

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
IN ACCORDANCE WITH OFFICE OF MANAGEMENT AND
BUDGET CIRCULAR A-133

**GEORGIA TECH RESEARCH CORPORATION AND SUBSIDIARY
AND GEORGIA INSTITUTE OF TECHNOLOGY**

For the year ended June 30, 2005

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Georgia Tech Research Corporation

We have audited the financial statements of Georgia Tech Research Corporation and Subsidiary as of and for the year ended June 30, 2005, and have issued our report thereon dated September 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financing Reporting

In planning and performing our audit, we considered Georgia Tech Research Corporation and Subsidiary's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Georgia Tech Research Corporation and Subsidiary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Georgia Tech Research Corporation and Subsidiary in a separate letter dated September 12, 2005.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Atlanta, Georgia
September 12, 2005

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Trustees
Georgia Tech Research Corporation

Compliance

We have audited the compliance of GTRC and GIT with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. GTRC's and GIT's major programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of GTRC's and GIT's management. Our responsibility is to express an opinion on GTRC's and GIT's compliance based on our audit and the reports of the other auditors. As part of this coordinated audit, we did not audit compliance with requirements as described in OMB Circular A-133 related to equipment and real property management; procurement and suspension and debarment; and real property acquisition and relocation assistance for the research and development major program. Those compliance requirements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to those requirements, is based solely on the reports of the other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GTRC's and GIT's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion. Our audit and the reports of the other auditors do not provide a legal determination on GTRC's and GIT's compliance with those requirements.

As described in items 05-3 through 05-12 in the accompanying schedule of findings and questioned costs, GTRC and GIT did not comply with requirements regarding reporting, subrecipient monitoring, special tests and provisions, cash management, and equipment and real property management that are applicable to research and development programs and compliance requirements regarding reporting and subrecipient monitoring that are applicable to the National Institute on Disability and Research Rehabilitation Research, and Human Resource programs. Compliance with such requirements is necessary, in our opinion, for GTRC and GIT to comply with requirements applicable to those programs.

In our opinion, based on our audit and the reports of the other auditors, except for the noncompliance described in the preceding paragraph, GTRC and GIT complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of GTRC and GIT is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered GTRC's and GIT's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in design or operation of internal control over compliance that, in our judgment, could adversely affect GTRC's and GIT's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-10.

The State of Georgia Department of Audits noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. The reportable conditions are described in the accompanying schedule of findings and questioned costs at items 05-2 and 05-12.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Trustees, management of GTRC, and GIT, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Atlanta, Georgia
January 26, 2006

**Georgia Tech Research Corporation and Subsidiary and
Georgia Institute of Technology**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2005

I. SUMMARY OF AUDIT RESULTS

Financial Statements – (Georgia Tech Research Corporation and Subsidiary only)

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards – (Georgia Tech Research Corporation and Subsidiary and Georgia Institute of Technology)

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified not considered to be material weaknesses? Yes

Type of auditor's report on compliance for major programs:

Research & Development Cluster	-	Qualified
National Disability and Rehabilitation Research	-	Qualified
Education and Human Resources	-	Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes

Identification of major programs:

Research and development grants under CFDA numbers 10.XXX, 11.XXX, 12.XXX, 14.XXX, 15.XXX, 16.XXX, 20.XXX, 39.XXX, 42.XXX, 43.XXX, 45.XXX, 47.XXX, 59.XXX, 62.XXX, 64.XXX, 66.XXX, 81.XXX, 84.XXX, 88.XXX, 89.XXX, 93.XXX, 94.XXX, 97.XXX, 98.XXX, and 99.XXX are considered part of a research and development cluster. These grants are funded by the U.S. Department of Agriculture, U.S. Department of Commerce, the U.S. Department of Defense (including the U.S. Army, U.S. Air Force and U.S. Navy), the U.S. Department of Housing and Urban Development, the U.S. Department of Interior, the U.S. Department of Justice, the U.S. Department of Transportation, the U.S. General Services Administration, the Library of Congress, the National Aeronautics and Space Administration, the National Endowments for the Humanities, the National Science Foundation, the Small Business Administration, the Tennessee Valley Authority, the U.S. Department of Veterans Affairs, the U.S. Environmental Protection Agency, the U.S. Department of Energy, the U.S. Department of Education, the Architectural and Transportation Barriers Compliance Board, the National Archives and Records Administration, the U.S. Department of Health and Human Services, the Corporation for National and Community Service, the U.S. Department of Homeland Security, the U.S. Agency for International Development, and the U.S. Department of State.

