Reports of Independent Certified Public Accountants in Accordance with Government Auditing Standards and with the Office of Management and Budget Circular A-133

Georgia Tech Research Corporation, Georgia Tech Applied Research Corporation, and Georgia Institute of Technology

For the Year Ended June 30, 2007

Georgia Tech Research Corporation, Georgia Tech Applied Research Corporation, and Georgia Institute of Technology

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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

To the Board of Trustees of
Georgia Tech Research Corporation and
Georgia Tech Applied Research Corporation:

We have audited the financial statements of the business-type activities and each major fund of the **Georgia Tech Research Corporation** and **Georgia Tech Applied Research Corporation**, (collectively the "Research Corporation"), as of and for the year ended June 30, 2007, which collectively comprise the Research Corporation's basic financial statements and have issued our report thereon dated November 15, 2007. 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 Financial Reporting

In planning and performing our audit, we considered the Research Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Research Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Research Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 through 2007-9 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Research Corporation'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.

The Research Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Research Corporation's responses and, accordingly, we express no opinion on them.

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
November 15, 2007

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

To the Board of Trustees of Georgia Tech Research Corporation,
Georgia Tech Applied Research Corporation, and
Georgia Institute of Technology:

Compliance

We have audited the compliance of Georgia Tech Research Corporation, Georgia Tech Applied Research Corporation, and the Georgia Institute of Technology (collectively hereinafter referred to as the "Organization") 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, 2007. The Organization'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 the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit and the report 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 each of the major programs. 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 the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion. Our audit and the report of the other auditors do not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-10 through 2007-12.

Internal Control Over Compliance

The management of the Organization 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 the Organization's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-4 through 2007-9 and 2007-12 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, management of the Organization, 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
February 21, 2008

I. Summary of Audit Results

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

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

Material weaknesses identified? None reported.

Significant deficiencies identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

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

Internal control over major programs:

Material weaknesses identified? None reported.

Significant deficiencies identified not considered to be material weaknesses? Yes

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

Research & Development Cluster	-	Unqualified
Education and Human Resources	-	Unqualified
Student Financial Assistance Cluster	-	Unqualified

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:

1. Research and Development Cluster under various CFDA numbers. These grants are funded by various sponsoring agencies.
2. Education & Human Resources under CFDA number 47.076. This grant is funded by the National Science Foundation.
3. Student Financial Assistance Cluster under various CFDA numbers. These grants are funded by the Department of Education.

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

Auditee qualified as a low-risk auditee: No

II. Financial Statement Findings

Finding No. 2007-1

Statement of Condition

The Research Corporation does not have an established formalized method for calculating an allowance for doubtful accounts receivable. In general, the Research Corporation reserves for all accounts outstanding over 180 days; however, it appeared the allowance was overstated by $399,000 when this methodology was reapplied. Accounts receivable should be reviewed periodically for uncollectible accounts and the allowance for doubtful accounts should be adjusted based on accounts receivable aging, historical write-offs, identified collection issues, and an overall evaluation of the accounts.

Criteria

The provision for bad debts should be periodically adjusted to properly match bad debt expense with the associated uncollectible revenues recognized.

Cause

The Research Corporation records an estimated annual provision for bad debts, but did not formally evaluate the allowance for doubtful accounts as of year-end.

Effect

The condition could result in misstatements in the financial statements including an inaccurate provision for uncollectible accounts.

Recommendation

The adequacy of the allowance should be reviewed during the year and adjusted based on the success of collection efforts, accounts aging, and an overall evaluation of the accounts. This should minimize the need for a year-end adjustment of this account and improve the accuracy of interim financial statements.

Management's Response

Management agrees it should formalize the process for evaluating potential bad debts at the end of the fiscal year. Management also agrees it should create a process for reviewing potential bad debts quarterly to ensure the sufficiency of funds in the allowance for doubtful ledger in the event of unexpected payment problems on the part of a major sponsor. In addition, GTRC will develop a procedure to adjust the allowance for doubtful accounts as Management deems necessary.

Finding No. 2007-2

Statement of Condition

Although investment activity is monitored using transaction activity reports from the bank, the short term investment accounts were not reconciled to the general ledger using the monthly account statements.

