

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 19-54 Financial Audit**

## Department of State's Support of the Afghanistan Legal Education Project: Audit of Costs Incurred by the Board of Trustees of the Leland Stanford Junior University

**In accordance with legal requirements, SIGAR has redacted certain information deemed proprietary or otherwise sensitive from this report.**



AUGUST  
2019

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On January 12, 2010, the Department of State, Bureau of International Narcotics and Law Enforcement Affairs (State) awarded a 2-year grant to the Board of Trustees of the Leland Stanford Junior University (Stanford) totaling \$1,269,575 in support of the Afghanistan Legal Education Project (ALEP). The grant's objective was to develop and expand legal education programs in Afghanistan. State issued a second grant on September 11, 2012, awarding Stanford an additional \$9,016,701 to extend its work on ALEP over a 5-year period. Together these two grants totaled almost \$10.3 million, and covered more than a 7-year period. State amended these two grants nine times, which reduced total funding from about \$10.3 million to about \$9.2 million, and extended the period of performance to December 31, 2017.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$7,325,489 charged to the two grants from January 15, 2010, through December 31, 2017. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in Stanford's internal controls related to the grants; (2) identify and report on instances of material noncompliance with the terms of the grants and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Stanford took corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Stanford's Special Purpose Financial Statement (SPFS). See Conrad's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, auditing standards require SIGAR to review the audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Conrad did not comply, in all material respects, with U.S. generally accepted government auditing standards.

AUGUST 2019

## Department of State's Support of the Afghanistan Legal Education Project: Audit of Costs Incurred by the Board of Trustees of the Leland Stanford Junior University

SIGAR 19-54-FA

### WHAT THE AUDIT FOUND

Conrad's audit identified three significant deficiencies and two deficiencies in Stanford's internal controls, and four instances of noncompliance with the terms of the grants, applicable laws, and regulations. For example, Stanford could not provide evidence that it performed price reasonableness checks for 20 of the 50 procurements tested; these checks are designed to ensure that the university did not overpay for goods and services.

As a result of these internal control deficiencies and instances of noncompliance, Conrad identified \$289,693 in questioned costs, consisting of \$281,778 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$7,915 in ineligible costs—costs prohibited by the grants, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Personnel	\$1,811	\$0	\$1,811
Goods and Services	\$0	\$105,763	\$105,763
Subcontractor Costs	\$6,104	\$146,172	\$152,276
Indirect Cost	\$0	\$29,843	\$29,843
<b>Totals</b>	<b>\$7,915</b>	<b>\$281,778</b>	<b>\$289,693</b>

Conrad identified four prior audits with five findings and recommendations that could be material to the SPFS. Conrad concluded that Stanford had not taken adequate corrective action on one of the five findings and recommendations because the same condition occurred in this audit. In that prior finding, Stanford charged improper or inadequately supported costs to other federal awards. In this audit, Conrad found that Stanford's evidence for 12 of 13 charges for a subcontractor was not sufficient to show that they were allowable, reasonable, and allocable to the grants.

Conrad issued a qualified opinion on Stanford's SPFS, noting that the \$289,693 of identified ineligible or unsupported costs had a significant and material impact on the SPFS for the period audited.

### WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible grant/agreement officer at State:

1. Determine the allowability of and recover, as appropriate, \$289,693 in total questioned costs identified in the report.
2. Advise Stanford to address the report's five internal control findings.
3. Advise Stanford to address the report's four noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

August 26, 2019

The Honorable Michael R. Pompeo  
Secretary of State

The Honorable Kirsten D. Madison  
Assistant Secretary for International Narcotics  
And Law Enforcement Affairs

The Honorable John R. Bass  
U.S. Ambassador to Afghanistan

We contracted with Conrad LLP (Conrad) to audit the costs incurred by the Board of Trustees of the Leland Stanford Junior University (Stanford) under two grants issued by the Department of State, Bureau of International Narcotics and Law Enforcement Affairs (State) in support of the Afghanistan Legal Education Project (ALEP).<sup>1</sup> The broad objectives of the two grants were to develop and expand legal education programs in Afghanistan. Conrad's audit reviewed \$7,325,489 charged to the grants from January 15, 2010, through December 31, 2017. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of audit, SIGAR recommends that the responsible grant/agreement officer at State:

- 1. Determine the allowability of and recover, as appropriate, \$289,693 in total questioned costs identified in the report.**
- 2. Advise Stanford to address the report's five internal control findings.**
- 3. Advise Stanford to address the report's four noncompliance findings.**

The results of Conrad's audit are discussed in detail in the attached report. We reviewed Conrad's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Stanford's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Stanford's internal control or compliance with the grants, laws, and regulations. Conrad is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-155)

<sup>1</sup> The grant numbers are SINLEC10GR0020 and SINLEC10GR074.

