. In general these funding ratios do not change in the life of a particular project, however in certain limited circumstances changes are made to the funding split.</p> <p>During the course of the audit, it became apparent that no attempt had been made to alter the ratios used to retrospectively calculate the project in progress write off when there had been a change in the funding percentages.</p> <p>A limited number of changes happened when additional funding was received not in proportion to the original ratios used. This indeed occurred particularly on the Y2K projects when additional funding was received from Canada, the EU and a Partner (The Netherlands) after the year end, which was not in proportion to the initial funding provided.</p> <p>Failure to account for a change in funding percentages will mean that this will distort the designated capital positions for each funding party. It is therefore imperative that in such rare occasions as a change in funding that an appropriate adjustment is made to retrospectively correct the project cost write off.</p>
Recommendation:	<p>As a result of this adjustment being noted during the audit, the STCU has been provided with a schedule highlighting the effects and corrective journal made as a result of funding percentages changing.</p> <p>When reviewing the funding received in the year, it is suggested that Eugene Pashkovsky (Deputy Chief Financial Officer) looks for instances where there has been a change in funding percentage. One way to identify changes would be to review project agreements where an addendum had been signed, specifically in the case of European Union projects where project values have been written down. Where such changes are identified, he should then prepare an analysis similar to that provided to him this year as performed by Lubbock Fine and then prepare a documented adjusting journal.</p> <p>It is recommended that this manual procedure is adopted initially until there is satisfaction that the problems identified in Observation No.1 have been remedied.</p>
STCU Comment:	The STCU concurs with the audit findings and will implement a monthly procedure (as part of the month-end closing process) to adjust the project expenses incurred and the corresponding designated contributed capital accounts.

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Observation No. 4

Title:	Accuracy of accruals
Description:	<p>During the course of our audit we noted a number of the project accruals had not been calculated accurately. After an investigation by the auditors the accruals calculation had to be changed due to a large number of discrepancies.</p> <p>One of the principal errors noted related to projects that had more than one recipient institution. Where a project has more than one institute a quarterly report will comprise of a report for each institute and a consolidated report summarising all institutes costs.</p> <p>During the course of our audit we noted instances where accruals were being calculated on the basis of the individual institute reports and then also on the report that consolidates the individual reports. The effect of this is to effectively double count the accrual.</p> <p>This error is most likely attributable to the fact that it was the first time in which Vlada Zolatoriova (project accountant) had performed the accruals calculation, and that for the majority of projects Vlada (project accountant) would have had a lack of familiarity with the projects concerned.</p> <p>In such circumstances it is likely that errors would occur and given that there was no checking process to confirm the validity of the accruals, such errors would not be spotted.</p> <p>Additionally we noted that accruals were calculated on budgeted costs over the quarter concerned. If there is deviation between the budgeted and actual figures the accruals would be misstated.</p>
Recommendation:	<p>It is recommended that Vlada Zolatoriova (project accountant) performs the accruals calculation next year in light of the experience she has gained this year.</p> <p>Nevertheless the accruals should be checked for their accuracy by the project accountant concerned with each project. In addition an overall review should be carried out by Eugene Pashkovsky (Deputy Chief Financial Officer) to identify any items on the accruals list that appear large or unusual and seek additional explanation.</p> <p>With regards to accruals being calculated on budgeted figures, whilst we realise that this can often not be avoided due to the period in which reports are submitted, we do recommend that where available actual figures should be used.</p>
STCU Comment:	The STCU concurs with the majority of Lubbock Fine's recommendations, with the exception of having Vlada Zolatoriova (project accountant) perform all of the accrual calculations.

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Observation No. 4

The STCU plans to have each project accountant calculate the accruals for the projects that they are responsible for, and then the Deputy CFO will verify all calculations for accuracy. As mentioned, the project accountant for each project is the most qualified to perform the calculations. Vlada Zolatoriova (project accountant) performed the calculations for FY 2000 because the other project accountants were busy assisting the numerous other audits (General Accounting Office and European Court of Auditors) conducted simultaneously at the beginning of FY2001. The management of the STCU has no knowledge of any other planned audits besides the FY 2001 financial statement audit to be completed at the beginning of FY 2002, and therefore plans on each project accountant performing the calculation individually, as was previously done in the past.