Criteria

The investments held in short term investment accounts should be reconciled to the account statements on a monthly basis to be certain that all investments made are reflected in the account statement and securities are being recorded at the proper value.

Cause

The Research Corporation did not have a procedure in place to perform a monthly reconciliation between the general ledger balance and the investment account statements.

Effect

The condition could result in the misappropriation of assets not being discovered or bank discrepancies not being identified and resolved in a timely manner.

Recommendation

We recommend the Research Corporation perform a monthly reconciliation of investment accounts with documented review to ensure all investment activity is properly accounted for. The reconciliation should be performed by an individual without authorization to initiate investment transactions.

Management's Response

GTRC and GTARC reconcile short term investments monthly from the cash statement provided by the financial institution. Individual deposits and withdrawals are shown on the statement and are compared to our detailed ledger. At year end, the investment statement from the financial institution did not match with the amounts calculated from the cash statement. The difference was not due to a reconciliation problem on our part, but rather a programming issue at the financial institution which has now been corrected.

However, a line has been added to the monthly investment account reconciliation to confirm the balance on the investment schedule matches with the amount calculated from the bank cash statement.

Finding No. 2007-3

Statement of Condition

The Director of Accounting has the ability to post journal entries without review by a second person. Also, there is no control in place to ensure all nonstandard journal entries recorded by the accounting staff are reviewed. Although the Research Corporation does have a policy for the Director of Accounting to review nonstandard entries posted by the Accounting Manager, and the Accounting Manager to review nonstandard journal entries posted by the Accounting Staff, there is no procedure to ensure all entries recorded are presented for review.

Criteria

All nonstandard journal entries should be authorized and reviewed by a person not preparing the journal entry.

Cause

The Research Corporation does not have an established policy for the review and recording of nonstandard journal entries.

Effect

The condition could result in misstatements in the financial statements due to error or fraud.

Recommendation

The Research Corporation should establish written policies and procedures related to the review and recording of non-standard journal entries. We recommend the Research Corporation require all nonstandard journal entries to be reviewed by a person not preparing the entry with documentation of approval maintained on a standard journal entry form. During the monthly close process, a report of manual journal entries recorded should be generated from the system and compared to the journal entries that have been approved. We also recommend the Research Corporation consider whether the accounting application system could be modified to allow journal entries to be approved electronically based on predetermined user roles and responsibilities.

Management's Response

In FY07, there were roughly 1,284 journal entries with 32,500 line items. Of this amount, 86% were system generated from interfaces from the receivable, project ledger, and payable systems. The remaining journal entries are monthly generated recurring manual journals to post items such as depreciation, salaries, allocation distributions, etc., and a few actual manual entries for rare items such as donated equipment. GTRC will clarify its procedure to require the Accounting Director and the Accounting Manager to sign all journal entries prepared by the other person. We will also write a procedure to require the General Manager to review and approve by signature all non-recurring manual entries.

GTRC will explore the cost and feasibility of enhancing the Oracle application at such time as the organizational structure and staffing support electronic workflow.

Finding No. 2007-4

Statement of Condition

The Georgia Institute of Technology ("GIT") does not perform a periodic review of logical user access to applications, databases or servers which resulted in inappropriate access rights in certain cases. Specific deficiencies identified include:

1. Logical access to the Salary, Planning and Distribution (SPD) module was not appropriately restricted. Two individuals (controller and assistant controller) had access that was not aligned with their current job roles and responsibilities. The individuals had access to maintain the distribution of salaries.
2. Less than optimal segregation of duties was identified for one individual (Business Analyst III) with logical security access to PeopleSoft applications. The individual was granted logical security access that allowed him/her to maintain the vendor masterfile and enter vendor invoices. Additionally, the same individual had global access to PeopleSoft production applications.
3. One individual (EIS Developer) is currently on leave of absence for an undetermined period of time. This individual had logical security access to PeopleSoft source code and applications.
4. One individual (EIS developer) had logical access to PeopleSoft that was not aligned with his/her current job roles and responsibilities. The individual was assigned to the user security group titled "GT_CSRs" which is no longer utilized by CSRs and was considered to be an inappropriate group for a developer.

Criteria

Logical security access should be limited to authorized users, aligned with the individual's job roles and responsibilities, and configured to enforce appropriate segregation of duties.