**Board of Trustees of the Leland Stanford Junior University**

Financial Audit of Costs Incurred Under  
Grant Nos. SINLEC10GR0020 and SINLEC12GR074  
Afghanistan Legal Education Project (ALEP)

For the Period January 15, 2010 to December 31, 2017

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August 5, 2019

Board of Trustees  
Leland Stanford Junior University  
Palo Alto, California

Special Inspector General for Afghanistan Reconstruction ("SIGAR")  
Arlington, VA

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Leland Stanford Junior University's ("Stanford") Special Purpose Financial Statement ("SPFS") for costs incurred under the Department of State's Grant Nos. SINLEC10GR0020 and SINLEC12GR074, for the period January 15, 2010 through December 31, 2017, to support the Afghanistan Legal Education Project ("ALEP") at Stanford Law School.

On May 17, 2019, we provided SIGAR with a draft report reflecting our audit procedures and results. Stanford received a copy of the report June 26, 2019 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and Stanford. Stanford's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of these Stanford grants.

Sincerely,

A handwritten signature in blue ink that reads "S Perera". The signature is written in a cursive style with a horizontal line underneath the name.

Sam Perera, CPA, CFE, CITP, CGMA  
Partner

## Background

The Department of State, Bureau for International Narcotics and Law Enforcement Affairs (“State-INL”) awarded grant nos. SINLEC10GR0020 and SINLEC10GR074, to the Board of Trustees of the Leland Stanford Junior University (“Stanford”) in support of the Afghanistan Legal Education Project (“ALEP”).

On January 12, 2010, State-INL issued grant No. SINLEC10GR0020, whose primary objectives over a two-year period, included developing a core curriculum for Afghan civil law students, and improving the capacity of the Afghan legal faculty at the American University in Afghanistan (“AUAF”). To build and expand upon these initial ALEP objectives, State-INL issued a second grant, No. SINLEC10GR074 on September 11, 2012. The second grant’s objectives over a five-year period included the publication of Afghan legal textbooks and assisting AUAF with the transition of its legal education certificate program into Bachelor of Arts and Bachelor of Law degree programs.

State-INL amended grant No. SINLEC10GR0020, three times, and grant No. SINLEC10GR074, six times. The significant amendments were to increase or decrease the total estimated costs and/or extend the period of performance. The chart below summarizes the cost and period of performance for the two grants, as amended. The period under audit is January 15, 2010, through December 31, 2017.

Grant Number	Original			As Amended	
	Cost	Start	End	Cost	End
SINLEC10GR0020	\$1,269,575	1/15/2010	1/14/2012	N/A	3/31/2013
SINLEC10GR074*	\$9,016,701	9/12/2012	9/30/2017	\$7,919,228	12/31/2017

\*Grant No. SINLEC10GR074 was established by the second amendment to Grant No. SINLEC10GR0020 and considered the base grant award for Grant No. SINLEC10GR074.

## Work Performed

Conrad LLP (“Conrad”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of Stanford’s Special Purpose Financial Statement (“SPFS”) for costs incurred under the ALEP project in Afghanistan for the period January 15, 2010 through December 31, 2017.

## Objectives, Scope, and Methodology

### Audit Objectives

The objectives of the audit include the following:

- *The Special Purpose Financial Statement* – Express an opinion on whether Stanford’s SPFS for the two grants presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

- *Internal Controls* – Evaluate and obtain sufficient understanding of Stanford's internal controls related to the grants, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether Stanford complied, in all material respects, with the grants' requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether Stanford has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

### **Scope**

The scope of this audit included all costs incurred under the State's Grant Nos. SINLEC10GR0020 and SINLEC12GR074, for the period January 15, 2010 through December 31, 2017. Our testing of indirect costs was limited to determining that the indirect costs were calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved by the applicable grants and/or Department of the Navy.

### **Methodology**

In order to accomplish the objectives of this audit, we designed our audit procedures to include the following:

#### **Entrance Conference**

An entrance conference was held via conference call on January 17, 2019. Participants included representatives of Conrad, Stanford, SIGAR, and State-INL.

