

**Georgia Institute of Technology/Georgia Tech Research Corporation  
A-133 Coordinated Audit  
Schedule of Findings, Recommendations, Questioned Costs,  
and Corrective Action Plans  
Year Ended June 30, 2008**

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Year Ended June 30, 2008**

February 27, 2009

Joel E. Hercik, Associate Vice President  
Financial Services  
Georgia Institute of Technology  
Atlanta, Georgia

This report has been prepared to present the findings, recommendations, and questioned costs as identified in the audit reports covering services performed for Georgia Institute of Technology/Georgia Tech Research Corporation as part of the OMB Circular A-133 Coordinated Audit for the year ended June 30, 2008.

The FY 2008 A-133 Coordinated Audit incorporated the work of two auditors as identified below:

1. Grant Thornton, LLP, Certified Public Accountants
2. Department of Audits of the State of Georgia

Page three of this report describes the specific audit coverage provided by each auditor, and the balance of the report describes the individual findings, recommendations, and questioned costs identified in each report for the year ended June 30, 2008. In addition, the report provides a description of the corrective action plans for FY 2008 findings and the status of prior year corrective action plans.

Submitted by:



James G. Fortner, Director  
Grants & Contracts Accounting

**Georgia Institute of Technology/Georgia Tech Research Corporation**  
**A-133 Coordinated Audit**  
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**FY 2008 A-133 Coordinated Audits Performed**

1. Financial Statements of Georgia Institute of Technology
  - Audit performed by the Department of Audits of the State of Georgia
  - No findings included in this report
  
2. Financial Statements of Georgia Tech Research Corporation/Georgia Tech Applied Research Corporation
  - Audit performed by Grant Thornton, LLP, Certified Public Accountants
  - See findings included in this report
  
3. A-133 Compliance Requirements
  - Audit performed by Grant Thornton, LLP, Certified Public Accountants
  - Compliance Requirements
    - A. Activities Allowed or Unallowed
    - B. Allowable Costs/Cost Principles
    - C. Cash Management
    - D. Davis-Bacon
    - E. Eligibility
    - G. Matching, Level of Effort, Earmarking
    - H. Period of Availability of Funds
    - J. Program Income
    - L. Reporting
    - M. Subrecipient Monitoring
    - N. Special Tests and Provisions
  - See findings included in this report
  
4. A-133 Compliance Requirements
  - Audit performed by the Department of Audits of the State of Georgia
  - Compliance Requirements
    - F. Equipment and Real Property
    - I. Procurement and Suspension
    - K. Real Property Acquisition and Relocation
  - No findings included in this report

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**Summary Schedule of Findings, Recommendations and Questioned Costs**

**Current Year**

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**Status of Prior Year Findings and Questioned Costs**

<b><u>Finding Number</u></b>	<b><u>Audit Control Number</u></b>	<b><u>Status of Finding</u></b>
S 07-1	Finding Number: FS-503-07-01	Corrective Action Plan Implemented
S 07-2	Finding Number: FS-503-07-02	Corrective Action Plan Implemented
2007-1	Finding Number: FS-5036-07-01	Corrective Action Plan Implemented
2007-2	Finding Number: FS-5036-07-02	Corrective Action Plan Implemented
2007-3	Finding Number: FS-5036-07-03	Corrective Action Plan Implemented
2007-4	Finding Number: FS-503-07-03	Corrective Action Plan Implemented
2007-5	Finding Number: FS-503-07-04	Corrective Action Plan Implemented
2007-6	Finding Number: FS-503-07-05	Further Action Not Warranted (per Audit)
2007-7	Finding Number: FS-503-07-06	Further Action Not Warranted (per Audit)
2007-8	Finding Number: FS-503-07-07	Corrective Action Plan Implemented
2007-9	Finding Number: FS-503-07-08	Corrective Action Plan Implemented
2007-10	Finding Number: FA-503-07-01	Corrective Action Plan Implemented
2007-11	Finding Number: FA-503-07-02	Partially Resolved
2007-12	Finding Number: FA-503-07-03	Corrective Action Plan Implemented

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**FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS**

2008-1 Accounting and Reporting of Sponsored Cost Overruns (Finding No: FS-5036-08-01)

**Statement of condition**

Approximately \$2.4 million of potentially unrecoverable cost overruns were identified for which revenue had been recognized.

