

**LUBBOCK FINE
CHARTERED ACCOUNTANTS**

SCIENCE AND TECHNOLOGY

CENTER IN UKRAINE

MANAGEMENT LETTER

FOR THE YEAR ENDED 31 DECEMBER 2003

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.

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Mr C Bjelajac – Chief Financial Officer
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Ukraine

Dear Sirs

**SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
FINANCIAL AUDIT FOR THE YEAR ENDED 31 DECEMBER 2003
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 2003.

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 2003 we have also reviewed the Management Letter which we prepared for the year ended 31 December 2002, to ascertain whether the weaknesses identified in 2002 still exist in 2003.

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 12 Observations noted last year, 6 have been addressed and are no longer considered to be an issue. The remaining 6 Observations are still considered to be of significance and require some form of corrective action, although we would point out that in relation to some of these issues improvements have been made. The outstanding matters not yet resolved are all referred to in the body of this letter.

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

II. Observations Summary

1. The use of two software packages, ACCPAC (a dedicated accounting package) and ACCESS (a database package tailored for STCU's needs) to record financial transactions limits the availability of financial information.

We now note that this issue, which has been raised at the last three audits, is now being addressed and an agreement has been reached with a company for the supply of a fully integrated accounting and reporting software package. (See Observation No.1).

2. We noted that there was no bonding insurance for the transportation of large amounts of cash from First Ukrainian International Bank to the STCU. (See Observation No.2).
3. During the course of our review we noted that a number of contracts concluded with the project beneficiaries were not dated by all signatories of the contract. (See Observation No.3).
4. It was noted that there was no archival procedures for closed projects on the ACCESS database, and that reports being generated on ACCESS included historic projects that were closed, thus complicating the information provided. (See Observation No.4).
5. It was noted that some 14 scientists had claimed grants for more than the permitted 220 days per year. (See Observation No.5).
6. During the course of the audit, we noted that the quarterly procedures performed vary considerably between project accountants. This impairs the efficiency of any review of the project files. (See Observation No. 6).
7. During the course of our review we noted that many of the project accruals were prepared on the basis of budgeted costs, however in certain instances it was noted that the accruals were based upon out of date budgets. (See Observation No.7).
8. In relation to the technical and financial audits carried out by the USDCAA, it was noted that a number of issues were raised regarding the completion of time cards by participants. In addition issues were raised regarding the identification of project equipment and the verification of time inputs to documentary evidence for one participant. (See Observation No.8).

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



5/6/04

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I. AUDIT FINDINGS SUMMARY

AUDIT FINDINGS SUMMARY

Item No.	Title	STCU Comments (Agreed or Not Agreed)
1.	The use of two software packages for the maintenance of financial information.	Agree
2.	Lack of adequate insurance cover.	Agree
3.	Contracts not dated.	Agree
4.	Archival procedures for closed projects.	Agree
5.	Monitoring of grant payments.	Agree
6.	Consistency and quality of reporting on project files.	Agree
7.	Project accruals	Agree
8.	Technical and financial monitoring of projects	Agree

II. AUDITOR'S REVIEW

**Audit of the Science and Technology Center in Ukraine
For the Year Ended 31 December 2003
Management Letter**

Observation No. 1

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

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

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

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

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

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

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

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

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

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Observation No. 1

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

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

The short-term considerations included in the management letter for the years ended 31 December 2000 to 2002 have now, in the main been, been implemented. For example, the STCU are in the process of documenting the system and are increasing the involvement of the IT department in the control of ACCESS. Also project transactions are now entered onto ACCPAC monthly.

In the longer-term, we are aware that the STCU has now entered in to an agreement with a software company to provide an integrated accounting package which will cater for the various needs of the STCU. This package is due to be operational some time in 2005, and therefore the observations noted above will continue to be an issue for a short while yet.

STCU Comment: The STCU agrees with both the short-term and long-term objectives of Lubbock Fine's recommendations. As mentioned, the STCU has made progress toward remedying a number of the short-term shortcomings of the two current systems, and is finalizing the remaining outstanding short-term items.

