

INSTITUTE FOR SYSTEMS BIOLOGY

Single Audit Reports

For the Year Ended December 31, 2021

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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

**To the 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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements, and have issued our report thereon dated September 12, 2022.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com



Report on 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 financial statements. 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
September 12, 2022

**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 the Uniform Guidance**

Independent Auditor's Report

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the Institute of Systems Biology (the Institute)'s compliance with the types of compliance requirements identified as subject to audit in the OMB *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, 2021. 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.

In our opinion, the Institute complied, in all material respects, with the 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, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Institute and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Institute's compliance with the compliance requirements referred to above.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com



Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Institute's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Institute's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Institute's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Institute's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Institute's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Institute's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Institute's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal controls over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.



Government Auditing Standards requires the auditor to perform limited procedures on the Institute's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Institute's response was not subject to the other auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

We have audited the financial statements of the Institute as of and for the year ended December 31, 2021, and have issued our report thereon dated September 12, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed 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 the Uniform Guidance 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
September 12, 2022

INSTITUTE FOR SYSTEMS BIOLOGY

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021**

<u>Program Title/Federal Grantor/Pass-Through Grantor</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Number</u>	<u>Passed Through to Subrecipients</u>	<u>Fiscal Year Expenditures</u>
Research and Development Cluster				
U.S. Department of Health and Human Services:				
Systems Biology of Influenza Virus Infection and Vaccination- Passed through Medical Science and Computing	93.HHSN272201500015I	CSA-NIAID-ISB-17-2017-006	\$ -	\$ 305,816
Cancer Genomics Cloud Resource- Passed through Brigham & Women's Hospital	93.HHSN261200800001E	19X037Q		672,176
Passed through Leidos Biomedical Research, Inc.	93.HHSN261200800001E	17X148		<u>1,165,526</u>
Total for 93.HHSN261200800001E				1,837,702
Human Genome Research	93.172		161,480	976,411
Drug Abuse and Addiction Research Programs- Passed through Ohio State University	93.279	60061348		2,522
Trans-NIH Research Support- Passed through Ohio State University	93.310	GR112506		118,895
Passed through Ohio State University	93.310	60072805		<u>53,673</u>
Total for 93.310				172,568
National Center for Advancing Translational Sciences- Direct	93.350		321,820	1,281,815
Passed through Oregon Health and Science University	93.350	P0500A-A		<u>240,701</u>
Total for 93.350			321,820	1,522,516
Research Infrastructure Programs	93.351			600,000
21st Century Cures Act - Beau Biden Cancer Moonshot- Passed through Dana Farber Cancer Institute	93.353	1288401		467,055
COVID-19: Biomedical Advanced Research and Development Authority (BARDA), Biodense Medical Countermeasure Development- Passed through Merck	93.360	HHSO10020160031C	517,734	3,575,136
Cancer Cause and Prevention Research- Passed through University of Washington	93.393	UWSC8481		5,833
Passed through Fred Hutchison Cancer Research Center	93.393	1041384		<u>294,099</u>
Total for 93.393				299,932
Cancer Detection and Diagnosis Research- Direct	93.394			127,835
Passed through British Columbia Cancer Agency	93.394	2018-0238		192,391
Total for 93.394				320,226
Cancer Biology Research- Direct	93.396		164,842	869,745
Passed through Fred Hutchison Cancer Research Center	93.396	990885		47,247
Passed through University of California Riverside	93.396	S-001145		16,552
Passed through Johns Hopkins University	93.396	PO2002979490		(40,054)
Passed through Cornell University	93.396	211977		62,425
Passed through University of Texas	93.396	UTA18-000299		<u>179,640</u>
Total for 93.396			164,842	1,135,555
Cancer Center Support Grants	93.397		126,336	335,431
Cancer Research Manpower	93.398			69,151
Cardiovascular Diseases Research- Direct	93.837			65,918
Passed through University of Washington	93.837	UWSC12831		<u>51,460</u>
Total for 93.837				117,378