**Georgia Tech Research Corporation and Subsidiary and
Georgia Institute of Technology**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

I. SUMMARY OF AUDIT RESULTS – CONTINUED

National Institute on Disability and Rehabilitation Research under CFDA number 84.133. This grant is funded by the U.S. Department of Education.

Education & Human Resources under CFDA number 47.076. This grant is funded by the National Science Foundation.

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as a low-risk auditee: Yes

II. FINANCIAL STATEMENT FINDINGS

Finding No. 05-1

Statement of Condition

While performing procedures related to accounts receivable, we observed that there are some receivables where the sponsor/grantor cannot be identified. The discrepancy appears to be isolated to receivables related to contracts transferred to the Research Corporation as part of the acquisition of the Institute of Paper Science and Technology by Georgia Institute of Technology on July 1, 2004. The Research Corporation has an allowance for doubtful accounts that is adequate to fully reserve these accounts.

Criteria

The Research Corporation should identify all sponsor/grantor receivables.

Effect

Unidentified sponsor/grantors could potentially affect the accuracy of the schedule of federal expenditures.

Cause

The unidentified sponsors/grantors result from incomplete information (i.e. grant assignment and project code) relating to these costs being transferred to the Research Corporation.

Recommendation

We recommend that the Research Corporation continue its efforts to identify the sponsor/grantors and collect the amounts due to the Research Corporation.

Questioned Cost

None.

**Georgia Tech Research Corporation and Subsidiary
and Georgia Institute of Technology**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

II. FINANCIAL STATEMENT FINDINGS – CONTINUED

Finding No. 05-2

Statement of Condition

Georgia Institute of Technology did not adequately monitor their Sponsored Projects, which resulted in funds due the Institute becoming uncollectible. These uncollectible amounts for certain Sponsored Projects in Restricted funds were funded by General Operations (Resident Instruction Fund and Other Organized Activities Fund).

Criteria

The, Board of Regents of the University System of Georgia's Business Procedures Manual, Section 10.4.1 (4), as revised, requires that uncollectible accounts must be identified by fund and that "fund integrity must be maintained at all times with regard to the uncollectible accounts". Section 10.4.3 also states "federal receivables resulting from contract or grant activity are to be considered, for write-off purposes, as disallowed charges. The funding source for disallowed charges is indirect cost recoveries (revenue)."

Effect

As a result of the weaknesses identified, certain Sponsored Projects reflected accounts receivable which were uncollectible due to inadequate collection procedures and/or disallowed charges. These uncollectible amounts were funded by the General Operations (Resident Instruction Fund and Other Organized Activities Fund) of the Institute. However, the funding source for these uncollectibles should be the Indirect Cost Recoveries Fund.

Cause

Management at Georgia Institute of Technology failed to adequately monitor charges to and collections of certain Sponsored Projects within the Restricted Funds of the Institute.

Recommendation

Institute management should strengthen controls to ensure that charges against Sponsored Projects are made in a timely manner to facilitate prompt billing. Also, accounts receivable related to these charges should be closely monitored to ensure proper collection from Sponsors.

Questioned Cost

None

**Georgia Tech Research Corporation and Subsidiary and
Georgia Institute of Technology**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No. 05-3

See Exhibit 5-3 for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

Statement of Condition

Numerous progress/special reports required by grant and contractual agreements entered into by GTRC and GIT with various Federal agencies were not submitted, not submitted on time, omitted certain components or were not authorized by a proper official as specified in the grant and contractual agreements.

Criteria

The OMB Circular A-133 Compliance Supplement Section 3.L requires recipients to submit performance reports at least annually but not more frequently than quarterly. Performance reports generally contain, for each award, brief information on each of the following:

- A comparison of actual accomplishments with the goals and objectives established for the period.
- Reasons why established goals were not met, if appropriate.
- Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

In addition, the grant award may requirement additional performance reporting requirements.

Effect

The submission of inadequate, incomplete or untimely reports could result in the possible delay of other projects which are related to GTRC and GIT grants and contracts.

Cause

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

Recommendation

Efforts should be made by GTRC and GIT to ensure that all contractual deliverables include the required components, are authorized by the proper personnel, and are submitted to the contracting agencies by the specified due dates.

Questioned Cost

None.

