

**Georgia Institute of Technology/Georgia Tech Research Corporation
A-133 Coordinated Audit
Schedule of Findings, Recommendations, Questioned Costs,
and Corrective Action Plans
Year Ended June 30, 2006**

Georgia Institute of Technology/Georgia Tech Research Corporation
A-133 Coordinated Audit
Schedule of Findings, Recommendations, Questioned Costs,
and Corrective Action Plans
Year Ended June 30, 2006

March 1, 2007

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

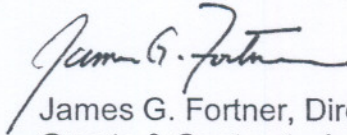
This report has been prepared to present the findings, recommendations, and questioned costs as identified in the audit reports covering services performed for Georgia Institute of Technology/Georgia Tech Research Corporation as part of the OMB Circular A-133 Coordinated Audit for the year ended June 30, 2006.

The FY 2006 A-133 Coordinated Audit incorporated the work of two auditors as identified below:

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

Page three of this report describes the specific audit coverage provided by each auditor, and the balance of the report describes the individual findings, recommendations, and questioned costs identified in each report for the year ended June 30, 2006. In addition, the report provides a description of the corrective action plans for FY 2006 findings and the status of prior year corrective action plans.

Submitted by:



James G. Fortner, Director
Grants & Contracts Accounting

Georgia Institute of Technology/Georgia Tech Research Corporation
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FY 2006 A-133 Coordinated Audits Performed

1. Financial Statements of Georgia Institute of Technology
 - Audit performed by the Department of Audits of the State of Georgia
 - See findings included in this report.

2. Financial Statements of Georgia Tech Research Corporation/Georgia Tech Applied Research Corporation
 - Audit performed by Grant Thornton, LLP, Certified Public Accountants
 - See findings included in this report

3. A-133 Compliance Requirements
 - Audit performed by Grant Thornton, LLP, Certified Public Accountants
 - Compliance Requirements
 - A. Activities Allowed or Unallowed
 - B. Allowable Costs/Cost Principles
 - C. Cash Management
 - D. Davis-Bacon
 - E. Eligibility
 - G. Matching, Level of Effort, Earmarking
 - H. Period of Availability of Funds
 - J. Program Income
 - L. Reporting
 - M. Subrecipient Monitoring
 - N. Special Tests and Provisions
 - See findings included in this report

4. A-133 Compliance Requirements
 - Audit performed by the Department of Audits of the State of Georgia
 - Compliance Requirements
 - F. Equipment and Real Property
 - I. Procurement and Suspension
 - K. Real Property Acquisition and Relocation
 - See findings included in this report

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Summary Schedule of Findings, Recommendations and Questioned Costs

Current Year

Grant Thornton, LLP A-133 Compliance Requirements

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Status of Prior Year Findings and Questioned Costs

<u>Finding Number</u>	<u>Audit Control Number</u>	<u>Status of Finding</u>
04-1	Finding Control Number: FS-503-04-01	Corrective Action Plan Implemented
05-2	Finding Control Number: FS-503-05-01	Corrective Action Plan Implemented
GT 05-1	Finding Control Number: FA-503-05-03	Corrective Action Plan Implemented
GT 05-3	Finding Control Number: FA-503-05-04	Corrective Action Plan Implemented
GT 05-4	Finding Control Number: FA-503-05-05	Corrective Action Plan Implemented
GT 05-5	Finding Control Number: FA-503-05-06	Corrective Action Plan Implemented
GT 05-7	Finding Control Number: FA-503-05-08	Corrective Action Plan Implemented
GT 05-6	Finding Control Number: FA-503-05-07	Corrective Action Plan Implemented
GT 05-8	Finding Control Number: FA-503-05-09	Corrective Action Plan Implemented
GT 05-9	Finding Control Number: FA-503-05-10	Corrective Action Plan Implemented
GT 05-10	Finding Control Number: FA-503-05-11	Corrective Action Plan Implemented
GT 05-11	Finding Control Number: FA-503-05-12	Corrective Action Plan Implemented
GT 05-12	Finding Control Number: FA-503-05-01	Corrective Action Plan Implemented

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FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

GT 06-1 Premature Recognition of Advance Payments (Finding Number: FS-503-06-01)

Statement of Condition

We identified payments received in advance from sponsors that were prematurely recognized before the revenue was earned. These payments related to recurring invoices set up in the accounting application system when the payment was received for contracts with fixed payment schedules. For example, under the terms of certain contracts, payments were due on July 1, 2006; however, the related revenue was recognized when the sponsor payment was received which was prior to the due date. This resulted in a revenue cut-off error at year end.

Criteria

Contract revenue should be recognized in the period earned.

Effect

The condition could result in misstatements in the Organization's financial statements.

Recommendation

We recommend that the Organization establish procedures and accounting application controls to ensure revenue payments received for fixed payment schedule contracts and sponsor payments received in advance are accounted for in accordance with the contract terms and generally accepted accounting principles.