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

INSTITUTE FOR SYSTEMS BIOLOGY

**Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended December 31, 2021**

Program Title/Federal Grantor/Pass-Through Grantor	Assistance Listing Number	Pass-Through Number	Passed Through to Subrecipients	Fiscal Year Expenditures
Lung Diseases Research-				
Passed through The Brigham & Women's Hospital, Inc.	93.838	117046		150,479
Passed through NYU Grossman School of Medicine	93.838	25-1	7,648	17,028
Passed through NYU Grossman School of Medicine	93.838	ADU-13-21		39,984
Total for 93.838			7,648	207,491
Blood Diseases and Resources Research-				
Passed through University of Washington	93.839	UWSC13164		7,993
Arthritis, Musculoskeletal and Skin Diseases Research-				
Passed through University of Washington	93.846	UWSC13161		5,686
Diabetes, Digestive and Kidney Diseases Extramural Research	93.847		166,017	684,574
Allergy and Infectious Diseases Research-				
Direct	93.855		690,424	3,179,088
Passed through Seattle Biomedical Research Institute	93.855	12259SUB		444,334
Passed through Seattle Biomedical Research Institute	93.855	12556SUB		16,671
Passed through University of Washington	93.855	UWSC10255		76,295
Passed through University of Washington	93.855	UWSC11961		17,946
Passed through University of Washington	93.855	UWSC12892		18,272
Passed through University of Washington	93.855	UWSC13071		9,974
Total for 93.855			690,424	3,762,580
Biomedical Research and Research Training-				
Direct	93.859		244,300	1,743,013
Passed through University of Colorado, Boulder	93.859	1554625		6,865
Passed through University of California, San Francisco	93.859	11722sc		11,302
Passed through University of Texas	93.859	3001510855		14,123
Passed through University of Washington	93.859	UWSC9891		58,441
Total for 93.859			244,300	1,833,744
Child Health and Human Development Extramural Research-				
Passed through University of Florida	93.865	138656		214,947
Aging Research-				
Passed through Duke University	93.866	A030700		100,820
Passed through Duke University	93.866	303000170		7,989
Passed through Oregon Health & Science University	93.866	1013336_ISB		3,134,870
Passed through California Pacific Medical Center	93.866	280201018-S228		667,497
Passed through California Pacific Medical Center	93.866	280101018-S242		278,931
Passed through Mayo Clinic Jacksonville	93.866	INS-273172		409,501
Passed through Mayo Clinic Jacksonville	93.866	ISB-278322		317,146
Passed through Mayo Clinic Jacksonville	93.866	ISB-281091		360,257
Passed through Translational Genomics Research	93.866	SCHORK-19-05		19,921
Passed through University of Washington	93.866	UWSC11600		85,334
Passed through University of Washington	93.866	UWSC11878		15,070
Total for 93.866				5,397,336
Total U.S. Department of Health and Human Services			2,400,601	23,851,750
National Science Foundation:				
Geosciences	47.050			139,618
Biological Sciences-				
Direct	47.074			569,160
Passed through Cornell University	47.074	89335-11264		249,548
Total for 47.074				818,708
Integrative Activities-				
Passed through University of California, San Francisco	47.083	12428sc		174,151
Total National Science Foundation				1,132,477

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

INSTITUTE FOR SYSTEMS BIOLOGY

**Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended December 31, 2021**

<u>Program Title/Federal Grantor/Pass-Through Grantor</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Number</u>	<u>Passed Through to Subrecipients</u>	<u>Fiscal Year Expenditures</u>
U.S. Department of Defense:				
Inflammatory Mediators Testing	12.W81XWH18C0158			51
High Throughput Platform- Pass through the Geneva Foundation	12.W911NF-18-20056	V-10585-02		50,000
Military Medical Research and Development	12.420			88,937
Basic Scientific Research- Passed through the Geneva Foundation	12.431	S-10585-01		200,392
Passed through Harvard College	12.431	124045-5104226		34,887
Total for 12.431				235,279
Total U.S. Department of Defense				374,267
U.S. Department of Energy:				
Office of Science Financial Assistance Program	81.049			49,643
Experimental Design, Implementation- Passed through Lawrence Berkeley National Lab	81.DE-AC02-05CH11231	7541491		780,082
Passed through Lawrence Berkeley National Lab	81.DE-AC02-05CH11231	6953601		22,270
Total for 81.DE-AC02-05CH11231				802,352
Total U.S. Department of Energy				851,995
Total Research and Development Cluster/ Expenditures of Federal Awards			\$ 2,400,601	\$ 26,210,489