**Georgia Tech Research Corporation and Subsidiary and
Georgia Institute of Technology**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-3

**Exhibit 5-3 - Listing of Reports Not Submitted, Not Submitted On Time,
Or Submitted With Missing Components**

<u>Agency</u>	<u>CFDA Number</u>	<u>Cluster / Major Program</u>	<u>Pass-Through Grantor / Program Title</u>	<u>Contract Number</u>	<u>Reference Number</u>	<u>Report Type</u>	<u>Date Due</u>	<u>Date Mailed</u>
NASA	43.OFA	R&D		NAG5-13515	R4505	Summary of Research	4/30/2005	8/29/2005
Defense	12.OFA	R&D		MDA904-03-C-0471	R4808	A003 - Status Reports	1/20/2005	Not Submitted
NSF	47.049	R&D	Mathematical and Physical Sciences	DMR-9733160	R1043	NSF Form 1328 - Annual Grant Progress Report	2/1/2005	Not Submitted
Commerce	11.460	R&D	Special Oceanic and Atmospheric Projects	NA03OAR4600100	R4623	Semi-Annual Performance Report	1/31/2005	Not Submitted
NSF	47.076	EHR	Education and Human Resources	DGE-0333411	R4855	Annual Report	7/31/2004	2/15/2005
NSF	47.076	EHR	Education and Human Resources	DGE-0333411	R4855	Annual Report	5/12/2005	Not Submitted
NSF	47.076	EHR	Education and Human Resources	DGE-0221600	R4254	Annual Project Report	8/30/2004	Not Submitted
DOE	84.OFA	R&D	U.S. Department of Education	H153A000405	T5917	Annual Progress Report	10/31/2004	2/28/2005
DOD	12.OFA	R&D	Mission Res Corp	SC-SP46-00-0003	A6488	Interim DD Form 882 Initial Interim Report	12/1/2004	Not Submitted
Transportation	20.OFA	R&D	University of Michigan	3000389610	A7314	Summary Project Report Final and Functional Requirement Final	1/4/2005	Not Submitted
Energy	81.049	R&D	Office of Science Financial Assistance Program	DE-FG02-96ER54350	R8804	Technical Progress Report	12/31/2004	Not Submitted
Energy	81.OFA	R&D	Oak Ridge National Laboratory	4500010071	R1715	Progress Report	5/10/2005	Not Submitted
NSF	47.046	EHR	Education and Human Resources	HRD-9817632	V5018	Annual Progress Report	4/15/2005	Not Submitted
Education	84.133	NDRR	National Institute on Disability and Rehabilitation Research	H133E030035	T6241	Annual Progress Report	1/31/2005	Not Submitted
Education	84.133	NDRR	United Cerebral Palsy	AGMT 981001	T5743	Monthly Progress Report	8/18/2004	Not Submitted
Education	84.133	NDRR	United Cerebral Palsy	AGMT 981001	T5743	Monthly Progress Report	9/18/2004	Not Submitted
EPA	66.509	R&D	Science to Achieve Results (STAR) Research Program	RD-83107601	R4799	Annual Report	12/31/2004	8/8/2005
Energy	81.049	R&D	Office of Science Financial Assistance Program	DE-FG02-97ER14799	R0679	Continuation Progress Report	3/3/2005	4/19/2005
NSF	47.041	R&D	Engineering Grants	BES-0093830	R2983	Annual Report	1/30/2005	2/7/2005
Air Force	12.800	R&D	Air Force Defense Research Sciences Program	F33615-98-C-1341	R1162	A002-Status Report	11/25/2004	2/14/2005
NIH	93.856	R&D	Microbiology and Infectious Diseases Research	1U01 AI56503-01	R4971	Final Project Report	12/29/2004	Not Submitted
NIH	93.856	R&D	Microbiology and Infectious Diseases Research	1U01 AI56503-01	R4971	Form HHS 568 Final Invention Statement and Certification	12/29/2004	Not Submitted
NSF	47.041	R&D	Engineering Grants	DMI-0223364	R4001	Final Report	5/31/2005	Not Submitted
DOE	84.133	NDRR	National Institute on Disability and Rehabilitation Research	H133D010207	T5979	Annual Report	11/30/2004	12/23/2004
NSF	47.076	EHR	Education and Human Resources	EHR-0314953	Y0001	Annual Progress Report	7/1/2004	8/28/2004
NSF	47.076	EHR	Education and Human Resources	DUE-0210644	R3772	Annual Project Report	5/31/2005	Not Submitted
EPA	66.509	R&D	Science to Achieve Results (STAR) Research Program	RD-83107601	R4799	EPA MBE/WBE Utilization Report	10/30/2004	Not Submitted
DHHS	93.583	R&D	University of Pennsylvania	5-41352	R5145	Final Performance Report	9/30/2004	Not Submitted
NSF	47.070	R&D	Computer and Information Science and Engineering	CCR-0104494	R3183	Annual Performance Report	5/31/2005	Not Submitted
DOD	12.800	R&D	Anteon Corp	0A7662000	R2287	Final Report	5/31/2005	Not Submitted
GSA	39.OFA	R&D	General Service Administration	0A7150000	A7150	Final Plan Report	9/30/2004	Not Submitted