The STCU concurs with Lubbock Fine's recommendation that where available, actual figures should be used. However, the STCU would like to emphasize that for only actual figures to be utilized, the STCU would not be able to produce a trial balance until at least the end of March. The projects with quarter ends in February (this means the first month of the quarter is December), are not required to submit their quarterly reports until the first part of March. As Lubbock Fine has mentioned in this management letter and the 1999 management letter, the goal is for the STCU to close the year by the middle to end of February. Thus, it seems that these two goals are mutually exclusive.

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Observation No. 5

Title:	Purchase orders
Description:	<p>In the Management letter for the year ended 31 December 1999, it was noted that there was no formalised procedure for ordering goods and supplies.</p> <p>During the course of our review we noted that, in general, for at least part of the year, purchase order forms for items over \$500 were used. However, there is as yet no formalised purchase ordering system which covers all purchases.</p> <p>We would point out that the basis for the current system requires that the CAO has to authorise all payments, therefore any purchases will not get signed and therefore not paid.</p> <p>The lack of a purchase order system increases the risk that items will be bought for the STCU which are not required. Equally there exists the risk that items which are bought may not be the most cost effective.</p> <p>In relation to purchase system we would further point out that in general the purchase ledger is not used, primarily because purchases are paid for in advance of receipt of the goods or services. At the year end the accounts department reviews any outstanding invoices and records these in ACCPAC as administrative accounts payable.</p> <p>The risk therefore exists that some liabilities may be missed when preparing the financial statements at the year-end. From the point of view of financial reporting, the fact that invoices are not recorded when they are received may mean that when preparing summary financial information at any point in time during the year, liabilities may be understated.</p>
Recommendation:	<p>From our discussions with the CFO it became apparent that this was an area, which they were currently addressing, and for which a draft procurement policy had been prepared.</p> <p>We recommend that the draft procurement policy becomes finalised as soon as possible, and is countersigned by both the CAO and the ED.</p> <p>With respect to issue of recording liabilities in relation to admin. Vendors, we would recommend that invoices are recorded in the purchase ledger as soon as they are received, in order that ACCPAC will provide an accurate picture of the amounts owed by the STCU.</p>
STCU Comment:	The STCU is finalizing the procedures for purchases from the administrative operating budget. The STCU management team is discussing the possibility of utilizing purchase orders; however, management is concerned about the balance between the added control vs. the added bureaucracy. The STCU management team

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currently approves, during its management meetings, all significant purchases (i.e. > \$500) from the administrative operating budget. These approvals are minuted, and state the specifics of the item to be purchased, as well as spending limits. Furthermore, all vouchers are approved by the Chief Administrative Officer, and all vouchers over \$500 are approved by the Executive Director. Thus, controls are in place, and the management of the STCU strongly feels that the safeguards are in place to effectively manage the purchasing process. However, the management will complete its assessment of the current system vs. a purchase order system as suggested by Lubbock Fine. The result of the decision will be properly documented and added to the STCU Policy Manual.

As mentioned in the 1999 management letter, the STCU does not require the use of purchase orders for project goods and services since their approval and cost estimates are contained in the project agreements.

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Observation No. 6

- Title:** The storing of project information
- Description:** During the course of our work we noted three distinct areas where the storage of source records was poorly, or inefficiently, organised. The effect of these weaknesses was to prevent the timely retrieval of records for our purposes, but would also result in time inefficiencies, if a query was to arise on a particular project. This also increases the risk that information could get lost if poorly filed. The three areas noted were as follows:
- (i) We noted that there was no system for the filing of timecards, and that in most cases they were stored in boxes in no specific order.
 - (ii) We also noted that there was no consistent system for the storage of bank grant letters between project accountants. This meant that in periods of absence of a particular member of staff, the requested letters were unable to be obtained easily. This could become a more important issue, should a member of staff cease working at the STCU.
 - (iii) We also found difficulty in retrieving project files due to their poor storage on the carousel, where files were not put in numeric order and had no discernible, identifiable pattern.
- Recommendation:** In relation to the above points we would make the following recommendations:
- (i) We are aware that customised filing cabinets have been obtained for the storage of timecards, but they have not yet been put into use. We recommend that when timecards get filed they should be stored in numerical order, in terms of project number. Each project's timecards should be stored in order of the scientists on the grant schedule list, contained in the quarterly report. All the timecards for the quarter for each scientist should be held together, rather than for each month, to ease any search should it be necessary.

We also recommend that timecards should not be sellotaped together, as this increases the risk of the timecards being ripped, when being reopened for our audit purposes, or any other query that may arise.
 - (ii) For the storage of bank grant letters, we recommend that in all cases, they are filed at the back of the project file, in order of the names as stated in the quarterly report.
 - (iii) We recommend that files on the carousel are put in numeric order, in order to avoid the likelihood of misplaced files.