From this point forward, the STCU management plans to focus primarily on performing the steps necessary to address the long-term systems issues. The STCU management plans to perform the following long-term steps in 2004 to address this observation:

- (i) In the fourth quarter of 2004, the project team will undergo training on Navision in order to get a better understanding of the system and its functionality. During this period, the project team will discuss preliminary design issues related to the implementation.
- (ii) The STCU will request the 19th STCU Board of Governors at the end of FY 2004 to approve the remaining funds required for the purchase and implementation of Navision.
- (iii) If funding provided in (ii) above, then in the second-half of December 2004, the STCU will sign the software and consulting agreements for the purchase and implementation of Navision.
- (iv) On March 1st, 2005, the STCU will aim to "kick-off" the implementation of Navision with a "go live" date of Aug. 31, 2005.

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Observation No. 2

- Title: Lack of adequate insurance cover.
- Description: During our examination of insurance costs, it was found that the current insurance cover of the STCU is insufficient to safeguard its assets in one key respect.
- We noted in the management letters for the years ended 31 December 1999 to 2002 that there was no bonding insurance for the transportation of cash from the First Ukrainian International Bank to the Center. Given that local grants are paid in cash and that these can amount to \$50,000 per month, this represents far too high a risk for insurance cover not to be in place.
- We understand that as from March or April 2004 the STCU intends to pay all STCU local employees by bank transfer, and as a result the levels of cash being withdrawn and transported at any one time will be significantly reduced. We are also aware of the fact that armed security guards now accompany the treasurer when withdrawals of cash are made.
- We would point out that the STCU has attempted to obtain insurance cover, however as yet it has been unable to find a suitable policy.
- Recommendation: Whilst we acknowledge that the issue of insurance cover is problematic in Ukraine, and the fact that the STCU has attempted to obtain cover, we strongly recommend further investigation be carried out in order that such cover can be obtained.
- STCU Comment: The STCU concurs with Lubbock Fine's recommendation, and will continue to try and identify additional insurance providers that might provide quotes for a reasonable policy. If a reasonable quote is found, the STCU will utilize the funds provided for this coverage in the Administrative Operating Budget to secure adequate insurance for this issue. Furthermore, the STCU is investigating other ways to reduce the amount of cash utilized in Center transactions. As mentioned, one method of reducing the amount of cash transported was to move to bank transfers for grant payments to grantees of the STCU headquarters and regional offices. This transition was completed for the April '04 pay period, and has eliminated the need to transport the largest monthly sum of cash historically required. Furthermore, the STCU is currently investigating the possibility of paying all travel advances under \$3,000 to project travellers by bank transfer only. This would eliminate a substantial amount of cash transactions as well. Thus, the STCU will continue in 2004 to move away from cash payments wherever possible, as well as continue the search for bonding insurance in order to ensure that this observation is not included in the 2004 management letter.

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Observation No. 3

- Title:** Contracts not dated.
- Description:** In the management letters for the years ended 31 December 1999 to 2002 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 the issue of the Management Letter for the year ended 31 December 2002, 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 concurs with Lubbock Fine's recommendations, and will continue to work to ensure that all contracts are dated by instructing the STCU Project Co-ordinators to not accept any project agreements without dated signatures of all parties (i.e. lead institutes, participating institutes, and partners). Thus, the STCU will concentrate its efforts on ensuring that the institute directors date their signatures. However, it must be stated, that dating signatures was not a general business practice in the former Soviet Union, and that the STCU is limited in its ability to teach the institute directors this Western business practice.