Management Response

Management concurs in this recommendation and engaged its Oracle Financials consultant to assist in developing a new procedure to minimize the possibility of revenue being recognized in advance of the actual billing date. A new automated procedure has been implemented to delay recognition of revenue until the time the recurring invoice is generated.

Contact Person: Barbara Alexander, Director GTRC/GTARC Accounting
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FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

GT 06-2 Failure to Recognize Revenue in Accordance with GAAP (Finding Number: FS-503-06-02)

Statement of Condition

The Organization does not recognize revenue for some reimbursement basis contracts in accordance with generally accepted accounting principles. The Organization recognizes revenue when the sponsor is billed, as opposed to when the costs are incurred and the revenue is earned.

Criteria

Contract revenue and expense should be recognized in accordance with generally accepted accounting principles.

Effect

The condition could result in misstatements in the Organization's financial statements.

Recommendation

We recommend the Organization implement a revenue recognition policy to recognize revenue related to reimbursement basis contracts when the costs are incurred and accumulated as research in process.

Management Response

Management agrees that revenue should be recognized when costs are incurred as research is conducted. However, current systems and staffing levels limit the ability to do this on a monthly basis and, in addition, such monthly adjustments would create reconciliation problems with the sub ledgers. To prevent misstatements in the organization's financial statements, an annual, June 30, adjusting entry will be made.

Contact Person: Barbara Alexander, Director GTRC/GTARC Accounting
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FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - REPORTING

GT 06-3 Financial Reports Submitted Late or with Inaccuracies (Finding Number: FA-503-06-01)

See Exhibit 6-3 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.

Criteria

The OMB Circular A-133 Compliance Supplement Section 3.L suggests that recipients use the standard financial reporting forms or such other forms as may be authorized by OMB. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. 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 agree to the general ledger and be traceable to source documentation without exception in order to assure accurate accounting and billing procedures.

Effect

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

Cause

The cause of inaccurate 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 continue to be made by the Organization to institute policies and procedures 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.

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FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - REPORTING

GT 06-3 Financial Reports Submitted Late or with Inaccuracies (Finding Number: FA-503-06-01) - Continued

Management Response

We concur with this finding and recommendation. Prior to June 30, 2007, actions identified below will be taken to address the weaknesses identified in this finding to help ensure that all required Financial Reports are submitted in a timely fashion:

1. 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.
2. If the report had been filed late due to transactions or other reports not being prepared and/or submitted by the Project Director or Campus Financial Officer, notify each participant the report was identified as a finding in the Annual A-133 Audit report as having been Filed Late. This notification will indicate the need for improved performance.
3. Develop new Grants and Contracts management report(s) to identify specific reporting requirements and deadlines.

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Exhibit 6-3

Agency	CFDA Number	Cluster/ Major Program	Pass-Through Grantor/ Program Title	Contract Number	Reference Number	Report Type	Date Due	Delivery Date	Reason for Finding
1 Air Force	12.800	R&D	Research in Science and Engineering	21066T4	R4530	SF 272	10/15/05	10/13/06	Errors in Report
2 Air Force	12.800	R&D	Research in Science and Engineering	1606V91	R4686	SF 272	01/15/06	01/25/06	Late Submission
3 Army	12.431	R&D	Basic Scientific Research	1606X20	R5711	SF 272	01/15/06	01/31/06	Late Submission

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FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - REPORTING

GT 06-4 Progress/Special Reports Not Submitted, Not Submitted on Time, Or Not Properly Authorized
(Finding Number: FA-503-06-02)

See Exhibit 6-4 for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

Statement of Condition

Numerous progress/special performance reports required by grant and contractual agreements entered into by the Organization with various Federal agencies were not submitted, not submitted on time, 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. In addition, the grant award may stipulate additional performance reporting requirements. 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.

Effect

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

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.

Recommendation

Efforts should continue to be made by the Organization to institute 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.

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FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - REPORTING

GT 06-4 Progress/Special Reports Not Submitted, Not Submitted on Time, Or Not Properly Authorized
(Finding Number: FA-503-06-02) – Continued

Management Response

We concur with this finding and recommendation. Prior to August 31, 2007, actions identified below will be taken to address the weaknesses identified in this finding to help ensure 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 a finding in the Annual A-133 Audit report as having been filed late, not filed, or not completed properly.
2. Publish information that OSP has expanded its capability to provide a list of all project deliverable information to each PD/PI and all levels of management within a unit via a web-based query tool.
3. Publish information about the fact that the full grant/contract documents and associated terms & conditions for each sponsored award are available as a scanned file using our web-based contract information system to all Project Directors and Campus Officers.
4. Enhance the information presented in OSP training programs about the importance of submitting all Project Deliverables accurately and on time.
5. 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.
6. Continue to encourage the use by Project Directors and Campus Officers of a new 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 E-mail attachments.