#### **Planning**

During our planning phase, we performed the following:

- Obtained an understanding of Stanford;
- Reviewed the grants and all modifications;
- Reviewed regulations specific to State-INL that are applicable to the grants;
- Performed a financial reconciliation; and
- Selected samples based on our sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, which means none of the costs are identical in nature, thus



statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:

- For accounts that appeared to contain unallowable and restricted items according to the terms of the grants, Office of Management and Budget (“OMB”) Circulars A-21 (2 Code of Federal Regulations (“CFR”), Part 220), 2 CFR 200, and any other applicable regulations, we tested 100% of the transactions.
- For related party transactions, we tested 100% of the transactions.
- For high risk cost categories, we sampled transactions greater than \$36,600 not to exceed 30% of the total amount expended for each cost category.
- For medium risk cost categories, we sampled transactions greater than \$73,200 not to exceed 20% of the total amount expended for each cost category.
- For low risk cost categories, we sampled transactions that are greater than \$73,200 not to exceed 10% of the total amount expended for each cost category and not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

#### Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the grants and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the grants, and reasonable.

#### Internal Controls Related to the Grants

We reviewed Stanford’s internal controls related to the two grants. This review was accomplished through interviews with management and key personnel, reviewing of policies and procedures, and identifying key controls within significant transaction cycles and testing those key controls.

#### Compliance with Grants’ Requirements and Applicable Laws and Regulations

We performed transactional tests to determine whether Stanford complied, in all material respects, with the grants’ requirements, OMB A-21, Title 2 CFR 200: Code of Federal Regulations (“2 CFR 200”), and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

#### Corrective Action on Prior Findings and Recommendations

We requested from Stanford, as well as conducted a search online of various governmental websites including SIGAR, State and other federal agencies, to identify previous engagements that could have a material effect on Stanford’s SPFS. For those engagements, Conrad evaluated the adequacy of the corrective action taken on the findings and recommendations that could have a material effect on the SPFS. Our review procedures included a follow-up discussion with management on the corrective action taken, reviewing evidence of policies and procedures or other applicable recommended actions, as well

as conducting tests of the similar areas surrounding these issues during our current audit. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Exit Conference

An exit conference was held on May 8, 2019 via conference call. Participants included representatives from Conrad, Stanford, SIGAR, and State-INL. During the exit conference, we discussed the preliminary results of the audit and reporting process.

**Summary of Results**

Upon completion of our audit of the costs incurred by Stanford under the grants with State-INL, we issued a modified opinion on their SPFS's, identified five findings, and \$289,693 in questioned costs. We have summarized the details of these results below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

Auditor's Opinion on the SPFS

Conrad issued a modified opinion on the SPFS due to the material amount of questioned costs identified during the audit.

We identified \$289,693 in total questioned costs because they were either ineligible or unsupported. SIGAR defines unsupported costs as those not supported with adequate documentation or did not have required prior approvals or authorizations. Ineligible costs are costs explicitly questioned because they are unreasonable; prohibited by the audited contract or applicable laws and regulations; or are unrelated to the award.

Findings and Questioned Costs

The five findings listed below are categorized as either internal control deficiency or noncompliance, or if both were present, they were combined into one finding. Also, internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact to Stanford's SPFS.

In instances of noncompliance, Conrad reported \$289,693 in questioned costs. SIGAR requires that questioned costs be classified as either ineligible or unsupported, see breakout below.

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2019-01	Internal Control - Deficiency	Credit identified after closeout was not refunded in a timely manner.	\$1,811		\$1,811

2019-02	<b>Finding removed based on further review of Stanford's Management Response, see Stanford's Management Response in Appendix B and the Auditor's Response at Appendix C.</b>				
2019-03	Non-Compliance; Internal control – Significant deficiency	Lacked evidence to support reasonableness of procurement expenses		\$151,610	\$153,421
2019-04	Non-Compliance; Internal control – Significant deficiency	Exclusion and Anti-terrorist checks not performed			\$153,421
2019-05	Non-Compliance; Internal control – Deficiency	Costs claimed not approved in subcontractor's agreement	\$6,104		\$159,525
2019-06	Non-Compliance; Internal control – Significant deficiency	Lacked evidence or insufficient evidence to support costs incurred		\$130,168	\$289,693
<b>Total Questioned Costs</b>			<b>\$7,915</b>	<b>\$281,778</b>	<b>\$289,693</b>

Internal Control Findings

Our audit discovered five internal control findings, consisting of three significant deficiencies and two deficiencies. See Independent Auditor's Report on Internal Control on page 15.