Effect

The condition could result in inappropriate or unauthorized transactions and misstatements in the Organization's financial statements.

Recommendations

Management should consider implementing periodic reviews of logical security access to applications, databases, and servers. It is recommended that these reviews be conducted by the user organization and appropriately documented to reflect resolution of any resulting changes to logical access. Documentation of these reviews should be maintained by management.

1. Management should consider modifying the individuals' logical security access in order to align the access with current job roles and responsibilities.
2. Management should consider modifying the individual's logical security access in order to enforce more optimal segregation of duties. Management should consider removing the individual's global access to the production PeopleSoft applications.
3. Management should consider disabling the user's account until he/she returns from leave of absence.
4. Management should consider removing this access from the individual's logical security profile.

Management's Response

As a result of the audit process, we recognized the need to include a standard process for review of user access with the applicable data steward. The System Management security team will be preparing reports for each data steward to review beginning October 1, 2007. It is EIS management intent to provide these reports and request feedback on a quarterly basis.

1. Both of these users have had updates made removing this access.
2. As a Business Analyst III this individual is required to access all files in her day to day activities of supporting/troubleshooting the Financial Modules. There is a control mechanism in place for this, a PeopleSoft query is performed each month to note operator's access to vendor records.
3. Access to the PeopleSoft application for the noted user has been removed.
4. Access to the role within the PeopleSoft application for the noted user has been removed.

Finding No. 2007-5

Statement of Condition

The Georgia Institute of Technology ("GIT") did not follow its policy that requires prior approval of logical security access rights. Specific deficiencies identified include:

1. Four of fourteen PeopleSoft logical security access change requests were not approved by a data steward in accordance with existing policies and procedures.

2. Two of two Oracle database logical security access change requests were not approved by a data steward in accordance with existing policies and procedures.

Criteria

Logical security access requests should be properly approved prior to implementation.

Effect

The condition could result in inappropriate or unauthorized transactions and misstatements in the Organization's financial statements.

Recommendations

Management should consider enforcing the existing policies and procedures or updating the policies and procedures to clearly articulate the method of approval that should be applied for information technology personnel.

Management's Response

The employees listed are hired in support of the PeopleSoft application as well as other applications and databases. There is a given that when a person is hired to fill a position in administrative support within Enterprise Information Systems, appropriate access levels are granted by their positional responsibilities. The data access policy will be updated to reflect this concern.

Finding No. 2007-6

Statement of Condition

The Georgia Institute of Technology ("GIT") policies and procedures do not define requirements or thresholds for events that should be logged and monitored. Additionally, documentation of each event resolution should be maintained.

Criteria

System events meeting specified criteria should be formally investigated, resolved and documented as they occur.

Effect

The condition could result in system failure or undetected unauthorized access to and modification of critical data.

Recommendation

Management should consider developing policies and procedures which clearly define events that require formally documented follow-up and resolution.

Management's Response

Operational guidelines will be updated to address this procedure and its frequency.

Finding No. 2007-7

Statement of Condition

The following GIT Oracle database password policy settings were not in place presenting less than optimal password configuration.

- Requirement to change password after a stated period of time (e.g., 30 or 45 days).
- Requirement that passwords be a minimum length (e.g., 6 characters or more).
- Requirement that passwords be complex or a dictionary prevents setting a password to common words.
- Requirement that the system logs out users after a period of inactivity (e.g. 30 minutes).

The database administrator group has been provided access to the Oracle system delivered accounts. The system delivered account passwords are known and shared by all database administrators.

Criteria

Databases should be properly secured to prevent inappropriate access to critical financial data. Password configuration policies should enforce rules that deter unauthorized access.

Effect

The condition could result in unauthorized access to and modification of critical financial data.

Recommendations

Management should consider implementing stronger password policies for the database. Management should also consider limiting knowledge of system delivered user ids and passwords to a minimum number of management personnel. Management should restrict the use of generic ids and assign unique user IDs to each database administrator to allow for more accurate logging of changes made at the administrative level and to prevent password sharing. Management should consider monitoring event logs associated with the system delivered accounts in order to evaluate the appropriateness of the related changes.