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Observation No. 4

- Title:** Archival procedures for closed projects.
- Description:** In relation to a number of schedules requested from the finance department, it was evident that information for closed projects was still being kept on ACCESS.
- There are two problems related to this:
- (i) The reports generated become unwieldy and as such it makes it more difficult to obtain the relevant information for the active projects, and thus interpret the information.
 - (ii) The storing of closed projects on the current database will limit the amount of memory available for other purposes. By streamlining the number of projects on the system by having an archival system, this will relieve this issue.
- Recommendation:** We would recommend that the IT department at the STCU develops documented procedures for the archival of closed projects.
- It is also recommended that once these procedures are adopted that the project accountants become fully conversant with the system for closed projects and that standardised procedures are adopted in this respect.
- STCU Comment:** The STCU concurs with Lubbock Fine's recommendations, and planned to implement an archival procedure in 2002. However, upon further investigation of the process, the STCU decided that the removal of old data from active data was too risky. It was then decided that queries and reports would be modified to filter out the closed projects. These modifications were started during 2002, and completed in 2003. Furthermore, the STCU purchased new computers in 2003, resulting in every member of the STCU Finance Department receiving a more robust computer. The combination of these two efforts mitigated most of the concerns raised in this observation. However, the STCU agrees that the only way to resolve this observation completely, is to archive the closed project data, and maintain that data in a separate data table. Thus, during its selection of a new financial system in 2003, the ability to archive closed projects was listed as a requirement of any selected financial system. The system selected, Navision, has this functionality and the STCU will ensure to implement it in 2005.

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Observation No. 5

Title: Monitoring of grant payments.

Description: As part of our review of the project costs incurred during the year we attempted to ascertain whether any of the scientists or support personnel receiving grants had claimed for more than 220 days a year, which is deemed to be a normal working year.

The STCU generated a report from ACCESS showing individuals who worked for more than 220 days in the year ended 2003 and also showing rolling 12 month totals for each month. This report indicated that some 14 (2002 – 7) scientists had claimed for more than the permitted 220 days, with a total of 525 (2002 – 123) days being potentially being claimed in excess of this limit.

Of particular concern were Tsymbal who often worked more than 22 days in a month and in two instances claimed 35 days in a month, and Karpets who regularly worked more than 22 days in a month. In relation to both of these people, on a cumulative basis, they had both at one point claimed for more than 300 days in a calendar year. We would point out that the STCU has sent letters to these two individuals requesting explanations for the high amount of days claimed.

Whilst STCU has the ability to run a report showing individuals who work more than 220 days in a year, this is done retrospectively at the end of each quarter. At present no action is taken to prevent the scientists from exceeding this limit in the future.

In addition, we noted that the requirement for scientists to work no more than 220 days per year on STCU-funded projects is not included in the agreement between the individual scientists and STCU. It is therefore possible that the scientists are not aware of this requirement and this increases the likelihood that scientists will exceed this limit.

In relation to the issue of the 220 working days per year, which is used as a benchmark by the STCU, we believe that this figure is low, and does not fully reflect the reality of the STCU projects. In addition the situation is further complicated with regard to partner projects where there seem to be less restrictions on the working days rule, for instance a grantee working 12 hours in a day is able to claim 1.5 days (based on an 8 hour standard day).

Recommendation: We would make the following recommendations;

(i) In relation to the 14 scientists already identified, and in particular Tsymbal and Karpets, 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

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should then be compared and any duplications identified.

If duplications are identified, steps should be taken to recover the grants that the individuals were not entitled to.

If no duplication occurred and the scientists genuinely worked the amount of days claimed, STCU should write to the scientists reminding them of the 220 day limit and requesting that they keep better control over the number of days they work in the future.

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

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

(iii) The STCU should carry out a review of the standard working days per year, comparing normal industry practices to their own policy, bearing in mind the reality of the STCU projects.

(iv) The STCU should review its overall policy regarding working days in terms of how time can be claimed on projects funded from different sources, i.e. a commercial partner or a funding party. A policy should be developed and advised to the project participants.

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

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

(i) The STCU will conduct a thorough review of the time cards of those 14 scientists identified in order to ensure that there are no occurrences of payments made for duplicate time worked on multiple projects. If duplication is found to have occurred, then the STCU will take appropriate action. If no duplication is found, then the STCU will send a letter to the scientists, with a copy to the appropriate Project Managers and Institute Directors of the projects associated with these scientists, informing them of the situation and requesting them to ensure that there is no reoccurrence of this issue in on-going and future projects.

(ii) As was noted above, when the STCU discovers that a scientist has worked more than 220 days in a rolling calendar year, the STCU generates a warning letter to the project participant with a cc: to the project manager. As recommended by Lubbock Fine above, the STCU will continue this practice in the future.

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Furthermore, the STCU project accountants will increase their cooperation with project coordinators in order to better prevent scientists from claiming grants not due to them.