**Georgia Tech Research Corporation and Subsidiary and
Georgia Institute of Technology**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-4

See Exhibit 5-4 for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

Statement of Condition

Certain financial reports required by grant and contractual agreements entered into by GTRC and GIT with various Federal agencies were not submitted or not submitted on time as specified in the grant and contractual agreements.

Criteria

The OMB Circular A-133 Compliance Supplement Section 3.L requires recipients to use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). These other forms may include financial, performance, and special reporting. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats.

Effect

The submission of inadequate, incomplete or untimely reports could result in the possible delay of other projects which are related to GTRC and GIT grants and contracts.

Cause

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

Recommendation

Efforts should be made by GTRC and GIT to ensure that all contractual deliverables include the required components, are authorized by the proper personnel, and are submitted to the contracting agencies by the specified due dates.

Questioned Cost

None.

**Georgia Tech Research Corporation and Subsidiary and
Georgia Institute of Technology**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-4

**Exhibit 5-4 - Listing of Reports Not Submitted, Not Submitted On Time,
Or Submitted With Missing Components**

<u>Agency</u>	<u>CFDA Number</u>	<u>Cluster / Major Program</u>	<u>Pass-Through Grantor / Program Title</u>	<u>Contract Number</u>	<u>Reference Number</u>	<u>Report Type</u>	<u>Date Due</u>	<u>Date Mailed</u>
Defense	12.OFA	R&D	Department of the Defense	MDA904-03-C-0471	R4808	A002/Funds & Man Hour Expenditure Report	1/20/2005	Not Submitted
NASA	43.OFA	R&D	National Inst of Aerospace	1120-GT	R5971	SF272	2/10/2005	Not Submitted
Energy	81.049	R&D	Office of Science Financial Assistance Program	DE-FG02-96ER54350	R8804	SF272	1/31/2005	11/7/2005
Energy	81.086	R&D	Conservation Research and Development	DE-FC36-00ID113870	R4639	SF269	10/30/2004	6/15/2005
EPA	66.509	R&D	Science to Achieve Results (STAR) Research Program	RD-83107601	R4799	SF 272	1/15/2005	2/22/2005
Energy	81.049	R&D	Office of Science Financial Assistance Program	DE-FG02-98ER54499	R1143	SF 272	7/30/2005	11/7/2005
Energy	81.049	R&D	Office of Science Financial Assistance Program	DE-FG02-97ER14799	R0679	SF 272	1/15/2005	11/7/2005
Air Force	12.800	R&D	Air Force Defense Research Sciences Program	F35615-98-C-1341	R1162	Funds and Man-HR Expenditure Report	10/25/2004	12/13/2004
NIH	93.856	R&D	Microbiology and Infectious Diseases Research	1U01 AI56503-01	R4971	SF 269 (FSR)	12/29/2004	2/2/2005
Defense	12.OFA	R&D	Fiore Industries	GIOT-002 (F1104-CCM-001)	A7579	Expenditure Report	1/31/2005	Not submitted

**Georgia Tech Research Corporation and Subsidiary and
Georgia Institute of Technology**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-5

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

Statement of Condition

Required reports are logged and tracked by GTRC and GIT on a schedule of deliverables. GTRC and GIT did not include the required reports or included inaccurate information regarding the reports listed in Exhibit IV on this schedule; therefore, submission of these reports is not being accurately monitored.

Criteria

The OMB Circular A-133 Compliance Supplement Section 6.L Reporting Control Objective is to provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all the activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Effect

GTRC and GIT's system for ensuring timely and proper filing was not operating adequately with respect to these reports. Required reports may not be submitted timely, if at all.

Cause

Human errors caused these reports to be omitted or inaccurately documented in the schedule of deliverables.

Recommendation

GTRC and GIT should improve controls to ensure all required reports are accurately input into the schedule of deliverables.