Compliance Findings

The results of our testing disclosed four instances of noncompliance related to this audit. See the Independent Auditor's Report on Compliance on page 18.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

## Prior Findings and Recommendations

Based on our requests and search of prior engagements pertinent to Stanford's activities under the grants, we identified four prior engagements that contained five findings and recommendations that could have a material impact on the SPFS or other financial data significant to the audit objective. We have reviewed the corrective actions taken to address these findings and recommendations. Based on our review, Stanford had not taken adequate corrective action on the recommendation on one of the five findings and took adequate corrective action on the remaining four findings. See Status of Prior Audit Findings on page 36 for a detailed description of the prior findings and recommendations.

## Summary of Stanford's Responses to Findings

The following represents a summary of the responses provided by Stanford to the findings identified in this report. The complete responses received can be found in Appendix A to this report.

- 2019-01: Stanford disagrees with this audit finding and the associated questioned costs stating that the credit was identified by Stanford in January 2019 and was not attributed to the initiation of the audit. In addition, the credit was refunded to the sponsor within two weeks of identification by Stanford.
- 2019-02: Stanford disagrees with this audit finding and the associated questioned costs stating that: 1) Stanford underspent the total approved Indirect Cost budget amount even with the questioned amount; 2) the 26.6% was an approved NICRA rate; 3) State-INL acceptance of the Federal Financial Report (FFR) with the 26.6% rate reported implied that State-INL had accepted the 26.6% rate; and 4) support documentation does not need to be retained as it was beyond the three-year document retention policy stipulated by Office of Management and Budget.
- 2019-03: Stanford disagrees with this audit's finding and the associated questioned costs stating, sufficient support documentation of price reasonableness was provided in the audit and Stanford's cognizant agency approved a micro-purchase threshold of \$25,000.
- 2019-04: Stanford agrees with this audit finding.
- 2019-05: Stanford agrees with this audit finding.
- 2019-06: Stanford disagrees with this audit finding and the associated questioned costs stating that Stanford was given insufficient time to pull the supporting evidence.



## INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Trustees  
Leland Stanford Junior University  
Palo Alto, California

To the Office of the Special Inspector General for Afghanistan Reconstruction  
2530 Crystal Drive  
Arlington, Virginia 22202

### **Report on the Special Purpose Financial Statement**

We have audited the accompanying Special Purpose Financial Statement of Leland Stanford Junior University ("Stanford") and the related notes to the Consolidated Special Purpose Financial Statement, with respect to the Department of State's Grant Nos. SINLEC10GR0020 and SINLEC12GR074, Afghanistan Legal Education Project ("ALEP") at Stanford Law School, for the period January 15, 2010 through December 31, 2017.

### **Management's Responsibility for the Special Purpose Financial Statement**

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the requirements provided by the Office of the Special Inspector General of Afghanistan Reconstruction ("SIGAR"). Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Special Purpose Financial Statement that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Stanford's preparation and fair presentation of the Special Purpose Financial Statement in order to design audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Stanford's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **Basis for Qualified Opinion**

Due to the internal control deficiencies and instances of noncompliance, we questioned \$289,693 in costs that were either ineligible or unsupported. We determined that these costs have a significant and material impact on the Special Purpose Financial Statement.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by Stanford under the grants, for the period January 15, 2010 through December 31, 2017, in accordance with the basis of accounting described in Note 3.

### **Basis of Presentation**

We draw attention to Note 2 to the Special Purpose Financial Statement, which describes the basis of presentation. The Special Purpose Financial Statement was prepared by Stanford in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of Grant Nos. SINLEC10GR0020 and SINLEC12GR074, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the grants referred to above. Our opinion is not modified with respect to this matter.

### **Restriction on Use**

This report is intended for the information of Leland Stanford Junior University, Department of State - Bureau for International Narcotics and Law Enforcement Affairs, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 1, 2019 on our consideration of Stanford's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Stanford's internal control over financial reporting and compliance.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, flowing style.