- (iii) The STCU will work closely with the ISTC to review and incorporate its policy in this matter. The ISTC's policy allows project participants to work up to 242 days with the permission of the project coordinator, and stipulates courses of action for those participants who work more than 242 days. Furthermore, the STCU will review standard industry practices to provide further input into this issue. Finally, any change in this policy will be brought to the attention to the STCU Board of Governors for review.
- (iv) The STCU will further clarify its policy on days worked for regular, partner, and a combination of the two types. At the 17th STCU Board of Governors, the STCU Board of Governors approved a new Model Non-Governmental Partner Project Agreement which allows project participants to work an unlimited amount of days on these types of projects. This is obviously quite different than the policy for regular projects, and thus the STCU will clarify the policy as to the different types of projects and communicate it to all project participants.
- (v) The STCU will amend the agreement between the STCU and the project participants to include the requirement that the project participant may not work for more than 220 days per year on STCU funded projects, calculated on a rolling calendar year basis.

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Observation No. 6

- Title:** Consistency and quality of reporting on project files.
- Description:** During the course of our audit, we noted that the quarterly procedures documented on project files vary considerably between the four project accountants. It appears that checks are frequently performed but not documented, giving no proof that the check has been carried out. There are currently two different reconciliation reports being used by project accountants. One type of reconciliation is prepared using an excel spreadsheet, the other type is printed from ACCESS and completed by hand.
- In several cases we noted reconciliation reports which had been annotated illegibly and then ticked 'ok'. This required us to re-perform the reconciliation in order to satisfy ourselves that the amounts reported were in fact correct.
- In particular it is difficult to agree amounts for travel stated in the quarterly report to supporting documents since travel is paid in advance with any differences settled on completion and bank payments are not reconciled to quarterly reports.
- This inconsistency in reporting causes two main problems:
- (i) The lack of a clear audit trail makes it extremely difficult for checks to be made, either internally or by the external auditors, to ensure that the project transactions have been recorded correctly and the balances reconcile.
 - (ii) If a project accountant were to be absent for a substantial period of time or were to leave STCU, the inconsistencies make it much harder for another project accountant to familiarise themselves with the projects and take over the workload.
 - (iii) Another issue arose on projects which have been split in to stages, a, b, c, etc. Some reconciliations ignored the brought forward element of the project, which prevented the actual reconciliation from ACCESS to the financial report.
- Recommendation:** We recommend that the quarterly procedures for project reporting are clearly documented, and that the project accountants are made familiar with these procedures. Regular checks should be carried out to ensure that the procedures are being followed.
- Specifically the following existing reports should be completed clearly and filed with the quarterly report on the project file each quarter:
- (i) Project Balance Reconciliation of cash spent to total expenses – any reconciling items other than those listed on the report should be explained fully. One single approach should be developed and

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utilised by all project accountants.

- (ii) Petty Cash Report – total on hand at the end of the quarter should equal total of unspent advances on the Bank Reconciliation Form (box 6).
- (iii) Bank Reconciliation Report – difference should be zero, subject to rounding errors (box 12). Any differences should be investigated and clearly explained.

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

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

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

- (i) The STCU Finance Department included in its objectives for 2004 the requirement that a quarterly project financial report manual for use by all project accounts be developed and implemented by June 30, 2004. Within this manual the STCU will ensure that all of the aforementioned reports (project balance reconciliation, petty cash, and bank reconciliation) are all addressed.
- (ii) The STCU will include the recommended procedures related to the reconciliation of "grants due" to "grants paid", and breakdown of travel expenses in the aforementioned manual as well.
- (iii) Regular checks will be carried out by both the CFO and Deputy CFO to ensure that the manual is being followed.