Management's Response

User access to Oracle directly is tightly controlled and maintained following standard access approval procedures. A user's ability to connect to an Oracle-specific database would also require the user to have access to the network which is similarly controlled. Network access is managed by Kerberos standards which do comply with requirements of regularly updated passwords of specific length, with special characters, and with timeout constraints. While forcing user access and password rules within Oracle is possible, the impact would significantly increase day-to-day administration. Utilizing delivered password/access controls within Oracle would impact all users, both human and system alike. Additional workflow would need to be created/automated to notify users when password expiration was imminent. In addition, each system user that accesses and Oracle database would need to also have the password parameters updated to ensure uninterrupted access.

Database Administrator access to Sys/System/Sysadm is only used when doing database administration such as: creating new databases, altering datafiles, performing database shutdown or startup, monitoring the database and changing system parameters. Oracle requires the use of these generic accounts for shutdown and startup tasks specifically. As a precaution, all Oracle default passwords for these standard accounts are reset from the original vendor default initially. Furthermore, all system changes show up in the alert log. The alert log, however, does not record username that entered the command. All other changes made by a DBA are tracked via username/password applicable to the application/system being supported. While DBA-specific user accounts could be defined for DBA tasks, Oracle auditing functionality would need be initiated and defined to capture the account/userid for specific types of changes beyond what is currently captured with the change alert log. This level of audit capture at the database level would negatively impact database response times.

EIS management will consider an update to the access policy to provide for the need for exception for Oracle DBA access specifically.

Finding No. 2007-8

Statement of Condition

GIT Oracle database administrators have access to source code and access to promote changes to production. The ability to promote changes should be restricted to a user with no programming, database administration or user access administration functions. Current access results in less than optimal segregation of duties.

Criteria

The ability to migrate source code to the production environment should be restricted to a limited number of individuals with no programming or database administration responsibilities.

Effect

The condition could result in unauthorized changes to production source code and objects.

Recommendation

Management should consider restricting access to promote changes to production to an individual that does not have development or user access administration responsibilities.

Management's Response

Database administrators promote source code changes through individual user access so that there is an auditable link to the changes and the individual database administrator. Often, these changes require additional changes to be made including clearing caches, restarting servers or similar actions that only the database administrator would have authority and access to complete. Policy will be reviewed for improvements by management.

Finding No. 2007-9

Statement of Condition

It was brought to our attention by GIT Management and the Internal Audit Department, that an internal control deficiency existed related to the operating effectiveness of certain purchasing card policies and procedures. These deficiencies, as described to us, consisted of the lack of proper supporting transaction documentation, lack of performing a timely reconciliation of the monthly purchasing card account statements to the supporting transaction documentation, and lack of approval of the monthly account reconciliations by a designated official.

Similarly, in our testing, we identified two purchasing card transactions that were not reconciled or reviewed in a timely manner in a sample of sixty nonlabor related expenditures. The respective purchase card monthly account statements did not contain the required card holder's documented review or the designated official's documented approval.

Criteria

According to the GIT's Purchasing Card Policy, a monthly purchase card account statement will be generated by Bank of America and mailed to the cardholder. When the cardholder or designated reconciler receives the statement, it must be reviewed and reconciled against the accountable documents retained from each transaction. The reconciled statement should be signed by the cardholder or designated reconciler and approved by the individual designated by the Department Head or PCard Coordinator.

Cause

The cardholder and designated approval official did not perform the monthly reconciliation and review as required.

Effect

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

Recommendation

We recommend the Organization reinforce their policy that requires all cardholders to reconcile their account statements monthly to their receipts, then sign and date the statements to document the completion of this reconciliation. The reconciled account statement should then require a review by a designated official and that the reviewer sign and date the statements to document approval. In addition, we recommend the Organization have mandatory training on awareness of fraud and financial accountability for all employees involved in the purchase card program.

Questioned Cost

None.

Management Response

We concur with this finding and recommendation. The Divisions of Administration & Finance and Internal Auditing are implementing comprehensive changes to the GIT Purchasing Card program. These changes include improved internal control mechanisms to ensure proper and timely review of all P-card account statements and related account reconciliations. This work will be completed prior to June 30, 2008.

III. Federal Award Findings and Questioned Costs

Finding No. 2007-10

See Exhibit 7-10 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 the Organization with various Federal agencies were not submitted on time or were inaccurate as to the information presented. Of a total of forty financial reports subjected to testing, two were not submitted on time and one contained inaccurate financial information. The inaccurate report was subsequently corrected.

