

AQUATIC SCIENCE CENTER

Federal Awards Program in Accordance with OMB Circular A-133

(With Independent Auditors' Report Thereon)

Year Ended June, 30, 2012

AQUATIC SCIENCE CENTER

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**Independent Auditors' 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***

To the Board of Directors
Aquatic Science Center

We have audited the financial statements of Aquatic Science Center (Center) as of and for the year ended June 30, 2012, and have issued our report thereon dated June 28, 2013. We conducted our audit in accordance with 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures 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 Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management and Board of Directors of Aquatic Science Center and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

San Francisco
June 28, 2013

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards

To the Board of Directors
Aquatic Science Center

Compliance

We have audited the compliance of Aquatic Science Center (Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2012. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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 Center'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. Our audit does not provide a legal determination of the Center's compliance with those requirements.

As described in item 2012-1 in the accompanying schedule of findings and questioned costs, the Center did not comply with requirements regarding subrecipient monitoring that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the Center to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Center 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 June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, 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 item 2012-1.

Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Center'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2012-1. 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.

The Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Center's response and, accordingly, we express no opinion on the response.

Schedule of Expenditures of Federal Awards

We have audited the financial statements as of and for the year ended June 30, 2012, and have issued our report thereon dated June 28, 2013. 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 U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

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This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

San Francisco

June 28, 2013, except for paragraph 9, which is as of March 6, 2014

AQUATIC SCIENCE CENTER
Schedule of Expenditures of Federal Awards
June 30, 2012

<u>Federal Grantor / Other Entities / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through to Other Entities</u>	<u>Expenditures</u>	<u>Total</u>
U.S. Department of Environmental Protection Agency				
Regional Wetland Program Development Grants	66.461	\$ 159,309	\$ 0	\$ 159,309
Regional Wetland Program Development Grants	66.461	134,635	0	134,635
Regional Wetland Program Development Grants	66.461	75,814	0	75,814
Regional Wetland Program Development Grants	66.461	13,130	0	13,130
Pass-through, State Water Resources Control Board Regional Wetland Program Development Grants	66.461	<u>44,225</u>	<u>0</u>	<u>44,225</u>
Sub-total Regional Wetland Program Development Grants		<u>427,113</u>	<u>0</u>	<u>427,113</u>
Pass-through, Bay Area Stormwater Management Agencies Association Congressionally Mandated Projects	66.202	54,440	0	54,440
Pass-through, State Water Resource Control Board ARRA - Water Quality Management Planning	66.454	65,252	0	65,252
Pass-through, Environmental Protection Agency Water Quality Cooperative Agreement	66.463	<u>119,632</u>	<u>0</u>	<u>119,632</u>
Total U.S. Department of Environmental Protection Agency		<u>666,437</u>	<u>0</u>	<u>666,437</u>
U.S. Department of the Interior				
Pass-through, California Natural Resources Agency Coastal Impact Assistance Program	15.426	<u>144,539</u>	<u>0</u>	<u>144,539</u>
Total U.S. Department of the Interior		<u>144,539</u>	<u>0</u>	<u>144,539</u>
U.S. Department of Transportation				
Pass-through, San Francisco Bay Conservation and Development Commission Highway Planning and Construction	20.205	<u>116,075</u>	<u>0</u>	<u>116,075</u>
Total U.S. Department of Transportation		<u>116,075</u>	<u>0</u>	<u>116,075</u>
		<u>\$ 927,051</u>	<u>\$ 0</u>	<u>\$ 927,051</u>

See accompanying notes to Schedule of Expenditures of Federal awards.

AQUATIC SCIENCE CENTER
Notes to the Schedule of Findings and Questioned Costs
June, 30 2012

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of the Aquatic Science Center (the Center).

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

(3) Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards materially agree with Aquatic Science Center's financial statements.

(4) Subsequent Events

Management has evaluated the Schedule for subsequent events through March 6, 2014.