Questioned Costs

None

Georgia Tech Research Corporation and Subsidiary and
Georgia Institute of Technology

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-5

Exhibit 5-5 - Listing of Reports with Missing or Conflicting
Information on the Schedule of Deliverables

Agency	CFDA Number	Cluster / Major Program	Pass-Through Grantor / Program Title	Contract Number	Reference Number	Report
NSF	47.041	R&D	Engineering Grants	CMS-0338445	R4767	Performance Report due date is incorrect on the Schedule of Deliverables.
Commerce	11.460	R&D	Special Oceanic and Atmospheric Projects	NA03OAR4600100	R4623	Final and semi-annual SF-269 reports are due; however, the Schedule of Deliverables only indicates a final SF-269 is required.
NASA	43.OFA	R&D	National Inst of Aerospace	1120-GT	R5971	Federal Cash Transaction Reports, Annual Performance Reports, Subject Inventions Final Report, Summary of Research, and a Final Report of Federally-Owned Property are required deliverables per the Basic Ordering Agreement; however, they are not listed on the Schedule of Deliverables.
NSF	47.OFA	R&D	University Corp for Atmospheric Research	DMR-9733160	R1043	Annual Progress Report for the current fiscal year is not included on the Schedule of Deliverables.
Transportation	20.OFA	R&D	University of Michigan	3000418443	A7314	The following Reports are due in the current fiscal year but are not listed on the Schedule of Deliverables: Task 6A - Usability Test Plan Draft Final, due 7/28/04; 7A - User Quick Reference Guide Draft, due 8/9/04; 5C - Complete Software Product for Testing, due 9/7/04; 5D - Software Test Plan Final, due 9/7/04; 6A - Usability Test Plan Final, due 9/7/04; 6C - Usability Test Report, due 11/5/04; 3 - Functional Requirements Final, due 1/4/05; 4 - Software Requirements Final, due 1/4/05; 7A - User Quick Reference Guide Final, due 1/4/05; Annual Report of Government Property in its Possession and the Possession of its Subcontractors, due 09/15/2004. Further, the reports are not listed on the Schedule of Deliverables and do not indicate the period covered, due date or date mailed.
DOD	12.000	R&D	Mission Res Corp	SC-SP46-00-0003	A6488	Interim DD Form 882, Initial Interim Invention Report is a Mission Research Corporation required deliverable; however, it is not listed on the Schedule of Deliverables.

**Georgia Tech Research Corporation and Subsidiary and
Georgia Institute of Technology**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-5

**Exhibit 5-5 - Listing of Reports with Missing or Conflicting
Information on the Schedule of Deliverables - Continued**

<u>Agency</u>	<u>CFDA Number</u>	<u>Cluster / Major Program</u>	<u>Pass-Through Grantor / Program Title</u>	<u>Contract Number</u>	<u>Reference Number</u>	<u>Report</u>
NSF	47.076	EHR	Education and Human Resources	DGE-0202757	N7180	Form 961, Annual Graduate Fellowship Support Grant Expenditure Report and Expenditure Worksheet is a required deliverable; however, it is not listed on the Schedule of Deliverables.
DOD	12.000	R&D	Lockheed Martin	TT0678126	A7761	Document defining the operational domain of the intended operatives is a required deliverable; however, it is not listed on the Schedule of Deliverables.
DOD	12.OFA	R&D	Department of the Defense	NRO000-04-C0200	R5760	Interim Technical Status Reviews/Briefings are due every four months, but this requirement is not included on the Schedule of Deliverables.
Education	84.133	NDRR	United Cerebral Palsy	AGMT 981001	T5743	Monthly Progress Reports are due; however, they are not listed on the Schedule of Deliverables for periods after 9/2003.
Education	84.133	NDRR	National Institute on Disability and Rehabilitation Research	H133E030035	T6241	Annual Reports are due before the next budget period; however, the Schedule of Deliverables indicates a due date of 1/31/2005.
Energy	81.049	R&D	Office of Science Financial Assistance Program	DE-FG02-97ER14799	R0679	SF 272 is required to be submitted quarterly for this grant. No such requirement is listed on the project header.
Energy	81.049	R&D	Office of Science Financial Assistance Program	DE-FG02-98ER54499	R1143	SF 272 is required to be submitted quarterly for this grant. No such requirement is listed on the project header.
DHHS	93.583	R&D	University of Pennsylvania	5-41352	R5145	A final performance report and a final financial report are due. No such requirements are listed on the document header Financial Data- Billing Details or Deliverable Schedule.
Air Force	12.800	R&D	Air Force Defense Research Sciences Program	F33615-98-C-1341	R1162	The Research Report Approval Sheet shows a 2-14-05 submission date for the Status Report for the period 8-01-04 to 10-31-04; whereas, the Schedule of Deliverables has a 12-14-04 submission date.
DOD	12.OFA	R&D	Pione Industries	GIOT-002 (F1104-CCM-001)	A7579	The Subcontractor Statement of Work (SSOW-4) requires the submission of monthly expenditures to the sponsor. No such report is listed on the document header.
EPA	66.509	R&D	Science to Achieve Results (STAR) Research Program	RD-83107601	R4799	An EPA MBE/WBE Utilization Report was due to the sponsor on 10-30-04. No such report was listed on the Schedule of Deliverables.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-6