Criteria

In accordance with 32 CFR section 32.21 and 32.52, the Organization is required to maintain and report accurate, current and complete disclosures of the financial results of each federally-sponsored project or program in accordance with the reporting requirements. The Organization is required to use the standard financial reporting forms or such other forms as may be authorized by OMB to report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. The Federal awarding agency shall determine the frequency of the financial report for each project or program, considering the size and complexity of the particular project or program. However, the report shall not be required more frequently than quarterly or less frequently than annually. A final report shall be required at the completion of the award.

Cause

The cause of inaccurate or untimely reports, as stated to us, was human error.

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 institute policies and procedures to ensure that all contractual deliverables are submitted to the contracting agencies by the specified due dates and to ensure the financial information included in the reports is accurate and agrees to the general ledger.

Questioned Cost

None.

Management Response

We concur with this finding and recommendation. During the next fiscal year, special attention will be focused on additions to staff training programs and/or Accounting Manager review and oversight activities to assure the maintenance of all required financial details to permit submission of all financial reports in an accurate and timely manner. In addition, we will study the findings identified above and notify each Project Accountant responsible for preparation and completion of the report that this report was identified as a finding in the annual A-133 audit report as having been inaccurate or filed late. This notification will indicate the need for improved performance. This work will be completed prior to June 30, 2008.

Georgia Tech Research Corporation,
Georgia Tech Applied Research Corporation, and
Georgia Institute of Technology

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Exhibit 7-10

	Agency	CFDA Number	Major Program	Award Year	Pass-Through Grantor / Program Title	Contract Number	Reference Number	Report Type	Date Due	Delivery Date	Condition Noted
1	NASA	43.OFA	R&D	2003	AN INTEGRATED SYSTEMS APPROACH TO REVOLUTIONARY AEROPROPULSION AND POWER	E-16-14	R3989	SF-272	7/16/2007	7/16/2007	Errors in report
2	DOE	81.OFA	R&D	2004	NOVEL APPROACHES TO HIGH-EFFICIENCY III-V NITRIDE HETEROSTRUCTURE EMITTERS	E-21-6NU	R5011	SF-269A	1/30/2007	2/1/2007	Late submission
3	NSF	47.076	NSF 47.076	2004	PARTNERSHIP FOR REFORM IN SCIENCE AND MATHEMATICS	B-21-800	Y0001	SF-272	2/12/2007	2/13/2007	Late submission

Finding No. 2007-11

See Exhibit 7-11 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 or were not submitted as specified in the grant and contractual agreements. Of a total of forty performance reports subjected to testing, fifteen were not submitted on time and submission could not be verified for one report.

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. With certain exceptions, performance reports shall not be required more frequently than quarterly or less frequently than annually. Annual reports shall be due 90 calendar days after the award year; quarterly or semi-annual reports shall be due 30 calendar days after the reporting period. Federal awarding agencies may require annual reports before the anniversary dates of multiple year awards in lieu of these requirements. The final performance reports are due 90 calendar days after the expiration or termination of the award. 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.

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 and authorized by proper personnel.

Questioned Cost

None.

Management Response

We concur with this finding and recommendation. Prior to August 31, 2008, actions identified below will be taken to address the weaknesses identified in this finding to make progress toward ensuring that all required contractual deliverables are submitted to the contracting agencies in a timely fashion:

1. Study the findings identified in this report and notify each Project Director, Department Head and Unit Financial Officer that their report was identified as part of a finding in the Annual A-133 Audit report as having been filed late, not filed, or not completed properly.
2. Continue to make available Upcoming Deliverables Due and Overdue Deliverables Lists for all sponsored research projects. This report is made available to members of upper administration, including Deans, School Chairs, and Lab/Center Directors, as well as all Project Directors.
3. Continue to encourage the use by Project Directors and Campus Business Officers of the web-based system that sends automatic E-mail reminders for upcoming deliverables due and facilitates submission of those deliverables to project sponsors and OSP via the web.
4. A letter will be sent from the Senior Vice Provost for Research and Innovation to each Dean, School Chair, and Lab/Center Director to stress the importance of timely submission of progress reports, final reports, and other special reports as required by grant and contractual agreements.