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

INSTITUTE FOR SYSTEMS BIOLOGY

Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2021

Note 1 - Method of Accounting

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Institute for Systems Biology (the Institute) under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Institute has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

INSTITUTE FOR SYSTEMS BIOLOGY

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021**

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 2 CFR 200.516(a)? Yes No

Identification of Major Programs

<u>Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
12.420 12.431 12.W81XWH18C0158	Research and Development Cluster
12.W911NF-18-20056 47.050	
47.074 47.083 81.DE-AC02-05CH11231	
81.049 93.172 93.279 93.310	
93.350 93.351 93.353 93.360	
93.393 93.394 93.396 93.397	
93.398 93.837 93.838 93.839	
93.846 93.847 93.855 93.859	
93.865 93.866 93.HHSN272201500015I	
93.HHSN261200800001E	

Dollar threshold used to distinguish between Type A and Type B programs: \$ 786,315

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, 2021**

Section II - Financial Statement Findings

No matters reported.

Section III - Findings and Questioned Costs for Federal Awards

Finding 2021-001

Instance of noncompliance and significant deficiency in internal controls related to equipment and real property management.

Federal Agency: U.S. Department of Health and Human Services, National Science Foundation, U.S. Department of Defense, U.S. Department of Energy
Program Title: Research and Development Cluster - All Awards
Assistance Listing Number: Various
Award Numbers: All awards within the Research and Development Cluster
Award Periods: Various

Criteria

Per equipment and real property management compliance requirements contained in the Uniform Guidance, Subpart D - Post-Federal Award Requirements and Contents of Federal Awards, Section 200.313, non-federal entities must perform a physical inventory of the property at least once every two years.

Condition/Context

The Institute's internal control over equipment and real property management includes procedures to complete inventory counts every two years. However, the last count took place during 2018. As such, the Institute was not following their policies over equipment and real property management.

Questioned Costs

Not applicable.

Cause

The Institute's internal controls related to the equipment and real property management compliance requirements were not sufficient to ensure compliance with the standards.

Effect/Potential Effect

The effect is the property records for the Institute may have discrepancies and changes in the status or condition of equipment on hand may not be captured in a timely manner.

Repeat Finding

Not applicable.

Recommendation

We recommend management implement procedures to ensure that documentation of a physical inventory and verification of condition for all equipment is received at least once every two years.

Views of Responsible Officials

Management agrees with the finding and has provided the accompanying corrective action plan.

INSTITUTE FOR SYSTEMS BIOLOGY

Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2021

Finding 2021-002

Instance of noncompliance and significant deficiency in internal controls related to special tests and provisions.

Federal Agency: U.S. Department of Health and Human Services
Program Title: Lung Diseases Research; COVID-19 Biomedical Advanced Research and Development Authority (BARDA), Biodefense Medical Countermeasure
Assistance Listing Number: 93.838; 93.360
Award Numbers: 117046; HHSO10020160031C
Award Periods: Various

Criteria

Per Uniform Guidance, Subpart D - Post-Federal Award Requirements and Contents of Federal Awards, Section 200.300(b), non-federal entities are required to comply with all requirements of the Federal award. The National Institute of Health through notice number NOT-OD-21-057 includes a salary limitation (salary cap) on the amount that may be charged directly to federal awards. This is considered a special test and provision under Uniform Guidance.

Condition/Context

During testing, it was noted that one selection did not have the proper allocation of wages to the federal award due to the improper allocation of the salary cap. This resulted in \$11 being overcharged to the federal award for the pay-period selected for testing. Management reviewed all employees over the National Institute of Health's salary cap for 2021 and noted one additional instance of the salary cap not being appropriately applied. The second instance resulted in an error of \$257 over a 3.5-month period. The Institute's internal control over the allocation of the salary cap, as required by the National Institutes of Health, did not include a proper allocation when an employee took paid time off. This was not a statistical sample.

