

***INSTITUTE FOR SYSTEMS BIOLOGY***

Single Audit Reports

For the Year Ended December 31, 2013

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***Report 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***

***Independent Auditor's Report***

***Board of Directors  
Institute for Systems Biology  
Seattle, Washington***

We have audited, in accordance with the 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, the financial statements of the Institute for Systems Biology (the Institute), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 2, 2014.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

# CLARK NUBER

Certified Public  
Accountants  
and Consultants

## ***COMPLIANCE AND OTHER MATTERS***

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from 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*.

## ***PURPOSE OF THIS REPORT***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Institute's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Clark Nuber P.S.*

Certified Public Accountants  
July 2, 2014

***Report on Compliance For Each Major Federal Program;  
Report on Internal Control Over Compliance; and  
Report on Schedule of Expenditures of Federal Awards  
Required by OMB Circular A-133***

***Independent Auditor's Report***

***Board of Directors  
Institute for Systems Biology  
Seattle, Washington***

***REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM***

We have audited the Institute for Systems Biology's (the Institute's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended December 31, 2013. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Institute's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

# CLARK NUBER

## ***Opinion on Each Major Federal Program***

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

## ***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, 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 2013-001, 2013-002, and 2013-003. Our opinion on each major federal program is not modified with respect to these matters.

The Institute's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Institute's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Institute's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

# CLARK NUBER

Certified Public  
Accountants  
and Consultants

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-001, 2013-002, and 2013-003, that we consider to be significant deficiencies.

The Institute's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Institute's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## ***REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

We have audited the financial statements of the Institute as of and for the year ended December 31, 2013, and have issued our report thereon dated July 2, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Clark Nuber P.S.*

Certified Public Accountants  
July 2, 2014

**INSTITUTE FOR SYSTEMS BIOLOGY**

**Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2013**

<i>Program Title/Federal Grantor/Pass-Through Grantor</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Number</i>	<i>Fiscal Year Expenditures</i>
<b>Research and Development Cluster:</b>			
U.S Department of Health and Human Services-			
National Institutes of Health:			
FLU: A Systems Biology Approach to			
Infectious Disease Research	93.HHSN272200800058C		\$ 2,091,762
Human Genome Research	93.172		266,623
Cancer Detection and Diagnosis Research	93.394		1,669,876
Cancer Biology Research	93.396		85,609
Trans-NIH Research Support-			
Direct	93.310		106,502
Passed through Rockefeller University	93.310	U54GM103511	214,728
Total for CFDA 93.310			321,230
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		10,666
Child Health and Human Development Extramural Research	93.865		478,708
Systems Approach to Immunity and Inflammation-			
Passed through OriGene Technologies, Inc.	93.HHSN26120130072C	2013ISB001	2,658
Extramural Research Programs in			
the Neurosciences and Neurological Disorders-			
Passed through McLaughlin Research Institute	93.853	MRI 62-06-6119	90,391
National Center for Research Resources	93.389		576,245
Aging Research-			
Passed through University of Florida	93.866	UF13201	28,128
Cancer Centers Support Grants-			
Passed through Cal Tech	93.397	68-1090127	527,321
ARRA - Trans-NIH Recovery Act Research Support	93.701		909,399
Biomedical Research and Research Training-			
Direct	93.859		3,444,618
Passed through Rockefeller University	93.859	U01GM098256-01	162,024
Passed through Boston University	93.859	GC208231NGC	135,746
Total for CFDA 93.859			3,742,388
Allergy, Immunology, and Transplantation Research-			
Passed through Seattle Biomedical Research Institute	93.855	ISB-10135	213,256
<b>Total U.S. Department of Health and Human Services</b>			<b>11,014,260</b>
<b>National Science Foundation:</b>			
Engineering Grants	47.041		128,956
Biological Sciences	47.074		428,803
Polar Programs	47.078		62,515
Geosciences	47.050		112,573
<b>Total National Science Foundation</b>			<b>732,847</b>

See notes to schedule of expenditures of federal awards and independent auditor's report.