AQUATIC SCIENCE CENTER
 Schedule of Findings and Questioned Costs
 June 30, 2012

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: **Unqualified opinion**

Internal control over financial reporting:

- Material weakness(es) identified? **No**
- Significant deficiencies identified that are not considered to be material weaknesses? **None reported**

Noncompliance material to financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? **No**
- Significant deficiencies identified that are not considered to be material weaknesses? **Yes**

Type of auditors’ report issued on compliance for major programs: **Qualified opinion**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? **Yes**

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.461	Regional Wetland Program Development Grants
66.463	Water Quality Cooperative Agreement
15.426	Coastal Impact Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**

Auditee qualified as a low-risk auditee? **No**

Section II - Financial Statement Findings **None reported**

Section III – Federal Award Findings and Questioned Costs

2012-1 – Subrecipient Monitoring

Federal Program:

Regional Wetland Program Development Grants, Water Quality Cooperative Agreement, Coastal Impact Assistance Program

AQUATIC SCIENCE CENTER
Schedule of Findings and Questioned Costs
June 30, 2012

Section III – Federal Award Findings and Questioned Costs – continued

Grant Identification Number:

CD-00T54701-2, CD-00T54401-2, CD-00T54501-1, CD-00T74001-1 08-047-250-2; CP-00T58601-2; OCA10043

Federal Agency:

U.S. Environmental Protection Agency, U.S. Department of the Interior

CFDA Number:

66.461, 66.463, 15.426

Finding Type:

Significant Deficiency and Noncompliance

Condition:

Aquatic Science Center did not monitor the activities of its subrecipient as necessary to ensure that its subrecipient complies with laws and regulations. As a result, Aquatic Science Center did not detect subrecipient non-compliance with federal requirements for Allowable Costs and Cash Management. The following subrecipient findings were determined:

Allowable Costs – The subrecipient used different indirect cost allocation rates and methodologies for its major programs, without adjusting for these reimbursements when applying the federal negotiated rate and did not consistently follow the terms of the negotiated rate, specifically when applying the Federal Negotiated rate the agreement calls for billing labor and benefits directly and then applying the negotiated rate to capture the indirect costs.

Cash Management – The subrecipient billed amounts on contracts prior to payment of expense. When Federal funds were received prior to making payments to subcontractors or for other expenses, SFEI did not calculate the interest earned on these unused funds. Additionally, there was no interest remitted, on a quarterly basis, to the Federal Agency

The audit revealed that Aquatic Science Center does not have adequate policies and procedures to advise and monitor its subrecipient in accordance with federal requirements.

Criteria:

Aquatic Science Center is required by the Office of Management and budget (OMB) Circular A-133 Section .400(d), to advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity and to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved. This includes review of all compliance requirements under OMB Circular A-133 Compliance Supplement.

Recommendations:

Aquatic Science Center should improve its policies and procedures to advise the subrecipient of compliance and contract requirements and ensure proper monitoring activities are performed and any deficiencies identified. Aquatic Science Center should:

- Identify each compliance area under OMB Circular A-133 relevant to its contract.

AQUATIC SCIENCE CENTER
Schedule of Findings and Questioned Costs
June 30, 2012

Section III – Federal Award Findings and Questioned Costs – continued

- Continually review for any changes or updates that are required by the terms of contracts.
- Continually review for any changes or updates to laws and regulations that come from the federal and state agencies.
- Communicate to subrecipient these requirements.
- Monitor the compliance areas that are relevant to the subrecipient.
- Communicate any relevant findings or corrective actions deemed necessary to the subrecipient as needed.

Management discussion and Corrective Action:

We agree with the recommendations. We will implement policies and procedures to ensure we monitor and communicate all relevant federal award information and applicable compliance requirements to subrecipient.

Questioned Costs:

\$ 0

Implementation Date:

April 30, 2014

Responsible Person:

Jim Kelly, Interim Executive Direct

Phone Number:

(510) 746-7334

Section IV - Summary Schedule of Prior Audit Findings

None reported