**Criteria**

Revenue should not be recognized for project costs which exceed the amount expected to be billable to the sponsor.

**Cause**

The Research Corporation has established procedures for identifying cost overruns. However, procedures are not in place to ensure timely determination and communication to accounting regarding the collectibility of these overruns.

**Effect**

The condition could result in costs being incurred that cannot be billed. As a result, revenue related to project costs in excess of contract amounts which are not recoverable would be recognized as revenue in error.

**Recommendation**

The accumulation of costs on projects should be evaluated on an ongoing basis to minimize instances where estimated total costs exceed the approved contract amount. Procedures should be such that in the event cost overruns do occur, they are easily identified and the potential for recovery of these costs is evaluated by the appropriate individual in a timely manner. Additionally, procedures should be put in place to ensure cost overruns deemed unrecoverable are reported to accounting in a timely manner.

**Management's response**

Management concurs with the importance of attention to overruns and the recommendation to implement procedures for ongoing review of over-budget projects. We will review the current cost overrun policies with the Board and will recommend an update to the policies and procedures.

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**FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS**

2008-2 Revenue and Expense Adjustments for Unbilled Work in Process (Finding No: FS-5036-08-02)

**Statement of condition**

Certain adjustments to revenue and expense to recognize the change in unbilled work in process were incorrectly posted or omitted. The effect of these entries on the change in net assets for the year was negligible since the revenue and expense were approximately equal.

**Criteria**

Controls should be in place to ensure that posting errors or omissions are prevented or detected.

**Cause**

A checklist is not utilized to ensure all entries are posted and, if necessary, reversed in the subsequent period.

**Effect**

The condition could result in misstatements in the financial statements.

**Recommendation**

Management should consider creating a checklist of all year-end recurring manual entries to ensure that all required entries are posted.

**Management's response**

Management concurs with the finding and recommendation. We will develop a mechanism for reviewing all manual entries to ensure approval by the appropriate level of management. Additionally, we will develop a process to ensure that all necessary period end manual adjustments are identified and posted. In the future, GTRC/GTARC intends to post the entries referred to above.

Contact Person: Barbara Alexander, Director GTRC/GTARC Accounting

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**FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS**

2008-3 Policies Related to Management of Customizable Tables and Configuration Settings  
(Finding No: FS-503-08-01)

**Statement of condition**

The Georgia Institute of Technology (GIT) does not have formal policies and procedures related to the management of changes to customizable tables and configuration settings. Also, an inventory of customizable tables and configuration settings is not maintained.

**Criteria**

Changes to customizable tables and settings should be documented, reviewed, tested and approved by appropriate management before the changes are implemented.

**Effect**

The condition could result in unauthorized changes to critical tables and settings that could have a direct impact on financial reporting. Examples of configuration tables include, but are not limited to, the following: financial calendars, bank codes, accounting templates, payment terms, rules for 'three-way matching', asset templates and depreciation methods.

**Recommendations**

Management should consider defining the procedures and requirements for implementing changes to customizable tables and settings. Execution of the change management procedures should be documented. Components of the procedures should include:

- Documented evidence of authorization of changes
- Documented test plans and expected results
- Documented evidence of testing, test results and resolution of test-related issues
- Documented approval for implementation in the production environment

Additionally, management should implement a process to monitor changes to the configuration tables to detect any unauthorized changes.

**Management's response**

Management concurs with the finding and recommendation. GIT's Office of Information Technology (OIT) will develop a tracking procedure within each group as it relates to critical configuration settings. We will implement a standard procedure which addresses the management of configuration settings within each department.

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**FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS**

2008-4 Internal Controls Related to Certain Purchasing Card Policies and Procedures  
(Finding No: FS-503-08-02)

**Statement of condition**

In the prior year, we noted an internal control deficiency pertaining to the operating effectiveness of certain purchasing card policies and procedures. In the current year, GIT implemented new processes or modified existing processes to address the deficiency. While notable improvements have been made to improve the controls around purchasing card transactions, results of current year testing performed by GIT Internal Audit do not support a conclusion that operating effectiveness has been achieved for the year ended June 30, 2008.

**Criteria**

All purchasing card policies and procedures should be adhered to without exception to ensure operating effectiveness.