**INSTITUTE FOR SYSTEMS BIOLOGY**

**Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2013**

<u>Program Title/Federal Grantor/Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Number</u>	<u>Fiscal Year Expenditures</u>
<b>U.S. Department of Defense:</b>			
U.S. Army Medical Command-			
Blood Biomarkers for Assessing the Exposure and			
Responses of Mammals to Chemical and Biological Agents	12.W911SR-07-C-0101		(1,168)
Systems Approach to Immunity and Inflammation	12.HDTRA1-13-C-0055		1,249,552
Military Medical Research and Development-			
Direct	12.420		574,829
Passed through Georgetown University	12.420	RX4222-802-ISB	62,895
			<u>637,724</u>
Total for CFDA 12.420			637,724
Basic Scientific Research-			
Passed through University of California, Santa Barbara	12.431	W911NF-10-2-0111	539,974
			<u>539,974</u>
<b>Total U.S. Department of Defense</b>			<b>2,426,082</b>
<b>U.S. Department of Energy:</b>			
Office of Science Financial Assistance Program-			
Experimental Design, Implementation-	81.049		270,019
Passed through Lawrence Berkeley National Lab	81.DE-AC02-05CH11231	DE-AC02-05CH11231	938,023
			<u>938,023</u>
<b>Total U.S. Department of Energy</b>			<b>1,208,042</b>
<b>U.S. Department of Commerce:</b>			
National Institute of Standards and Technology (NIST)-			
ARRA - Measurement and Engineering Research and Standards	11.609		180,060
			<u>180,060</u>
<b>Total U.S. Department of Commerce</b>			<b>180,060</b>
<b>Total Research and Development Cluster</b>			<b>15,561,291</b>
<b>U.S. Department of Education:</b>			
Office of Elementary and Secondary Education-			
Mathematics and Science Partnerships			
Passed through State of Washington	84.366	0555304	(531)
			<u>(531)</u>
<b>Total U.S. Department of Education</b>			<b>(531)</b>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 15,560,760</u></b>

See notes to schedule of expenditures of federal awards and independent auditor's report.

***INSTITUTE FOR SYSTEMS BIOLOGY***

***Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2013***

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***Note 1 - Method of Accounting***

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Institute for Systems Biology (the Institute) under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Institute.

***Note 2 - Significant Accounting Policies***

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. Negative amounts shown on the Schedule represent adjustments made in the normal course of business to amounts reported as expenditures in prior years.

**INSTITUTE FOR SYSTEMS BIOLOGY**

**Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2013**

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**Note 3 - Subrecipients**

Of the federal expenditures presented in the Schedule, the Institute provided federal awards to subrecipients as follows:

<u>Program/Recipient</u>	<u>CFDA Number</u>	<u>Amount</u>
<b>Military Medical Research and Development:</b>		
Battelle Memorial Institute	12.420	\$ 153,437
<b>U.S. Army Medical Research and Material Command:</b>		
University of Illinois	12.420	7,605
<b>Systems Approach to Immunity and Inflammation:</b>		
Defense Science and Technology Laboratory	12.HDTRA1-13-C-0055	113,872
<b>Engineering Grants:</b>		
University of Illinois	47.041	68,708
<b>Biological Sciences:</b>		
University of Washington	47.074	19,084
<b>Cancer Detection and Diagnosis Research:</b>		
M.D. Anderson Cancer Center	93.394	330,041
<b>Cancer Biology Research:</b>		
University of Colorado - Boulder	93.396	42,423
<b>Biomedical Research and Research Training:</b>		
Seattle Biomedical Research Institute	93.859	139,546
University of Washington	93.859	(1,389)
Utah State University	93.859	74,090
Lawrence Berkeley National Laboratory	93.859	36,338
<b>FLU: A Systems Biology Approach to Infectious Disease Research:</b>		
Seattle Biomedical Research Institute	93.HHSN272200800058C	834,511
St. Jude Children's Research Hospital	93.HHSN272200800058C	760,773
University of California-San Diego	93.HHSN272200800058C	178,187
<b>Experimental Design, Implementation:</b>		
University of Washington	81.DE-AC02-05CH11231	49,085

**INSTITUTE FOR SYSTEMS BIOLOGY**

**Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2013**

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified?  Yes  None reported.

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified?  Yes  None reported.

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Identification of Major Programs:

**CFDA Numbers**

**Name of Federal Program or Cluster**

12.420    12.431    11.609    81.049  
47.041    47.074    47.078    47.050  
93.172    93.394    93.396    93.310  
93.847    93.865    93.853    93.389  
93.866    93.397    93.701    93.859  
84.366    93.855  
93.HHSN26120130072C 12.HDTRA1-13-C-0055  
12.W911SR-07-C-0101 93.HHSN272200800058C  
81.DE-AC02-05CH11231

Research and Development Cluster including ARRA

Dollar threshold used to distinguish between Type A and Type B programs: \$ 466,823

Auditee qualified as low-risk auditee?  Yes  No

**INSTITUTE FOR SYSTEMS BIOLOGY**

***Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended December 31, 2013***

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***Section II - Financial Statement Findings***

No matters reported.

***Section III - Findings and Questioned Costs for Federal Awards***

**Finding 2013-001**

Internal controls over payroll costs charged to federal awards.