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STCU Comment: The management of the STCU would like to address the three Lubbock Fine recommendations for this observation in the following manner:

- (i) The STCU concurs with Lubbock Fine's findings and has already installed the customized filing cabinets and transferred timecards to the basement storage area at the STCU headquarters. The timecards are filed in order by project and quarter number. In addition, the STCU will no longer tape the timecards together.
- (ii) The STCU concurs and will file all grant letters at the back of the project file, in order of the names as stated in the quarterly report.
- (iii) The STCU concurs and will file all project folders on the carousel in numerical order.

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Observation No. 7

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 letter for the year ended 31 December 1999 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.</p>
Recommendation:	<p>We have discussed the issue of bonding insurance with the CFO and the CAO. STCU has taken action to try to obtain quotes for such cover, but in order to provide a quote, the insurance companies require extensive details concerning who will be carrying large amounts of cash, how much and how often. The STCU is naturally reluctant to divulge this information, and as a result no further action has been taken.</p> <p>Whilst we acknowledge that the issue of insurance cover is problematic in Ukraine, we strongly recommend further investigation be carried out in order that such cover can be obtained. It is in our opinion that the reasons detailed above do not outweigh the current risk that the money for grants is insufficiently safeguarded.</p>
STCU Comment:	The STCU concurs with Lubbock Fine's recommendation, and will try to work with insurance providers to obtain quotes for a policy, without putting members of the STCU Secretariat in danger. Once this information is obtained, the STCU will prepare a cost-benefit analysis of each scenario and will present it to the Board of Governors for final approval.

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Observation No. 8

- Title:** Banking procedures with respect to EU funds in Euros.
- Description:** During the course of our audit, it became apparent that there were some difficulties experienced by the STCU with respect to accounting for designated and undesignated funds with respect to exchange rate fluctuations. These problems have already been detailed in Observation No.2.
- This problem in our opinion has been exacerbated by the fact that the funds for undesignated and designated capital for the EU have been kept in one bank account.
- The identification of designated and undesignated funds would be better facilitated if separate bank accounts were maintained for each fund. In particular this would help track movements in each account, which becomes particularly important in 2001 when Euro denominated projects will start receiving payments, as their operative commencement dates begin from January 2001.
- Recommendation:** It is recommended that a separate bank account is opened for EU designated funds.
- STCU Comment:** The STCU concurs with Lubbock Fine's recommendation, and will open a second Euro account for EU designated funds. This observation is also dependent on the resolution to Observation #13 – Bank Generale.

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Observation No. 9

Title:	Contracts not dated.
Description:	<p>In the management letter for the year ended 31 December 1999 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, although there has been a marked improvement. This improvement was specifically noted in respect of the signing of contracts by Leo Owskiacki, who now dates 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>
Recommendation:	<p>All contracts must be dated by all signatories, at least to the extent that the STCU in all cases dates the contract.</p> <p>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.</p>
STCU Comment:	The STCU concurs with Lubbock Fine's recommendations, and will work to ensure that all contracts are dated.

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Observation No. 10

Title:	Accounting for administrative revenue
Description:	<p>The accounting for administrative revenue has become unnecessarily complicated by a number of postings to the ACCPAC account that are not required.</p> <p>The administrative revenue nominal ledger account would be simplified if partner fees were recorded in a separate account, as these make up a large number of postings to the account.</p> <p>Effectively the only postings that are required to the administrative revenue account are those items that make up administrative revenue namely the budgeted contributions from the EU, Canada and USA, as well as any contribution received from Ukraine. These contributions are those figures detailed in the annual budget approved by the Board each year as to the anticipated expenditures the STCU will commit to.</p>
Recommendation:	<p>We recommend that a separate nominal ledger is opened for Partner fees. This would have two benefits:</p> <ul style="list-style-type: none">(i) It would allow better management information as to the amount of partner fees received in the year. This is particularly useful when calculating the end of year invoices to be charged out to funding parties for the administrative budget.(ii) It would considerably reduce the number of entries made to the administrative revenue budget, hence improving the clarity of this account. <p>We also recommend that the whole of the administrative revenue account should consist solely of the items detailed above that it should contain effectively four postings (only more than four if the Ukrainian Government pays its contributions in part payments).</p>
STCU Comment:	The STCU concurs with Lubbock Fine's recommendations, and as of April 2001, records all partner and sponsor fees in a separate account entitled "Partner/Sponsor Fee Revenue".