**Cause**

Cardholders and designated approval officials are not adhering to policies and procedures in every instance.

**Effect**

The condition could result in unidentified fraudulent activity, unallowable charges to federal programs and misstatements in the financial statements.

**Recommendation**

We recommend that the Organization continue to reemphasize the importance of strict adherence to its policies in this area. In addition, we recommend that the Organization continue to conduct mandatory training on awareness of fraud and financial accountability for all employees involved in the purchasing card program to ensure adequate understanding.

**Questioned cost**

None.

**Management response**

GIT agrees with the recommendation to continue to emphasize the importance of strict adherence to its purchasing card program policies.

We also accept the recommendation that we continue to conduct mandatory training on awareness for fraud and financial accountability for all employees involved in the purchasing card program.

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**FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS**

2008-4 Internal Controls Related to Certain Purchasing Card Policies and Procedures

(Finding No: FS-503-08-02) -- Continued

**Management response (Continued)**

GIT has enhanced its program controls with the requirement that all cardholders, card coordinators (administrators) and approvers must annually retake the requisite card program training for their particular duties associated with the purchase card program.

In addition to mandatory training, the following processes have been implemented to ensure compliance with program policies:

- All card receipts are required to reside with the unit's central financial office, not the cardholder's files
- An online report has been developed to ensure that monthly card statements are signed, approved and reconciled.
- The central card administration and the Internal Audit unit have developed a series of card program reports that are used to determine compliance with policies. Potential disciplinary action for non compliance ranges from oral warnings to loss of employment depending on the severity of the infraction.

All of the above corrective action steps were fully implemented prior to June 30, 2008.

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**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - REPORTING**

2008-5 Progress or Special Performance Reports Submitted Late (Finding No: FA-503-08-01)

See Exhibit 8-5 for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

**Statement of condition**

Certain progress and special performance reports required by grant and contractual agreements entered into by the Organization with various federal agencies were not submitted on time. Of a total of 29 performance reports judgmentally selected for testing, seven were not submitted on time.

**Criteria**

In accordance with 32 CFR Section 32.51, the Organization is required to submit performance reports as required by the award terms and conditions. Such performance reports are required to be submitted within a specified timeframe as required by the applicable grant or contract agreement.

**Cause**

The cause of untimely reports, as stated to us, was the unavailability of data at the report due date necessary for the completion of the required reports.

**Effect**

The submission of inaccurate or untimely reports could result in the possible delay of grant funding or affect other projects from the federal sponsor agency.

**Recommendation**

Efforts should continue to be made by the Organization to reemphasize policies and procedures to ensure required reports are submitted to the contracting agencies by the specified due dates.

**Questioned cost**

None.

**Management response**

Management concurs with the finding and recommendation. GIT made significant enhancements to the on-line deliverable system in June 2008. Benefits of these enhancements have been publicized and communicated campus wide. Training classes and on-line tutorials for the updates to the deliverables system were made available campus wide as well.

We will continue to publicize the importance of timely report submission and reemphasize the related policies. We do not consider this finding to be material and, accordingly, we do not believe further action outside of what has been noted above is warranted.

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**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - REPORTING**

2008-5 Progress or Special Performance Reports Submitted Late (Finding No: FA-503-08-01) - Continued

Contact Person: G. Duane Hutchison, Director, Office of Sponsored Programs

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**Exhibit 8-5**

	Agency	CFDA Number	Major Program	Pass-Through Grantor/Program Title	Award Year	Contract Number	Reference Number	Type of Report	Due Date	Date Submitted
1	USAF	12.800	R&D	Electronic Protection (EP) Initiatives Program D.O. 0002	2003	F33615-02-D-1125	A7156	Final Draft Report	7/31/2007	12/18/2007
2	DOE	81.049	R&D	Improving the Processes of Land-Atmosphere Interaction in CCSM 2.0 at High	2001	DE-FG02-01ER63198	R3243	Annual Progress Report	5/31/2008	6/09/2008
3	NRE	81.087	R&D	Full Field Birefringence Measurement of Grown-In Stresses in Thin Silicon	2002	AAT-2-31605-06	R3498	Quarterly Progress Report	11/15/2007	1/30/2008
4	DHHS	93.859	R&D	Cellular and Tissue Engineering Training Program	2002	2 T32 GM08433-11A1	R3837	Annual Report	12/01/2007	12/10/2007
5	EPA	66.509	R&D	Fate and Transformation of C60 Nanoparticles in Water Treatment Processes	2005	RD-83252601-0	R6551	Annual Report	11/30/2007	12/03/2007
6	NSF	47.041	R&D	Goal: Nano-Structuring of Silicon Surfaces: Low Cost Route to Manufacturing	2006	DMI-0600600	R7074	Annual Report	6/30/2008	7/10/2008
7	NIH	93.837	R&D	Shear Stress BMP and Aortic Valve Inflammation	2007	5-41465-G1	R8642	Annual Progress Report	2/28/2008	8/05/2008