GIT agrees that we continue to have issues with timely report filing but believe we will continue to have some issues related to reports based on the large number of grants in process and the number of principal investigators involved in the reporting process. However, we believe the finding does not warrant further action as described in the Summary Schedule of Prior Audit Findings.

Our corrective action plan as detailed above will be fully implemented and we will continue to stress the importance of timely report filing, however we do not consider this finding to be material.

Georgia Tech Research Corporation,
Georgia Tech Applied Research Corporation, and
Georgia Institute of Technology

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Exhibit 7-11

	Agency	CFDA Number	Major Program	Pass-Through Grantor / Program Title	Award Year	Contract Number	Reference Number	Type of report	Date Due	Delivery Date
1	Army	12.800	R&D	Voice And Gesture Recognition Experiments	2006	N/A	A7806	Contract Funds Status Report	2/15/2007	2/19/2007
2	Army	12.431	R&D	Science Of Land Target Spectral Signatures	2003	G-41-Z93	R3873	Interim Progress Report	8/31/2006	1/18/2007
3	NASA	43.OFA	R&D	An Integrated Systems Approach to Revolutionary Aeropropulsion	2003	E-16-V14	R3989	Progress Report	1/15/2007	1/18/07
4	NSF	47.070	R&D	Analysis of Complex Audio-Visual Events	2003	C-50-6AY	R4122	Annual Progress Report	7/1/2006	8/7/06
5	DOE	81.OFA	R&D	Novel Approaches to High-Efficiency Nitride Emitters	2004	E-21-6NU	R5011	Monthly Highlight Report	12/15/2006	12/20/06
6	NSF	47.070	R&D	Morphable Software Services	2004	C-49-640	R5025	Annual Progress Report	7/1/2006	9/15/06
7	DOE	81.049	R&D	Dissimilatory Metal Reduction	2004	E-20-J87	R5113	Annual Progress Report	8/14/2006	Not submitted
8	NSF	47.000	R&D	Quantitative Ultrasonic Atomic Force Microscopy	2004	E-25-6FZ	R5155	Annual Project Report	2/1/2007	2/3/07
9	NSF	47.070	R&D	Telesign: Towards a One-Way Sign Language Translator	2005	C-64-606	R6177	Status Report	1/31/2007	2/19/07
10	GSA	39.OFA	R&D	Multi-Year Augmentation Services	2005	D-48-6J1	R6325	Progress Report	3/15/2007	3/20/07
11	HHS	93.226	R&D	Comprehensive It Solution for Medication Errors in Pediatrics	2005	N/A	R6462	Quarterly Progress Report	4/30/2007	8/13/07
12	NSF	47.044	R&D	The Evolution of Simple Versus Complex Biomechanical Systems	2006	N/A	R6971	Annual Progress Report	11/1/2006	12/9/06
13	NSF	47.041	R&D	National Nanotechnology Infrastructure Network Reu Program	2006	N/A	R7038	Annual Progress Report	1/1/2007	1/8/07
14	NASA	43.OFA	R&D	Integrated Electronics For Extreme Environments	2006	N/A	R7183	Cost Performance Report	8/14/2006	8/15/06
15	NSF	47.076	NSF 47.076	Federal Cyber Service: Scholarship for Service	2003	C-43-602	R3772	Annual progress report	5/30/2007	6/7/07
16	NSF	47.076	NSF 47.076	Facilitating Academic Careers in Engineering and Science	2005	I-66-606	R5702	Annual cost share report	9/30/2007	10/17/07

Finding No. 2007-12

See Exhibit 7-12 for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

Statement of Condition

The Organization does not have a formal policy to monitor for-profit subrecipients' compliance with applicable requirements. The Organization did not require annual certification letters from for-profit subrecipents which provide written representation the entity complied with the applicable compliance requirements and would allow the Organization to make a timely management decision on any audit findings if needed. Of a total of forty subrecipients subjected to testing, the Organization did not obtain an annual certification of compliance from six for-profit subrecipients and the Organization did not communicate the sufficient award information to two of the subject for-profit subrecipients. The costs reviewed under the subject subaward agreements were determined to be allowable.