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Observation No. 7

Title:	Project Accruals
Description:	<p>Historically the STCU has prepared project accruals on the basis of actual figures, when the quarterly reports have been received. As a result of this method the closedown of the annual accounts has been delayed until all relevant quarterly reports have been received.</p> <p>In order to speed up the closedown procedure, the STCU has changed its method of preparing accruals. In relation to projects with a quarter end of 31 December actual figures have been used, however for projects with quarters ending January or February the accruals have been prepared on the basis of the projected expenditure in the project budgets.</p> <p>In relation to the new procedure we noted one issue when checking the calculation of the accruals, relating to the use of budgeted figures. In checking the accruals we compared the accrual based on the budget to the actual project cost in the quarterly reports. In all cases there are differences, as would be expected, however in a few cases there were significant variations. Upon further investigations it was noted that in these cases the accrual had been prepared using an old version of the budget.</p>
Recommendation:	In relation to the above matter we would recommend that the project accountants check the project files to ensure that the accruals are being prepared on the basis of the latest budget, as using outdated budgets could lead to inaccuracies.
STCU Comment:	The STCU concurs with Lubbock Fine's recommendations, and will ensure that the correct budgets for all projects will be utilized for the generation of the accruals for the year end December 31, 2004 financial statements.

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Observation No. 8

Title: Financial and Technical monitoring of projects

Description: At the request of the U.S. Department of State, the STCU recently completed 33 U.S. sponsored technical and financial project audits. The STCU worked closely with the U.S. D.O.S., Defense Contract Audit Agency, and a select group of technical auditors to perform integrated financial and technical audits.

In relation to these audits the following issues were noted:

- (a) In relation to Projects GR.14, 1183 and 1556 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 1183 it was noted that the project equipment was not sufficiently well marked or documented to identify it as project equipment.
- (c) In relation to Project 1446 the USDCAA noted that there was insufficient documentary evidence to verify the work carried out by a particular project participant.
- (d) In relation to all projects, the USDCAA has raised an issue concerning the overclaim of overhead costs resulting from the inclusion of VAT in total project costs.

According to the project agreements, overheads are to be charged at a fixed % of total allowable costs. At present projects claim overheads on the total costs, however according to the USDCAA, VAT is not an allowable expense and should therefore be deducted from the total project cost before calculating the overhead payable. On this basis the USDCAA has calculated that a number of projects have been overpaid overhead costs because of the inclusion of VAT in the calculation.

We would point out that in general the level of overpayment is very small, and it should be borne in mind that it has always been the practice to include VAT as there is no practicable mechanism to recover the VAT from the authorities.

Recommendation: In relation to the above we would make the following recommendations:

- (a) With regard to the completion of the time cards we would recommend that the STCU reminds all project managers, at the various projects, of the manner in which time cards should be completed. The project managers should in turn be required to reiterate the procedures to the individual participants.

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

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

- (i) The STCU will require all project coordinators and project accountants to reinforce to all project participants of all projects including Gr-14, 1183, and 1556 the requirements of Article 8.1.7. (b) Annex II General Conditions, Part C (Allowable Costs) of the Model Project Agreement, which states the following: "Individual participants must personally complete their time cards each day and in ink, and must sign their own time cards at the end of each month.". Furthermore, the STCU will require all project coordinators and project accountants to reinforce to all project managers and participating institute managers of all projects including Gr-14, 1183, and 1556 the requirements of Article 8.1.10. (c) Annex II General Conditions, Part C (Allowable Costs) of the Model Project Agreement, which states the following: "ensure that individual participants correctly record the hours worked on this project according to the procedure described in Article 8.1.7.". Again, this reinforcement will occur throughout the year when project managers bring in their project's monthly timecards, as well as during the regularly scheduled STCU monitorings.
- (ii) The STCU will develop a written procedure in order to ensure that projects adequately identify equipment purchased for the project. In the procedure, the STCU will require the projects to place a label on each piece of equipment purchased in order to allow the items to be easily and quickly identified to the list of equipment.
- (iii) As a follow up to this specific issue concerning the recently retired Deputy Director on project 1446, the STCU will ask the Project Manager to provide written justification as to the work due to be performed, if this particular participant is still

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scheduled to perform additional work for the project, in order to justify keeping this particular project participant as a member of the project team.

- (iv) The STCU still views the recovery of STCU VAT as the ultimate resolution to this observation, and will continue its efforts to work with the recipient party governments to recover these funds. At the same time, the STCU will work closely with the management of the ISTC to clarify how the model project agreements are worded for the projects with that Center, because the STCU understands that this issue does not exist at the ISTC, despite their inability to recover project VAT as well. If this is the case, the STCU will modify its own model project agreement to mirror that of the ISTC's.