See Exhibit 5-6 for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

Statement of Condition

Several subrecipients were not being adequately monitored by the grant administrator/pass through entity.

Criteria

Pursuant to OMB Circular A-133 Compliance Supplement Section 3.M a pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - (1) Ensuring that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133, as revised) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Effect

GTRC's and GIT's system for ensuring timely receipt of the required information was not operating effectively with respect to these monitoring procedures. Required communication from the subrecipients may not be obtained timely, if at all.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-6 - continued

Cause

All subrecipients are not properly coded in the database to properly generate the single audit request letters.

Recommendation

GTRC/GIT should consider generating a detailed report of all subrecipients on an annual basis and matching the report to a master list of all subrecipients to ensure appropriate letters requesting A-133 audit report are being sent to all subrecipients and the appropriate follow-up procedures are completed.

Questioned Cost

None.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-6

Exhibit 5-6 – Listing of Subrecipients that were not adequately monitored

Agency	CFDA Number	Cluster / Major Program	Pass-Through Grantor / Program Title	Contract Number	Reference Number	Subrecipient	Date Letter Sent	Date Letter or Single Audit Report Received	Results
Commerence	11.460	R&D	Special Cosmic and Atmospheric Projects	NA03OAR4600100	R4623	College of William & Mary	2/8/2006	Not requested timely	Not received.
Energy	81.OFA	R&D	General Electric Co.	EP-2003-G-002	R4609	University of Arkansas	2/8/2006	Not requested timely	Not received.
NIH	93.856	R&D	Microbiology and Infectious Diseases Research	IU01 AI56503-01	R4971	University of South Carolina Research Foundation	2/8/2006	Not requested timely	Not received.
DOE	84.133	NDRR	National Institute on Disability and Rehabilitation Research	H133D010207	T5979	Center for Accessible Living I Total	2/8/2006	Not requested timely	Not received.
DOE	84.133	NDRR	National Institute on Disability and Rehabilitation Research	H133D010207	T5979	KY Assistive Technology Service Total	2/8/2006	Not requested timely	Not received.
DOE	84.133	NDRR	National Institute on Disability and Rehabilitation Research	H133D010207	T5979	Univ of GA Total	6/7/2005	8/10/2005	Corrective action plan was not requested or obtained
NSF	47.076	EHR	Education and Human Resources	EHR-0314953	Y0001	North Georgia College & State University	6/21/2005	11/16/2005	Deficiencies noted in response; however, follow up not pursued in timely manner.
NSF	47.076	EHR	Education and Human Resources	EHR-0314953	Y0001	University of Georgia Research Foundation	6/7/2005	8/10/2005	Corrective action plan was not requested or obtained
NSF	47.076	EHR	Education and Human Resources	DUE-0210644	R3772	Clark Atlanta University	2/8/2006	Not requested timely	Not received.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-7

See Exhibit 5-7 for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

Statement of Condition

Certain required financial reports did not agree to source documentation due to the omission of cost of education charges.

Criteria

The OMB Circular A-133 Compliance Supplement Section 3.L requires recipients to use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). These other forms may include financial, performance, and special reporting. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats. These financial reports should be traceable to source documentation without exception in order to assure accurate accounting and billing procedures.

Effect

Omission of cost of education charge resulted in an understatement of charges for the quarter.

Cause

Cost of education charge was inadvertently not included in the required financial report.

Recommendation

GTRC and GIT should improve controls to ensure all costs incurred are included in the required financial reports.

Questioned Cost

None.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-7

Exhibit 5-7 – Agreement to General Ledger

<u>Agency</u>	<u>CFDA Number</u>	<u>Cluster / Major Program</u>	<u>Pass-Through Grantor / Program Title</u>	<u>Contract Number</u>	<u>Reference Number</u>	<u>Report Type</u>	<u>Source Document</u>
NSF	47.076	EHR	Education and Human Resources	DGE-0202757	N7180	1st qtr SF272	Project Ledger

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-8

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

Statement of Condition

Grantor entities require billings in specific formats and/or pre-approval for certain expenditures. Adherence to these requirements was not consistently achieved.

