



DEFENSE CONTRACT AUDIT AGENCY
AUDIT REPORT NO. 01101-2004T11070001



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SUBJECT: Report on Audit of Overall Accounting System Controls

REFERENCES: Chron. No. 5-182

CONTRACTOR: Georgia Institute of Technology
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REPORT RELEASE RESTRICTIONS: See Page 6

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SUBJECT OF AUDIT

We have examined Georgia Institute of Technology's (GIT) control environment and overall accounting system controls as of May 2005 to assure GIT's accounting system and related internal controls:

- comply with applicable laws and regulations;
- are effective over compliance with applicable laws and regulations; and
- are adequate and operating effectively.

GIT is responsible for establishing and maintaining an adequate accounting system. Our responsibility is to express an opinion on the adequacy of the overall accounting system controls based on our examination.

SCOPE OF AUDIT

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we obtain a sufficient understanding of internal controls to plan financial audits and determine the nature, timing, and extent of tests to be performed. An examination of internal controls includes:

- identifying relevant system control objectives and associated control activities,
- obtaining an understanding of all applicable components of internal control for the identified control objectives and activities,
- determining if the internal controls are adequate and in operation, and
- assessing control risk to use as a basis for planning the nature, timing, and extent of substantive testing in other attestation audits.

We evaluated the overall accounting system controls using the applicable requirements contained in the:

- Federal Acquisition Regulations (FAR);
- Defense FAR Supplement (DFARS);
- Cost Accounting Standards for Educational Institutions;
- DoD Grant and Agreement Regulations (DoDGARS);
- OMB Circular No. A-21, Cost Principles for Educational Institutions;
- OMB Circular No. A-110, Uniform Requirement for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations;
- OMB Circular No. A-133, Audits of States, Local Government, and Non-Profit Organizations; and
- OMB Circular No. A-133 Compliance Supplement.

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Our examination specifically tested the accounting system's internal control procedures associated with the following control objectives:

- Management's integrity and ethical values;
- Independence of the Board of Directors/Audit Committee;
- Structural organization for planning, directing, and controlling operations;
- Management's assignment of authority and responsibility;
- Management's monitoring/analyzing of financial resources;
- Design of the overall accounting system; and
- Assignment of costs to cost objectives.

Test procedures were applied from June 2004 to May 2005.

We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over the accounting system to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

RESULTS OF AUDIT

In our opinion, the overall accounting system and related internal control policies and procedures of GIT are adequate.

During the course of our examination, we also noted other matters involving the accounting system and related internal controls which, although not considered to be significant deficiencies at this time, we believe should be communicated to the management of GIT. These matters are detailed in the "Suggestion to Improve the System" appendix included on page 8 of this report.

As a result of control risk assessments, our audit effort in the following areas will be decreased: incurred costs, contract pricing, and contract reporting.

We examined only the overall accounting system. Accordingly, we express no opinion on GIT's system of internal controls taken as a whole.

We discussed the results of our examination with Mr. Charles Duffy, Director, Grants and Contract Accounting, in an exit conference held on May 18, 2005.

CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization

Georgia Institute of Technology (GIT) was founded in 1885 and is a state-owned and operated educational institution. GIT performs research and development, public service, and instruction services primarily through its units of Georgia Tech Research Institute (GTRI) and Resident Instruction (RI), using the facilities of GTRI and/or its academic departments. The other units of the institute are: Continuing Education (CE), Center for Assistive Technology & Environmental Access (CATEA), Economic Development Institute (EDI), and the Advanced Technology Development Center (ATDC). Since GIT, also known as the Institute, is an agency of the State of Georgia and is subject to various restrictions on contracting, Georgia Tech Research Corporation (GTRC) and Georgia Tech Applied Research Corporation (GTARC) were organized as separate corporations in order to assist the research program at GIT.

GTRC functions as the contracting agency of GIT's (units other than GTRI) sponsored activities. GTRC enters into contracts and grant agreements with industry, individuals and federal agencies, for services to be performed by employees and students of the Institute. GTRC further serves as a parent agency for obtaining patents on GIT's inventions and for licensing GIT's development and commercialization by industry. GTARC performs similar functions for GTRI's sponsored activities.

Total federal expenditures for the fiscal year ending June 30, 2004 were \$266 million, including research and development expenditures in the amount of \$240 million. Approximately 2,000 academic and research faculty, and 5,000 graduate students work directly on research projects.

2. Overall Accounting System

GIT is managed by the Board of Regents of the University System of Georgia, who makes decisions independent from the other divisions. GIT has an internal audit department consisting of at least one employee who is a certified internal auditor. The internal audit department performs financial, operational/performance, information technology, departmental, and special audits each fiscal year according to an established audit plan, and upon special request. GIT uses Grant Thornton, LLP to perform annual audits of the financial statements and the related internal control over financial reporting. Additionally, the State of Georgia performs an annual audit of GIT's financial statements and related internal controls. GIT's accounting period is from July 1 to June 30. GIT's accounting system is computerized, and utilizes a PeopleSoft general ledger software program, which is common to educational universities. Separate accounting software modules are used for general ledger, reporting, purchases/accounts payables, human resources, and labor distribution and payroll. GIT's general ledger software includes job-cost ledgers. GIT

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maintains policies and procedures for all aspects of the accounting system, including the screening of unallowable costs and the assignment of costs to cost objectives. The contractor maintains separate accounts and account codes to permit the identification of significant expenditure categories for federal costing purposes, used to prepare proposals and other federal reports that conform to the provisions of OMB Circulars and FAR.

For financial reporting purposes, the Institute is considered a special-purpose government engaged only in business-type activities. Accordingly, the Institute's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, except for reporting of summer school revenues and expenses. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-Institute transactions have been eliminated.

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**SUGGESTION TO IMPROVE THE SYSTEM - PERIODIC TRAINING
ON CODE OF ETHICS**

The contractor's policies on Integrity and Code of Ethics, while abundant, do not provide for periodic training to all employees of Georgia Institute of Technology at an overall level. Integrity and Code of Ethics training help to set the tone of an organization, influencing the control consciousness of its people. It helps to provide discipline and structure to other components of internal control.

We recommend GIT ensure the following:

- all employees receive training on ethics periodically, such as on an annual basis
- all employees be required to sign a formal acknowledgement of the annual training
- documentation of this step in the policies and procedures

The contractor should implement an annual training process, such as presentation during a staff conference, along with hand out of acknowledgment for signature by each employee, or an on-line program the employees could access and generate an acknowledgment to certify that they've taken the training. The acknowledgments should be kept in a central location.

The contractor agrees with our suggestion to improve the system and is planning to implement a training program related to Code of Ethics at an overall level.