Questioned Costs

93.838 - Award 117046: \$11
93.360 - Award HHSO10020160031C: \$257

Cause

The Institute's internal controls related to the salary cap allocation was not sufficient to ensure compliance with the standards.

Effect/Potential Effect

The effect is there were amounts directly charged to the federal program over the salary cap.

Repeat Finding

Not applicable.

Recommendation

We recommend management implement procedures to ensure that the salary cap, as required by the National Institutes of Health, is properly by pay period.

Views of Responsible Officials

Management agrees with the finding and has provided the accompanying corrective action plan.



INSTITUTE FOR SYSTEMS BIOLOGY (ISB)
Corrective Action Plan
For the Year Ended December 31, 2021

Finding Number 2021-001

Contact Person(s):

Shanna Braga Director of Facilities & Operations
Gary Streicher Director of Finance

Explanation and specific reasons for disagreement with the audit finding or that corrective action is not required (if applicable): Not applicable, management agrees with audit finding.

Corrective action planned:

During 2022 Q3, the Facilities and Finance teams initiated an inventory of all active equipment and other fixed assets funded by Federal awards. The inventory has been conducted to identify the current location of each item and to discern if the item is still in service or has been taken out of service or otherwise disposed of. Status and location of each item will be updated in the Institute's fixed asset accounting system.

Prospectively, the Institute plans to conduct a biannual inventory of all Federally funded equipment and a biannual inventory of all active equipment and other fixed assets. Anticipated time frame of these inventory procedures would be Q2-Q3 of every other year; the next inventory will be done in 2024.

Anticipated completion date: September 30, 2022 (current inventory of Federally funded fixed assets)



INSTITUTE FOR SYSTEMS BIOLOGY (ISB)

Corrective Action Plan

For the Year Ended December 31, 2021

Finding Number 2021-002

Contact Person(s):

Jeni Seko Director of Financial Planning & Analysis
Gary Streicher Director of Finance
Julie Thatcher Director of Sponsored Programs

Explanation and specific reasons for disagreement with the audit finding or that corrective action is not required (if applicable): Not applicable, management agrees with audit finding.

Corrective action planned:

The Institute has planned and implemented a multi-step plan to review the effects of the NIH salary cap on all employees subject to the cap and to determine what returns may be needed of funds from the related awards.

These steps include:

- [1] Identify all employees whose 2021 annual gross pay (including taxable fringe benefits) exceeded the cap.
- [2] Review the pay allocation % calculations for each employee from [1] to determine if those calculations correctly considered the cap.
- [3] For cases in [2] where the cap was not properly included in the pay allocation %, recalculate the pay allocation % based on the correct method. The recalculations are done for each award subject to the cap and for each month in 2021.
- [4] For cases in [3], compare recalculated pay allocation % to those actually used for each month in 2021 to determine the differential pay allocation % of any needed corrections.
- [5] Use the differential pay allocation % from [4] to calculate the adjustments to allocated pay needed to correct for the cap errors. This calculation applies to each month of 2021 and is based on allocable pay (which is gross pay less vacation taken).
- [6] Summarize the pay allocation corrections from [5] to determine total pay corrections. Calculate the related fringe benefits and indirect costs using the applicable standard rates. Sum all corrections for pay allocations, fringe benefits, and indirect costs to determine aggregate correction.
- [7] Work with each applicable funding source/payer to determine best method for return of funds.
- [8] Disburse returns of funds to payer/funding source.

The above process has also been applied to 2022 YTD activity (through August). The correct pay allocation % determined by step [3] for 2022 will be applied prospectively starting on September 1 2022.

Prospectively, the Institute will set up dashboard payroll reports to monitor for instances when an employee's gross compensation exceeds the NIH salary cap. For cases identified by these monitoring reports, the Institute will use a standard template to calculate pay allocation % which properly include the effects of the salary cap.

Anticipated completion date:

Steps [1]-[6] for both 2021 and 2022 YTD will be done by September 10 2022.
Steps [7]-[8] will be done as soon as practicable after September 10 2022; target date not later than October 15 2022.

The prospective control changes will be implemented not later than 2022 Q4 (target date November 15 2022).