Criteria

The OMB Circular A-133 Compliance Supplement Section 3-N states that the specific requirements for Special Tests and Provisions are unique to each Federal program and are found in the laws, regulations, and provisions of the contract or grant agreements pertaining to the program. The awards in Exhibit VII required billings in certain formats with required information and required pre-approvals for certain expenses.

Effect

GTRC and GIT's system for ensuring invoices include all contractually required information and pre-approval was not operating adequately. As a result, reimbursement could be delayed and/or may be denied for expenditures that were not listed in the initial budget.

Cause

The grantor's specific billing instructions were not followed.

Recommendation

Efforts should be made by GTRC and GIT to ensure that all invoices are submitted to the grantor agencies in accordance with the terms and conditions of the contract.

Questioned Cost

None.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-8

Exhibit 5-8 – Sponsor specific instructions and pre-approvals

<u>Agency</u>	<u>CFDA Number</u>	<u>Cluster / Major Program</u>	<u>Pass-Through Grantor / Program Title</u>	<u>Contract Number</u>	<u>Reference Number</u>	<u>Issue</u>
NSF	47.OFA	R&D	University Corp for Atmospheric Research	DMR-9733160	R1043	Foreign travel expenditure required pre-approval, that was not obtained
Transportation	20.OFA	R&D	University of Michigan	3000418443	A7314	Invoice was not properly certified or signed as required by the contract.
DOD	12.OFA	R&D	Lockheed Martin	T10678126	A7761	Invoice was not signed or stamped by the proper authorizing personnel.
GSA	39.000	R&D	General Service Administration	GST0404DE0170	A7415	The grant agreement required invoices to include specific data, and this information was not included on the invoice and the invoice was signed or stamped as required.
DOD	12.OFA	R&D	Mission Res Corp	SC-SP46-00-0003	A6488	Invoice included the certification required by the contract, but the invoice was not signed or stamped by the proper authorizing personnel.
Navy	12.300	R&D	Basic and Applied Scientific Research	N00600-02-D-1056-0010	A6977	Special instructions may be contained in Basic Ordering Agreement 461- Article G. Article G not provided for audit.
Navy	12.300	R&D	Basic and Applied Scientific Research	N00600-02-D-1056-0010	A6977	Invoice was not signed or stamped by the proper authorizing personnel.
Navy	12.300	R&D	Basic and Applied Scientific Research	N00014-03-C-0114	A7141	Invoice was not signed or stamped by the proper authorizing personnel.
GSA	39.OFA	R&D	General Service Administration	TO402BF0245	A7150	The grant agreement required invoices to include specific data, which was not included on the invoice, and the invoice was not signed or stamped.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-9

See Exhibit 5-9 for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

Statement of Condition

In order to obtain certain awards, GTRC and GIT must provide matching funds. Documentation of the match was not available for audit. Requests for an extension of time to contribute matching funds were not timely submitted to grantor agency.

Criteria

The OMB Circular A-133 Compliance Supplement Section 5 Research and Development Programs III. G.1. Matching states non-Federal entities may be required to share in the cost of research either on an overall entity or individual grant basis. The specific program regulations or individual Federal award will specify the matching requirements if applicable. The matching requirement was included in the budget proposal for the two grants noted in Exhibit 5-9.

Effect

GTRC and GIT's system for ensuring the matching requirement had been met was not operating effectively. Not meeting the matching requirement, as stated in the contract, could lead to delayed or decreased funding for GTRC and GIT grants and contracts.

Cause

The matching requirement was not formally established for one grant, and the required matching levels for the other grant were not consistently monitored.

Recommendation

GTRC and GIT should improve controls identifying matching obligations and progress.

Questioned Cost

None

Georgia Tech Research Corporation and Subsidiary
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-9

Exhibit 5-9 – Matching Funds

<u>Agency</u>	<u>CFDA Number</u>	<u>Cluster / Major Program</u>	<u>Pass-Through Grantor / Program Title</u>	<u>Contract Number</u>	<u>Reference Number</u>	<u>Issue</u>
Defense	12.800	R&D	Anteon Corp	S1089	R2287	Match included in budget proposal, but it was not formally tracked by the Office of Sponsored Programs.
NSF	47.041	R&D	Engineering Grants	BES-0093830	R2983	Request to extend original proposed matching period not submitted in a timely manner resulting in a \$50.45 short fall in meeting match requirement on an on-going project.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-10

See Exhibit 5-10 for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

Statement of Condition

Grants and contracts has established a 30 and 60 day limit to transfer labor costs to the proper project. A fiscal year 2004 transfer did not take place until fiscal year 2005.