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 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.
- **Pass-through Entity Responsibilities** – At the time of the award, identifying to the subrecipient the Federal award information and advise the subrecipient of applicable compliance requirements (e.g., CFDA title and number if available, award name, name of Federal agency, source or governing requirements, and specific compliance or regulatory requirements).

Cause

The Organization did not have a formal policy in place to require documented certification of compliance by for-profit subrecipients. The Organization did not have a procedure in place to ensure required federal award information is included in subaward agreements with for-profit entities.

Effect

If proper monitoring of subawards does not occur, the award requirements may not be properly administered resulting in potential unallowable activities or unallowable costs or other noncompliance with Federal grant regulations.

Recommendation

The Organization should develop an annual certification request form that is completed by each for-profit subrecipient that certifies the subrecipient has complied with the applicable compliance requirements. The Organization should establish a procedure or develop a standard form for all federal subaward agreements with for-profits to ensure the required federal award information and compliance responsibilities are communicated to subrecipients. When certain federal award information is not available, the Organization should communicate as much information as possible to identify the award, federal agency, source of governing awards, and specific compliance requirements.

Questioned Cost

None.

Management Response

We concur with the finding and recommendation regarding monitoring our for-profit sub-recipients. Prior to April 30, 2008, we will implement a procedure to require that additional financial information be obtained as part of our annual sub-recipient certification letter process, specifically for our for-profit sub-recipients.

Georgia Tech Research Corporation,
Georgia Tech Applied Research Corporation, and
Georgia Institute of Technology

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Exhibit 7-12

	Agency	CFDA Number	Major Program	Pass-Through Grantor / Program Title	Award Year	Contract Number	Reference Number	Subrecipient
1	DOD	12.800	R&D	Engineering, Manufacture & Dev. for IDA	2002	0A6820000	A6820	Queued Solutions, LLC
2	Army	12.431	R&D	EAADS Sort Range Integrated Kinetic Energy System	2004	0A7239000	A7239	Coretech Systems, Inc.
3	Army	12.800	R&D	Defense Research, Engineering, Science and Technology	2006	0A78060000	A7806	Ares Corporation
4	Air Force	12.800	R&D	Eglin Range Test Data Transport System Upgrade	2006	0D21060000	D2106	Barlovento, LLC
5	DOD	12.000	R&D	Electronic Attach Modeling	2007	0D52330000	D5233	Booz Allen Hamilton, Inc.
6	NSF	47.070	R&D	Telesign: Towards a One-Way Sign Language Translator	2005	3646606	R6177	Harley Hamilton

Financial Statement Findings

Finding 2006-1 Failure to properly recognize advance sponsor payments

Status: Corrective Action Plan Implemented

Finding 2006-2 Failure to recognize revenue when earned

Status: Corrective Action Plan Implemented

Federal Award Findings and Questioned Costs

Finding 2006-3 Financial reports not submitted, or not submitted on time.

Status: Corrective action plan implemented; however, similar instances of noncompliance were noted in 2007, see Finding 2007-10.

Finding 2006-4 Progress/special reports not submitted, not submitted on time, or submitted with missing components.

Status: Corrective action plan implemented; however, similar instances of noncompliance were noted in 2007, see Finding 2007-11.

Finding 2006-5 A management decision on findings was not issued within six months of the subrecipient's audit report date.

Status: Corrective Action Plan Implemented.

Finding 2005-3 Progress/special reports not submitted, not submitted on time, or submitted with missing components.

Status: Does not warrant further action.

Circular A-133 and the AICPA Audit Guide, Government Auditing Standards and Circular A-133 Audits, provides guidance for reporting for findings that were included in the prior audit's summary schedule of prior findings. One of the finding types addressed relates to findings that do not warrant further action. A valid reason for not warranting further action is defined as one that meets all of the following criteria: (1) two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse, (2) The federal agency or pass-through entity is not currently following up with the auditee on the audit finding, and (3) a management decision was not issued. Circular A-133 defines a management decision as the evaluation by the federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision about what corrective action is necessary.

We believe that we meet the "not warranting further action" exception since: (1) more than two years have passed since the issuance of the original audit report that contained the finding and more than two years have passed since the submission of the report to the federal clearinghouse, (2) the federal agencies or pass-through entities have not followed up with us on the audit finding, and (3) a management decision has not been issued.