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Observation No. 11

Title:	Closedown procedures and lack of regular reconciliations
Description:	<p>During the course of our audit a substantial number of journals were required to correct the draft financial statements provided by the STCU.</p> <p>We recognise that due to the complex activities of the STCU there will always be the need for some journals that are effectively out of the control of the accounting staff when the draft accounts are prepared.</p> <p>Nevertheless there remains a number of journals (i.e. Closed projects) that are always expected and should be addressed by the accounting staff before the audit commences.</p> <p>The closedown procedure is significantly prolonged due to the fact that the accounting system and its various components are only effectively reconciled once a year, at the year-end. If errors in the accounting system have occurred during the year then performing a reconciliation of a whole year's accounting transactions will take considerable time. However, if reconciliations were performed on a quarterly basis any errors would be found much quicker and it would also enable the STCU to prepare accurate financial information for reporting purposes.</p> <p>The closedown and reconciliation process is complicated due to the use of two different software packages. During the year project transactions are recorded in ACCESS, which is a database and not an accounting package. These transactions are only transferred to ACCPAC, the accounting package, once a year. The fact that all financial information is only input on to ACCPAC once a year means that the STCU cannot generate accurate financial information on a regular basis.</p> <p>Furthermore this issue is related to the lack of defined close down procedures at the year-end on ACCPAC. In last year's management letter we noted that the close down of ACCPAC did not occur until four months after the year-end. This year the process of closing down was quickened up, but still close down did not occur until mid March 2000.</p> <p>The sooner ACCPAC is closed down after the year end, the more up to date the recording of financial information will be in the next financial year, which is necessary for up to date financial information.</p>
Recommendation:	It is recommended that the audit journals are reviewed carefully by Eugene Pashkovsky (Deputy Chief Financial Officer) and Alyona Khort (General Accountant). This review should enact procedures that ensure that the recurring journals that are made this year by Lubbock Fine, are inputted in to the accounting records before the audit commences.
STCU Comment:	The STCU plans to prepare monthly financial statements, with the exception of the accrual for grants and overhead for projects not completed in the month of the financial statement. The monthly

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statements will not be considered "closed" until a month-end checklist is prepared and signed off by all appropriate personnel. The checklist will include at least the following items:

- ✓ ACCPAC bank balances are reconciled to month-end bank statements.
- ✓ Accounts receivable are determined collectible, and any receivable outstanding for more than 90 days will include an explanation as to why it has been outstanding for so long.
- ✓ Accounts Payable will be reviewed for completeness, and assurance that all payables are included.
- ✓ Project write-offs to Designated Capital Accounts will be reviewed to ensure that write-off percentages are correct.

The checklist will be reviewed and signed off by the CFO and Deputy CFO.

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Observation No. 12

Title:	Archival procedures for closed projects.
Description:	<p>In relation to a number of schedules requested from the accounts department, it was evident that information for closed projects was still being kept on Access.</p> <p>There are two problems related to this:</p> <ul style="list-style-type: none">(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:	<p>We would recommend that the IT department at the STCU develops documented procedures for the archival of closed projects.</p> <p>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.</p>
STCU Comment:	<p>The STCU agrees with Lubbock Fine's recommendations and will ask that the IT Group work together with Borys Rovinsky (Partner Project Accountant) to develop documented procedures for the archival of closed projects.</p> <p>Furthermore, a procedure for closing projects will be developed and included in the revised Project Accounting Manual. All project accountants will be asked to become familiar with this manual.</p>

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Observation No. 13

Title:	Bank Generale
Description:	<p>During the course of the audit, we noted that bank statements from Bank Generale were unnecessarily complicated and failed to offer the STCU financial information in a coherent format.</p> <p>In addition, bank statements are not always provided on a timely basis. The effect of this is that the STCU is unable to perform regular bank reconciliations, and so fundamental control is lacking in this area.</p>
Recommendation:	Having discussed the issue with the CFO, it has been noted that the STCU is required by the EU to hold an account with Bank Generale in order to receive funding for external advisers. We would therefore recommend that the STCU arranges a meeting with the bank in order to resolve the problems highlighted above.
STCU Comment:	The STCU concurs with Lubbock Fine's findings, and has subsequently contacted Bank Generale to determine if the bank plans to offer online services (view bank statements online, execute payments online, etc.). Bank Generale responded that they are currently in the early stages of establishing such a system; however, the estimated time of completion is late 2002. The STCU is currently investigating the possibility of utilizing Deutsche Bank Frankfurt (the STCU currently maintains its USD accounts with Deutsche Bank New York) for its Euro transactions. The STCU is currently compiling a cost/benefit analysis of maintaining Generale Bank vs. switching to Deutsche Bank. Results of this analysis will be presented to the Board of Governors for final approval. Regardless, Bank Generale will always be utilized for payments to EU expert advisors.