**Federal Agency:** U.S. Department of Defense  
**Program Title:** Systems Approach to Immunity and Inflammation  
**CFDA No.:** 12.HDTRA1-13-C-0055  
**Contract Period:** 05/30/2013 - 05/29/2014

**Federal Agency:** U.S. Department of Health and Human Services - National Institute of Health  
**Program Title:** Child Health and Human Development Extramural Research  
**CFDA No.:** 93.865  
**Contract Period:** 07/20/2012 - 06/30/2013

**Federal Agency:** U.S. Department of Commerce - National Institute of Standards and Technology (NIST)  
**Program Title:** ARRA - Measurement and Engineering Research and Standards  
**CFDA No.:** 11.609  
**Contract Period:** 01/01/2012 - 09/30/2013

**Federal Agency:** U.S. Department of Health and Human Services - National Institute of Health  
**Program Title:** Biomedical Research and Research Training  
**CFDA No.:** 93.859  
**Contract Period:** 09/01/2012 - 08/31/2013

**Criteria**

Per 2 CFR Part 230, Appendix B, compensation for personnel services should be supported by personnel activity reports that include the following:

- The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.
- Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
- The reports must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
- The reports must be prepared at least monthly and must coincide with one or more pay periods.

**INSTITUTE FOR SYSTEMS BIOLOGY**

***Schedule of Findings and Questioned Costs (Continued)***  
***For the Year Ended December 31, 2013***

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***Section III - Continued***

Condition, Effect, and Context

During our audit, we noted 8 out of 40 instances in which the time and effort reports were not signed by the individual employee or responsible supervisory official within a timely matter. As such, payroll costs charged to federal awards were not properly supported. The issue was identified during the audit for the year ended December 31, 2012, and as such the Institute was not able to implement corrective action until period beginning after July 31, 2013.

Questioned Costs

Unknown.

Cause

The Institute did not consistently follow its policy to ensure that supervisors were reviewing and signing time and effort reports.

Recommendation

We recommend that the Institute only charge federal grants based on signed time and effort reports and that all reports be signed in a timely manner following each time and effort reporting period. Employees and/or a supervisor with firsthand knowledge of the work performed should certify the distribution of time on each time and effort report.

Views of Responsible Officials and Corrective Action Plan

We acknowledge that there were instances in which supervisors did not certify their review of time and effort reports by signature on a timely basis. The 8 instances cited above are all from two lab groups. Further, these two lab groups did not certify their time and effort reports on a timely basis through June 30, 2013. However, supervisors for these lab groups have subsequently certified time and effort reports for all staff working on their projects during all months of 2013 and are doing so on a timely basis for subsequent periods.

To avoid future instances as described in this finding, the Institute's finance staff will more actively monitor tracking of time and effort certifications and follow up sooner with the research supervisors if monthly certifications are not completed.

To that end the following steps have been implemented starting with the distribution of the May 2013 time and effort reports:

- The payroll accountant will continue to log responses received on a daily basis.
- The director of finance will review the tracking log weekly; during the last week of the report month, he will follow up directly with any principal investigator/budget manager who has not responded to determine the certification status and the plan to respond by the due date.

Also starting with the distribution of the June 2013 time and effort reports, a new transmittal document was included with the report package sent to each certifying supervisor. This document will include a summary of the certification process, with a clear emphasis of the expected turnaround (by the end of the month following the reported month (e.g. time and effort reports for June activity are due back with signed certifications by the end of July).

## ***INSTITUTE FOR SYSTEMS BIOLOGY***

### ***Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2013***

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#### ***Section III - Continued***

##### Views of Responsible Officials and Corrective Action Plan (Continued)

As of December 31, 2013, the prospective steps described in the preceding paragraphs have been fully implemented and continue in operation.

##### **Finding 2013-002**

Internal controls over specialized service facility costs.

**Federal Agency:** U.S. Department of Health and Human Services - National Institute of Health  
**Program Title:** FLU: A Systems Biology Approach to Infectious Disease Research  
**CFDA No.:** 93.HHSN272200800058C  
**Contract Period:** 09/26/12 - 09/25/13

##### Criteria

Per federal cost principles in 2 CFR Part 230 Appendix B, specialized service facility costs should be charged directly to awards based on actual usage of the services and on the basis of a schedule of rates or established methodology that (1) does not discriminate against federally supported activities of the nonprofit organization, including usage by the nonprofit organization for internal purposes and (2) is designed to recover only the aggregate costs of the services. Rates should be adjusted at least biennially and shall take into consideration over/under applied costs of the previous period.

##### Condition, Effect, and Context

During our audit, we noted 1 out of 10 instances in which incorrect specialized service facility rates were charged to one specific grant. The error occurred due to complexities related to determining when work on the grant was being performed by the Institute versus when it was being performed as a part of a subcontract with another research organization. The issue was identified during the audit for the year ended December 31, 2012, and was not able to be corrected until period beginning after July 31, 2013.