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**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – SUBRECIPIENT MONITORING**

2008-6 Policies and Procedures Related to Subrecipient Monitoring (Finding No: FA-503-08-02)

See Exhibit 8-6 for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

**Statement of condition**

The Organization has certain procedures in place to accumulate and review data for potential sub-recipients prior to granting the sub-award. However, current pre-award procedures do not require formal documentation of the Organization’s risk assessment process for determining who will receive sub-awards. Once sub-awards have been granted, primary investigators perform some level of ongoing monitoring of contracts with for-profit sub-recipients; however, the Organization does not formally document its monitoring of for-profit subrecipients’ activity during the contract.

**Criteria**

Pursuant to 32 CFR section 32.51 and OMB Circular A-133, subpart B section 210(e), a pass-through is responsible for the following related to for-profit subrecipients:

*For-profit Subrecipients* - Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable Federal regulations includes monitoring for-profit subrecipients. The pass-through entity is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients. The contract with the for-profit subrecipient should describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the contract and post-award audits.

**Cause**

The Organization does not have policies to formally document its assessment of risk with respect to potential sub-recipients and further for ongoing monitoring of for-profit subrecipients until satisfaction of contract or grant terms.

**Effect**

The Organization may be unable to ensure that primary investigators and others have performed adequate monitoring of subrecipients, to ensure compliance with contract provisions and Federal grant regulations.

**Recommendation**

The Organization should consider creating a checklist to document the formal risk assessment process used in selecting sub-recipients. Additionally, the Organization should include “for-profit” entities in its annual subrecipient certification process that certifies compliance with all applicable compliance requirements for the period under review (i.e. monthly, quarterly or annually). In addition, the Organization should develop processes to ensure its monitoring of subrecipient progress and compliance is documented.

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**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – SUBRECIPIENT MONITORING**

2008-6 Policies and Procedures Related to Subrecipient Monitoring (Finding No: FA-503-08-02) - Continued

**Questioned Cost**

None.

**Management Response**

Management concurs with the finding and recommendation. The GIT Office of Sponsored Programs (OSP) will make a high-risk/low-risk determination for each sub-recipient. This will be added to our current “checklist.” We will also revise our current certification form/letter to include a section to be completed for “for-profit” sub-recipients. We will develop a process for additional monitoring of sub-recipient progress and compliance.

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**Exhibit 8-6**

	Agency	CFDA Number	Cluster/ Major Program	Pass-Through Grantor / Program Title	Award Year	Contract Number	Reference Number	Subrecipient
1	NSF	47.041	R&D	Advances in Wind Turbine Analysis and Design for Sustainable Energy	2007	CBET-0731034	R8416	Computational Science and Engineering, LLC
2	Air Force	12.800	R&D	TAT59 Marine Personnel Carrier Requirements Definition and M&S Analysis	2007	HC1047-05-D-4000-0059	D5567	Ricardo, Inc.
3	Air Force	12.800	R&D	Electronic Combat XIII	2007	FA8523-04-D-0006-0015	D5528	Terma North America
4	Air Force	12.800	R&D	Big Safari	2007	FA8620-07-C-3043	D5441	KBK Consulting, Inc.
5	Army	12.431	R&D	Defense Research, Engineering, Science and Technology	2005	W9113M-05-C-0194	A7806	Radiance Technologies, Inc.
6	Army	12.431	R&D	Software Engineering Management and Software Architecture Support for Prod.	2005	W31P4Q-05-C-R077-0295A	A7654	James Caudle