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Observation No. 14

- Title:** Grant payments made based on faxed timecards.
- Description:** During the course of the audit, we noted that for one of the projects in Uzbekistan, grant payments were based on faxed copies of timecards. Original timecards were available, but it is understood that these were obtained at a later date, after payment of the grant had been made.
- Faxed copies are often illegible, and should not be accepted as reliable confirmation that work has been carried out.
- Upon further investigation, it appears that timecards cost \$20-30 to post. Therefore they are faxed each quarter, and collected by project accountants when they visit the institution on a monitoring visit.
- However, there is a risk that timecards are not correct and in line with appropriate procedures, and by the time originals are received, payment of grants have already been made and cannot be retrieved if an error has occurred.
- Recommendation:** Given that the cost of posting timecards is small compared with the overall budget for project activities, we strongly recommend that the institutions are informed that they must post the original timecards each quarter, in order that STCU can be certain that grant payments are properly justified.
- We also note that this should become less of an issue when the satellite office in Uzbekistan is opened.
- STCU Comment:** The STCU concurs with Lubbock Fine's recommendations, and will ask that projects to post their time cards to the STCU. As of the writing of this management letter, the STCU was still working with the Government of Uzbekistan to establish an information office in Tashkent, Uzbekistan.

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Observation No. 15

- Title:** Advances made to scientists who did not work on project.
- Description:** In accordance with article 5.2 of STCU's Project Agreement, the scientists receive payment for 1 month of their grant in advance. This is then deducted from the grant payment for the first quarter.
- During the course of the audit, it was noted that for one project, advances totalling \$ 715 were paid to scientists who did not then continue to work on the project. This amount was written off to other direct costs.
- There is no requirement in the contract stating that the advance must be returned by a scientist in the event that he does not work on the project. We accept that this may be seen as some form of compensation for a scientist who expected to be given work for a certain period of time. However, there is potential to exploit this loophole by including bogus staff in the budget who receive the advance and then do not perform any work for the project.
- Whilst we understand that this has occurred very few times (historically only around 20 scientists have received an advance and performed no work), it has highlighted a weakness in the system which should be addressed.
- Recommendation:** The STCU should ascertain from the Project Managers at the beneficiary institutions the reasons as to why people are excluded from the projects after being named in the work plan.
- Particular emphasis should be given to investigate instances where there are multiple instances of workers not being on the project.
- Consideration should also be given as to whether there should be an imposed limit as to the maximum number of individuals who can be on the original work plan, but not on the project, and hence receive an advance. If this number of individuals is exceeded, then the original advances should be asked to be returned back to the STCU.
- STCU Comment:** The STCU concurs with Lubbock Fine's recommendations, and will work to formulate a policy to prevent incidents such as the aforementioned from occurring.

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Observation No. 16

Title:	Accounting for accounts receivable
Description:	<p>The STCU receives funding from the USA and Japan by means of an advance of monies, which is credited to their respective undesignated capital accounts. Once a project is approved, and then signed, a transfer should then be made from the undesignated capital account to the designated capital account.</p> <p>As such there should never be an accounts receivable for either of these funding parties, as the funds are available for use, immediately after the approval for a project is received. Effectively the only journal that is required is to:</p> <p style="padding-left: 40px;">Dr Undesignated Capital Cr Designated Capital.</p> <p>Currently the accounts receivable module is used as a means of recording an invoice and then immediately crediting a receipt. As the funds are immediately available this would appear to be an unnecessary, time consuming procedure, that has no tangible benefit.</p>
Recommendation:	We recommend that Alyona Khort (General Accountant) does not use the accounts receivable module, for USA and Japan funding, but merely posts the journal required as detailed above.
STCU Comment:	The STCU concurs with Lubbock Fine's findings and implemented the suggested recommendation as of April 2001.

