

INSTITUTE FOR SYSTEMS BIOLOGY

Single Audit Reports

For the Year Ended December 31, 2014

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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, 2014, 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 June 9, 2015.

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.



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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
June 9, 2015

**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, 2014. 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.



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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, 2014.

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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2014, and have issued our report thereon dated June 9, 2015, 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
June 9, 2015

INSTITUTE FOR SYSTEMS BIOLOGY

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2014

Program Title / Federal Grantor / Pass-Through Grantor	Federal CFDA Number	Pass-Through Number	Fiscal Year Expenditures
Research and Development Cluster:			
U.S Department of Health and Human Services-			
National Institutes of Health:			
Cancer Genomics Cloud	93.HHSN261201400007C		\$ 438,070
FLU: A Systems Biology Approach to Infectious Disease Research	93.HHSN272200800058C		(916)
Human Genome Research	93.172		327,902
Trans-NIH Research Support-			
Passed through Rockefeller University	93.310	U54GM103511	116,128
Cancer Detection and Diagnosis Research	93.394		1,536,869
Cancer Treatment Research	93.395		81,739
Cancer Biology Research-			
Direct	93.396		236,313
Passed through University of Southern California	93.396	56883310	9,182
Total for CFDA 93.396			245,495
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		323,195
Child Health and Human Development Extramural Research	93.865		484,725
Systems Approach to Immunity and Inflammation-			
Passed through OriGene Technologies, Inc.	93.HHSN26120130072C	2013ISB001	63,275
Aging Research-			
Passed through University of Florida	93.866	UF13201	362,875
Cancer Centers Support Grants-			
Passed through Cal Tech	93.397	68-1090127	407,789
Biomedical Research and Research Training-			
Direct	93.859		3,115,197
Passed through Rockefeller University	93.859	U01GM098256-01	214,547
Total for CFDA 93.859			3,329,744
Allergy, Immunology, and Transplantation Research-			
Passed through Seattle Biomedical Research Institute	93.855	ISB-10135	1,004,863
Total U.S. Department of Health and Human Services			8,721,753
National Science Foundation:			
Engineering Grants	47.041		14,128
Biological Sciences	47.074		1,675,535
Polar Programs	47.078		51,391
Total National Science Foundation			1,741,054

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, 2014**

Program Title / Federal Grantor / Pass-Through Grantor	Federal CFDA Number	Pass-Through Number	Fiscal Year Expenditures
U.S. Department of Defense:			
U.S. Army Medical Command-			
Blood Biomarkers for Assessing the Exposure and	12.W911SR-07-C-0101		464
Responses of Mammals to Chemical and Biological Agents	12.HDTRA1-13-C-0055		3,068,664
Systems Approach to Immunity and Inflammation			
Military Medical Research and Development	12.420		547,486
Basic Scientific Research-			
Passed through University of California, Santa Barbara	12.431	W911NF-10-2-0111	<u>760,891</u>
Total U.S. Department of Defense			4,377,505
U.S. Department of Energy:			
Office of Science Financial Assistance Program-	81.049		357,393
Renewable Energy Research and Development			
Passed through Sapphire Energy, Inc.	81.087	81.087 DE-EE0006315	395,312
Advanced Research Projects Agency - Energy			
Passed through University of Michigan	81.135	DE-AR0000426	97,199
Experimental Design, Implementation-			
Passed through Lawrence Berkeley National Lab	81.DE-AC01-CH11231	DE-AC01-CH11231	18,057
Passed through Lawrence Berkeley National Lab	81.DE-AC02-05CH11231	DE-AC02-05CH11231	<u>897,821</u>
Total U.S. Department of Energy			<u>1,765,782</u>
Total Research and Development Cluster/Expenditures of Federal Awards			<u>\$ 16,606,094</u>

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, 2014**

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, 2014. 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, 2014**

Note 3 - Subrecipients

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

Program / Recipient	CFDA Number	Amount
Systems Approach to Immunity and Inflammation:		
Defense Science and Technology Laboratory	12.HDTRA1-13-C-0055	\$ 268,415
Engineering Grants:		
University of Illinois	47.041	8,692
Biological Sciences:		
University of Washington	47.074	123,361
Seattle Biomedical Research Institute	47.074	35,463
Cancer Detection and Diagnosis Research:		
Utah State University	93.394	41,256
Pacific Northwest Research Institute	93.394	337,349
Cancer Biology Research:		
University of Colorado - Boulder	93.396	107,871
Diabetes, Digestive, and Kidney Diseases Extramural Research:		
Ottawa Hospital Research Institute	93.847	149,650
Biomedical Research and Research Training:		
M.D. Anderson Cancer Center	93.859	218,017
Seattle Biomedical Research Institute	93.859	109,633
Lawrence Berkeley National Laboratory	93.859	23,054
Cancer Genomics Cloud:		
SRA International	93.HHSN261201400007C	148,940
Google, Inc.	93.HHSN261201400007C	68,750
FLU: A Systems Biology Approach to Infectious Disease Research:		
Seattle Biomedical Research Institute	93.HHSN272200800058C	(916)
Experimental Design, Implementation:		
University of Washington	81.DE-AC02-05CH11231	68,805

INSTITUTE FOR SYSTEMS BIOLOGY

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014**

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
12.420 12.431 81.049 81.087	Research and Development Cluster
81.135 47.041 47.074 47.078	
93.172 93.394 93.395 93.396	
93.310 93.847 93.865 93.866	
93.397 93.859 93.855	
12.HDTRA1-13-C-0055 12.W911SR-07-C-0101	
93.HHSN272200800058C 93.HHSN261201400007C	
93.HHSN26120130072C 81.DE-AC02-05CH11231	
81.DE-AC01-CH11231	

Dollar threshold used to distinguish between Type A and Type B programs: \$ 498,183

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, 2014**

Section II - Financial Statement Findings

No matters reported.

Section III - Findings and Questioned Costs for Federal Awards

No matters reported.

INSTITUTE FOR SYSTEMS BIOLOGY

**Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2014**

Finding 2013-001

Internal controls over payroll costs charged to federal awards.

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.

Current Year Update

New processes and procedures were implemented in July 2013 to correct the finding. No instances were noted in the current year.

Finding 2013-002

Internal controls over specialized service facility costs.

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.

Current Year Update

New processes and procedures were implemented until July 2013 to correct the finding. No instances were noted in the current year.

Finding 2013-003

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

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.

Current Year Update

New processes and procedures were in 2014 to correct the finding. No instances were noted in the current year.