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
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
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
## Summary Schedule of Findings, Recommendations and Questioned Costs

### Current Year

**Grant Thornton, LLP, Certified Public Accountants**

<table>
<thead>
<tr>
<th>Financial Statement Findings and Questioned Costs</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-1 Accounting and Reporting of Sponsored Cost Overruns (Finding Number: FS-5036-08-01)</td>
<td>6</td>
</tr>
<tr>
<td>2008-2 Revenue and Expense Adjustments for Unbilled Work in Process (Finding Number: FS-5036-08-02)</td>
<td>7</td>
</tr>
<tr>
<td>2008-3 Policies Related to Management of Customizable Tables and Configuration Settings (Finding Number: FS-503-08-01)</td>
<td>8</td>
</tr>
<tr>
<td>2008-4 Internal Controls Related to Certain Purchasing Card Policies and Procedures (Finding Number: FS-503-08-02)</td>
<td>9</td>
</tr>
</tbody>
</table>

**Federal Award Findings and Questioned Costs Reporting**

<table>
<thead>
<tr>
<th>Federal Award Findings and Questioned Costs Reporting</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-5 Progress or Special Performance Reports Submitted Late (Finding Number: FA-503-08-01)</td>
<td>11</td>
</tr>
</tbody>
</table>

**Subrecipient Monitoring**

<table>
<thead>
<tr>
<th>Subrecipient Monitoring</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-6 Policies and Procedures Related to Subrecipient Monitoring (Finding Number: FA-503-08-02)</td>
<td>13</td>
</tr>
</tbody>
</table>
**Status of Prior Year Findings and Questioned Costs**

<table>
<thead>
<tr>
<th>Finding Number</th>
<th>Audit Control Number</th>
<th>Status of Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>S 07-1</td>
<td>Finding Number: FS-503-07-01</td>
<td>Corrective Action Plan Implemented</td>
</tr>
<tr>
<td>S 07-2</td>
<td>Finding Number: FS-503-07-02</td>
<td>Corrective Action Plan Implemented</td>
</tr>
<tr>
<td>2007-1</td>
<td>Finding Number: FS-5036-07-01</td>
<td>Corrective Action Plan Implemented</td>
</tr>
<tr>
<td>2007-2</td>
<td>Finding Number: FS-5036-07-02</td>
<td>Corrective Action Plan Implemented</td>
</tr>
<tr>
<td>2007-3</td>
<td>Finding Number: FS-5036-07-03</td>
<td>Corrective Action Plan Implemented</td>
</tr>
<tr>
<td>2007-4</td>
<td>Finding Number: FS-503-07-03</td>
<td>Corrective Action Plan Implemented</td>
</tr>
<tr>
<td>2007-6</td>
<td>Finding Number: FS-503-07-05</td>
<td>Further Action Not Warranted (per Audit)</td>
</tr>
<tr>
<td>2007-7</td>
<td>Finding Number: FS-503-07-06</td>
<td>Further Action Not Warranted (per Audit)</td>
</tr>
<tr>
<td>2007-8</td>
<td>Finding Number: FS-503-07-07</td>
<td>Corrective Action Plan Implemented</td>
</tr>
<tr>
<td>2007-10</td>
<td>Finding Number: FA-503-07-01</td>
<td>Corrective Action Plan Implemented</td>
</tr>
<tr>
<td>2007-11</td>
<td>Finding Number: FA-503-07-02</td>
<td>Partially Resolved</td>
</tr>
<tr>
<td>2007-12</td>
<td>Finding Number: FA-503-07-03</td>
<td>Corrective Action Plan Implemented</td>
</tr>
</tbody>
</table>
Grant Thornton, LLP, Certified Public Accountants
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.

Contact Person: Barbara Alexander, Director GTRC/GTARC Accounting
Telephone: 404-894-6962; Fax 404-385-2078; E-Mail: barbara.alexander@gtrc.gatech.edu
Grant Thornton, LLP, Certified Public Accountants
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
Telephone: 404-894-6962; Fax 404-385-2078; E-Mail: barbara.alexander@gtrc.gatech.edu
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.

Contact Person: Gregory Phillips, Associate Director Enterprise Information Systems, OIT
Telephone: 404-894-3416; Fax 404-894-9135; E-Mail: greg.phillips@oit.gatech.edu
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.
Grant Thornton, LLP, Certified Public Accountants
FINANCIAL STATEMENT FINDINGS AND QUESTONED 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.

Contact Person: Tom Pearson, Director Business Services
Telephone: 404-894-5000; Fax 404-894-8552; E-Mail: tom.pearson@business.gatech.edu
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 online 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.
### Exhibit 8-5

<table>
<thead>
<tr>
<th>Agency</th>
<th>CFDA Number</th>
<th>Major Program</th>
<th>Pass-Through Grantor/Program Title</th>
<th>Award Year</th>
<th>Contract Number</th>
<th>Reference Number</th>
<th>Type of Report</th>
<th>Due Date</th>
<th>Date Submitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 NIH</td>
<td>93.837</td>
<td>R&amp;D</td>
<td>Shear Stress BMP and Aortic Valve Inflammation</td>
<td>2007</td>
<td>5-41465-G1</td>
<td>R8642</td>
<td>Annual Progress Report</td>
<td>2/28/2008</td>
<td>8/05/2008</td>
</tr>
</tbody>
</table>
Grant Thornton, LLP, Certified Public Accountants

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.
Grant Thornton, LLP, Certified Public Accountants
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.

Contact Person: G. Duane Hutchison, Director, Office of Sponsored Programs
Telephone: 404-894-4819; Fax 404-894-7002; E-Mail: duane.hutchison@osp.gatech.edu

Exhibit 8-6

<table>
<thead>
<tr>
<th>Agency</th>
<th>CFDA Number</th>
<th>Cluster/ Major Program</th>
<th>Pass-Through Grantor / Program Title</th>
<th>Award Year</th>
<th>Contract Number</th>
<th>Reference Number</th>
<th>Subrecipient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 NSF</td>
<td>47.041</td>
<td>R&amp;D</td>
<td>Advances in Wind Turbine Analysis and Design for Sustainable Energy</td>
<td>2007</td>
<td>CBET-0731034</td>
<td>R8416</td>
<td>Computational Science and Engineering, LLC</td>
</tr>
</tbody>
</table>