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Observation No. 17

- Title:** Scientist claiming for work not carried out
- Description:** As part of our audit, we have reviewed the results of the site visits carried out by the United States Defense Contract Audit Agency (USDCAA), in November 2000. During the course of our review we noted one project, Project 1248, where the Project Manager had claimed, and had been paid, for hours that had not been worked. The person in question had claimed time when he was in hospital or too ill to work.
- Part of the reason that this claim was able to happen is due to the fact that Project Managers at the beneficiary institutions certify their own time cards. Without any internal controls over this area, there is a risk that work can be claimed for that has not been undertaken, which may have a detrimental effect on the results of the project.
- Recommendation:** It is very difficult to make a recommendation in relation to this matter which is not unduly burdensome on the STCU. However, we would recommend that as a minimum the STCU should introduce a system of unannounced visits, to check on project participants. These visits should be carried out by members of the STCU as well as by personnel from the branch offices. It would be hoped that after a period of time, these visits would become known to all project participants and they would be deterred from making claims for not work carried out.
- STCU Comment:** The STCU previously addressed this issue and worked closely with the auditor's from the Defense Contract Audit Agency to implement a policy whereby the project manager is required to obtain two signatures from other members of the project, in order to certify the amount of hours worked by the project manager.
- Although the STCU agrees with Lubbock Fine's recommendation that a system of unannounced visits would be the best way to check on the participation of project participants, the STCU is contractually obligated by Article 3.1 (c) of Annex 2 of the project agreement to "give the institution not less than 20 days advance notice of any intended on-site monitoring of the project." Therefore, the STCU has no ability to implement this recommendation.

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Observation No. 18

- Title:** Funding of Projects from other sources
- Description:** According to Article 8.1.3 of the general conditions, which form an integral part of the project agreements concluded between the STCU and the institutions receiving the funding, the institutions are not permitted to receive reimbursement from the STCU, if for the same period of time they are receiving funding from other sources.
- During the course of the site visits carried out by ourselves and the USDCAA we were unable to prove that the projects funded by the STCU have not been funded by other organisations external to the STCU. The problem that arises is that the STCU may be paying for grants and expenses incurred in relation to the other funding sources, equally both the STCU and the other funding source may be paying for exactly the same work.
- We were further unable to ascertain whether the STCU has adequate internal controls to identify projects receiving funding from other sources.
- We understand that in order to address certain aspects of this problem the STCU has written to all of the projects requesting that they confirm in writing that they do not receive any funding from other sources. However, at the time of carrying out the audit not all of these confirmations had been received.
- Recommendation:** In relation to the matters referred to above we would make the following recommendations;
- (i) In relation to projects that are still in progress we would recommend that the STCU pursues all projects that have not responded to the request from the STCU for written confirmation, as referred to above..
 - (ii) In relation to projects that have not yet been signed we would recommend that the STCU inserts an additional clause in the project agreement which states that the project is funded solely by the STCU and that any additional funding sources, subsequent to the signing of the agreement, will be notified as soon as they materialise.
 - (iii) In addition to the above measures we would recommend that senior management of the STCU liaise regularly with its senior project managers and scientific personnel of the collaborators to ascertain whether there are any matters that may indicate that projects are receiving funding from other sources.
 - (iv) We would further recommend, that as an additional control, the STCU requests all projects to confirm in their quarterly financial reports that they are not receiving funding from alternative sources.

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Observation No. 18

STCU Comment: The STCU agrees with Lubbock Fine's findings, and has performed the following related to their recommendations:

(i) As of the writing of this management letter, the STCU has received all of the confirmation letters submitted to every institute that conducted work with the STCU as of March 2001. There were no incidents of projects receiving funding from other sources revealed in the confirmations.

(ii) The STCU inserted the following additional clause into Article 1.1 of the Model Project Agreement effective May 16, 2001 – "All Project Activities subject to this Agreement are to be executed by the Recipient, using only funding provided by the Center and/or sources approved by the Center. The Recipient shall notify the Center immediately if it and/or other participating institutions determine at any time to utilize any other funding sources to execute such Project activities."

(iii) Senior management of the STCU will, to the best of its ability, liaise regularly with its senior project managers and scientific personnel of the collaborators to ascertain whether there are any matters that may indicate that projects are receiving funding from other sources. However, with approximately 200 active projects, the management of the STCU is concerned that this may not be physically (human resources) or economically possible.

(iv) The STCU has revised the quarterly financial report to include a confirmation statement, signed by all participating institute directors, that the project is not receiving funding from other sources. In addition, the STCU has inserted the following additional clause into Article 6.1 of the Model Project Agreement effective May 16, 2001 – "The quarterly cost statements will include a representation that all project activities conducted by the Recipient during the preceding quarter were funded only with funding provided by the Center and that no other source of funding was utilized in carrying out such activities."