Criteria

The Office of Management and Budget Circular A-21, section J.8.c.(1)(e), provides that at least annually, a statement will be signed by the employee stating that salaries and wages charged to sponsored agreements are reasonable in relation to the work performed. It is GIT/GTRC/GTARC policy that personnel under the Plan Confirmation System sign an ASR on a yearly basis. In addition, Grants and Contracts Accounting (“G&C”) has a separate procedure, 3.2 Personal Services Reporting Under the Plan Confirmation System, requiring labor cost transfers to be made within 30 days and 60 days. The transfers must be justified. This procedure is supported by Salary, Planning and Distribution department procedures and practices.

Effect

These transfers could result in misallocation of costs on government contracts and incorrect billings to the government.

Cause

Personnel do not always transfer costs on a timely basis. The condition results from GTRC and GIT operating on a budgeting system where work is planned a fiscal year in advance, so there will always be changes. G&C monitors the late transfers on a monthly basis by evaluating the reasons for late transfers, following up with department heads, and providing training to the personnel who continue to transfer labor cost past 60 days and the fiscal year. Although the situation has improved as a result of G&C efforts, late transfers continue to occur.

Recommendation

GTRC and GIT should continue to monitor, inform and train personnel who continue to transfer costs beyond the 30 and 60 day limitations to ensure costs get properly allocated to contracts and to ensure correct billings to the grantor agencies.

Questioned Cost

None.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-10

Exhibit 5-10 – Late labor cost transfer

<u>Agency</u>	<u>CFDA Number</u>	<u>Cluster / Major Program</u>	<u>Pass-Through Grantor / Program Title</u>	<u>Contract Number</u>	<u>Reference Number</u>
Energy	81.OFA	R&D	General Electric Co.	EP-2003-G-002	R4609

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-11

See Exhibit 5-11 for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

Statement of Condition

Certain grants and contracts entered into by GTRC and GIT are administered on a cost reimbursement basis, therefore, requiring expenditures to be incurred prior to the request for reimbursement. Adherence to this provision was not consistently followed.

Criteria

OMB Circular A-133 Compliance Supplement Section 3-M requires that when entities are funded on a reimbursement basis, program costs must be paid by the grant recipient before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.

Effect

GTRC and GIT's system for ensuring reimbursement requests occur subsequent to expenditures is not operating effectively, as evidenced by instances of reimbursement requests being submitted prior to expenditures being incurred.

Cause

Formal documentation was not obtained to substantiate sponsor requested advance billing.

Recommendation

GTRC and GIT should increase efforts to improve controls to ensure that no reimbursements will be requested without evidence of an expenditure being incurred.

Questioned Cost

The \$117,451 of advance billing represents a questioned cost.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-11

Exhibit 5-11 – Cash Management

<u>Agency</u>	<u>CFDA Number</u>	<u>Cluster / Major</u>	<u>Pass-Through Grantor / Program Title</u>	<u>Contract Number</u>	<u>Reference Number</u>	<u>Issue</u>
Energy	81.OFA	R&D	General Electric Co.	EP-2003-G-002	R4609	Final invoice of \$117,451 billed in December 2004 while work continued through June 2005 resulting in \$354 of overbillings to sponsor.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2005

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding No. 05-12

Statement of Condition

GIT and GTRC's management did not follow Federal property disposition guidelines with respect to disposition of property/equipment purchased with Federal funds where title vests with GIT/GTARC and when required by the grant agreements or the Federal awarding agency.

Criteria

OMB Circular A-133 Compliance Supplement Section 3-F requires equipment records shall be maintained, a physical inventory of equipment shall be taken once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Effect

GIT and GTRC did not properly account for and dispose of exempt property in accordance with Federal guidelines when required by terms of the grant or the Federal awarding agency.

Cause

Management failed to have appropriate procedures in place to ensure that dispositions of exempt property were properly handled in accordance with Federal guidelines when required by the Federal grant agreement or by the Federal awarding agency.

Recommendation

GTRC and GIT should establish and implement controls to ensure that inventory records for equipment acquired with Federal funds comply fully with Federal regulations, conditions of specific grant agreements or Federal grantor agency guidelines, whichever is applicable.

Questioned Cost

None.