##### Questioned Costs

Unknown.

##### Cause

During 2011, the Institute subcontracted the grant to another research organization but remained the prime recipient on the award. As a result of the transition, errors occurred at times in determining the proper rate to charge the grant when specialized facility services were performed at the Institute.

##### Recommendation

We recommend that the Institute review its policies and procedures over allocation of specialized service facility costs to ensure compliance with federal cost principles.

##### Views of Responsible Officials and Corrective Action Plan

We acknowledge that there were errors in choosing whether an internal or external billing rate applied to use of specialized service facilities (SSF) costs for this award during 2012 and 2013. For this award the choice of billing rate was complicated by the need to determine if the SSF work was being done as ordered by Institute staff or by staff of the Aderem lab group working under a subcontract with another research institute. (Most of the staff of the Aderem lab moved to this other institution in 2011. The Institute remained as the primary recipient of this award, but much of the work was subcontracted to the other institution.)

**INSTITUTE FOR SYSTEMS BIOLOGY**

***Schedule of Findings and Questioned Costs (Continued)***  
***For the Year Ended December 31, 2013***

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***Section III - Continued***

Steps were taken to mitigate the risks of choosing the wrong billing rates by implementing a new user category in the SSF billing software in the summer of 2012. This solution resolved the issue for the ICM, Array, and Shared Equipment SSF: after implementation, the incorrect application of internal/external rates was not repeated for these facilities. The Proteomics charges were identified by the Institute and corrected as noted in April, 2013; this facility implemented a software solution in July of 2013 to automate billing processes, including the solution specific to this issue.

The choice of billing rate for the Vivarium stems not from the initial work request but rather from budget changes that may occur during approval from the Budget Managers, thus the software solution was not effective. To prevent further occurrences, we have implemented a secondary review process for this facility. After the Budget Manager Review of the billing summary report is complete, rather than sending approved report with changes directly to billing personnel, the report is returned to the Vivarium Manager. The Vivarium Manager is responsible for ensuring that any price changes with respect to internal/external budgets are corrected before submitting final report to billing personnel.

As of December 31, 2013, the prospective steps described in the preceding paragraphs have been fully implemented and continue in operation.

**Finding 2013-003**

Compliance and internal controls over compliance related to period of availability.

**Federal Agency:** U.S. Department of Defense  
**Program Title:** Military Medical Research and Development  
**CFDA No.:** 12.420  
**Contract Period:** 02/01/2012 - 07/31/2013

**Criteria**

Per 2 CFR 215.28, when a grant award specifies a funding period, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

**Condition, Effect, and Context**

During our audit, we noted one grant in which expenses were incurred and charged to the grant outside of the funding period.

**Questioned Costs**

\$7,786

**Cause**

The Institute's internal controls did not detect expenses incurred outside of the funding period which were charged to the grant.

**Recommendation**

We recommend that the Institute review its policies and procedures over period of availability to ensure compliance with federal cost principles.



***INSTITUTE FOR SYSTEMS BIOLOGY***

***Schedule of Findings and Questioned Costs (Continued)***  
***For the Year Ended December 31, 2013***

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***Section III - Continued***

Views of Responsible Officials and Corrective Action Plan

The Institute does have existing controls over the cutoff of expenditures on Federal awards. These controls include systemic purchase order blocks based on an award's end date and review and approval of all expenditures by the principal investigator or his designated budget manager. Generally, these controls are operating effectively to prevent cutoff errors. To prevent lapses such as the cited instance, the director of sponsored projects and the director of finance will more closely review purchase requests near the end of award periods.

In the specific instance cited, the expenditures charged after the end of award period were for additional research supplies that the principal investigator deemed were necessary to clarify some of the research data prior to submitting the final report to the awarding agency.

***INSTITUTE FOR SYSTEMS BIOLOGY***

***Summary Schedule of Prior Audit Findings  
For the Year Ended December 31, 2013***

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**Finding 2012-01**

Internal controls over payroll costs charged to federal awards.

Condition, Effect, and Context

During our audit, we noted instances in which the time and effort reports were not signed by the individual employee or responsible supervisory official. As such, payroll costs charged to federal awards were not properly supported.

Current Year Update

New processes and procedures were not implemented until July 2013 to correct the finding. As such, see current year finding 2013-001.

**Finding 2012-02**

Internal controls over specialized service facility costs.

Condition, Effect, and Context

During our audit, we noted incorrect specialized service facility rates were charged to one specific grant. The error occurred due to complexities related to determining when work on the grant was being performed by the Institute versus when it was being performed as a part of a subcontract with another research organization.

Current Year Update

New processes and procedures were not implemented until July 2013 to correct the finding. As such, see current year finding 2013-002.