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FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - REPORTING

GT 06-4 Progress/Special Reports Not Submitted, Not Submitted on Time, Or Not Properly Authorized
(Finding Number: FA-503-06-02) – Continued

Exhibit 6-4

Agency	CFDA Number	Cluster/ Major Program	Pass-Through Grantor/Program Title	Contract Number	Reference Number	Report Type	Date Due	Delivery Date
1 Air Force	12.800	R&D	SSAI/Melbourne, FL	0A7574000	A7574	Monthly Status Report	8/15/2005	8/19/05
2 US. Army	12.431	R&D	Aquatic Plant Control	0A7722000	A7722	Quarterly Status Report	5/11/2006	5/26/06
3 DOD	12.OFA	R&D		0A7755000	A7755	Progress Status Report	2/20/2006	2/21/06
4 U.S. Navy	12.300	R&D	Basic and Applied Scientific Research	0A79160000	A7916	Monthly Status Report	4/20/2006	4/21/06
5 DOE	81.OFA	R&D		2106F60	R2315	Quarterly Progress Report	1/30/2006	2/28/06
6 DOE	81.OFA	R&D	Southeastern University Research Association	6526610	R3017	Final Process Report	12/31/2005	Not Submitted
7 NIH	93.859	R&D	Discovery and Applied Research for Technological Innovations to Improve Human Health	21066JT	R4065	Annual Progress Report	6/1/2006	7/12/06
8 NSF	47.076	R&D	Education and Human Resources	3606A98	R4289	Annual Progress Report	10/15/2005	12/14/05
9 Air Force	12.800	R&D	Basic, Applied, and Advanced Research in Science and Engineering	21066T4	R4530	Annual Performance Rpt	9/1/2005	Not Submitted
10 Cornell University	47.041	R&D	Engineering Grants	1306648	R5472	Annual Report	3/1/2006	Not Submitted
11 Army	12.431	R&D	Basic Scientific Research	1606X20	R5711	Interim Progress Report	12/31/2005	Not Submitted
12 Air Force	12.800	R&D	Air Force Defense Research Sciences Program	36166CY	R5878	Quarterly Tech. Status Rpt	4/15/2006	Not Submitted
13 Army	12.100	R&D	Raytheon	21066YU	R6290	Monthly Summary Report	9/15/2005	9/26/05
14 NSF	47.076	NSF	Education and Human Resources	12566B4	R4855	Annual Progress Report	05/12/06	08/28/06
15 NSF	47.076	NSF	Education and Human Resources	5006691	R4254	Annual Progress Report	08/30/05	Not submitted
16 NSF	47.076	NSF	Education and Human Resources	9986871D0	N71D0	Annual Progress Report	09/30/05	09/28/06
17 NSF	47.076	NSF	Education and Human Resources	3626602	R3772	Annual Progress Report	05/31/05	06/28/06

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FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – SUBRECIPIENT MONITORING

GT 06-5 Failure to Adequately Monitor Subrecipients (Finding Number: FA-503-06-03)

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

Statement of Condition

The Organization did obtain OMB Circular A-133 audit certification letters which indicate the subrecipient met the audit requirements from their subrecipients selected for testing. However, the Organization, as the subgrantor agency, did not evaluate the impact of certain subrecipients findings identified in their OMB Circular A-133 audits.

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 \$500,000 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

The Organization's failure to adequately monitor subrecipients with findings identified could result in potential unallowable activities or unallowable costs or other noncompliance with Federal grant regulations.

Cause

The Organization did not evaluate the audit certification letters received from subrecipients in a timely manner to ascertain whether or not additional follow up actions were warranted.

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FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – SUBRECIPIENT MONITORING

GT 06-5 Failure to Adequately Monitor Subrecipients (Finding Number: FA-503-06-03) – Continued

Recommendation

The Organization should perform a documented review of the audit certification letters received from subrecipients in a timely manner. The Organization should evaluate the impact of any findings identified and determine whether or not follow up action is required. For subrecipients with findings identified that may impact the Organization's pass-through awards, Management should ensure the subrecipient takes timely and suitable corrective actions for findings identified.

Questioned Cost

None.

Management Response

We concur with this finding and recommendation. Prior to March 31, 2007, we will implement a modified procedure to require specific written documentation that no follow-up action is required by the pass-through entity (Georgia Tech) when the sub-recipient provides proper certification stating that there was no audit findings related to the Federal awards provided by Georgia Tech.

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Exhibit 6-5

Agency	CFDA Number	Cluster/Major Program	Pass-Through Grantor/Program Title	Contract Number	Reference Number	Subrecipient	Audit Report Received	Results
1 NIH	93.837	R&D	Heart and Vascular Diseases Research	12566C2	R4946	Baylor College of Medicine	4/18/2006	Corrective action plan was not requested or obtained in a timely manner.
2 Air Force	12.63	R&D	Basic, Applied, and Advanced Research in Science and Engineering	1606V91	R4686	The Regents of the University of California	4/3/2006	Corrective action plan was not requested or obtained in a timely manner.