Lake Forest, California  
August 1, 2019

# LELAND STANFORD JUNIOR UNIVERSITY

Financial Audit of Consolidated Costs Incurred under  
Grant Nos. SINLEC10GR0020 and SINLEC12GR074

## Special Purpose Financial Statement (Consolidated)

For the Period January 15, 2010 - December 31, 2017

	<u>Budget</u>	<u>Actual</u>	Questioned Costs			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
ALEP Grants	\$ 7,436,320	\$ 7,325,489	\$ -	\$ -	\$ -	(5)
Total revenues	<u>7,436,320</u>	<u>7,325,489</u>	-	-	-	
Costs incurred:						
Personnel	1,437,103	1,436,291	1,811	-	1,811	(A)
Fringe benefits	400,364	401,380	-	-	-	
Other expertise, supplies, and equipment	929,332	809,637	-	105,763	105,763	(B)
Contractual	3,203,334	3,289,891	6,104	146,172	152,276	(C)
Travel	484,465	449,799	-	-	-	
Indirect	<u>981,722</u>	<u>938,491</u>	-	<u>29,843</u>	<u>29,843</u>	(D)
Total costs incurred	<u>7,436,320</u>	<u>7,325,489</u>	<u>\$ 7,915</u>	<u>\$ 281,778</u>	<u>\$ 289,693</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

**Note:** SPFS related to each specific grant is included in **Appendix A**.



# LELAND STANFORD JUNIOR UNIVERSITY

Financial Audit of Costs Incurred under  
Grant Nos. SINLEC10GR0020 and SINLEC12GR074

## Notes to the Special Purpose Financial Statement<sup>1</sup>

### (1) **The University**

The University is a private, not-for-profit educational institution, founded in 1885 by Senator Leland and Mrs. Jane Stanford in memory of their son, Leland Stanford Jr. A Board of Trustees (the "Board") governs the University.

Stanford Law School received a grant from the United States Department of State ("DoS") for the Afghanistan Legal Education Project ("ALEP"): A Project to develop innovative legal curricula to assist Afghan Universities as they establish new legal training programs. The purpose of the grant was to expand legal education programs in Afghanistan, to develop a modern legal education curriculum that was culturally appropriate for Afghanistan, and to provide education and training to Afghan law faculty.

The agreement numbers for this grant, for the period January 15, 2010 through December 31, 2017, are SINLEC10GR0020 and SINLEC12GR074.

### (2) **Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "SPFS") includes revenues earned and costs incurred for the duration of the grant, from January 15, 2010 through December 31, 2017.

Stanford University prepared the SPFS in accordance with requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR").

### (3) **Basis of Accounting**

The SPFS has been prepared from Stanford's financial systems that follow the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") whereby revenue is recognized when earned and expenses are recognized when incurred.

### (4) **Costs**

Expenditures were recognized following the cost principles in the Office of Management and Budget's, 2 CFR 200 – Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards. Expenditures were as permitted and in compliance with the terms of US DoS grant agreements noted above.

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<sup>1</sup> These Notes to the Special Purpose Financial Statement are the responsibility of Stanford.

# LELAND STANFORD JUNIOR UNIVERSITY

Financial Audit of Costs Incurred under  
Grant Nos. SINLEC10GR0020 and SINLEC12GR074

## Notes to the Special Purpose Financial Statement

(continued)

(5) **Revenues**

Revenues represent the amount of funds Stanford received from DoS for allowable, allocable, and reasonable costs incurred under the grant agreements during the period of performance. Revenue was recognized when earned.

(6) **Budget Category**

The actual expenditures were obtained from original expenditure categories in Stanford financial systems. In the SPFS, the expenditures have been classified into the budget categories as per the grant agreements. The cross-walk between the expenditure categories per Stanford's financials to the grant budget categories has been provided as a part of the audit documentation.

(7) **Foreign Currency Conversion Method**

Conversions from local currency to United States dollars was not required for the SPFS.

(8) **Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the January 15, 2010 through December 31, 2017 period covered by the SPFS. Management has performed their analysis through August 1, 2019.

# LELAND STANFORD JUNIOR UNIVERSITY

Financial Audit of Costs Incurred under  
Grant Nos. SINLEC10GR0020 and SINLEC12GR074

## Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>

For the Period January 15, 2010 through December 31, 2017

### (A) Personnel

Stanford reported a total personnel cost of \$1,436,291 for the period from January 15, 2010 through December 31, 2017.

Stanford identified a grant credit in May 2018 related to employee's accrued vacation, which was not submitted back to the Sponsor until January 2018, eight months after the initial identification. This resulted in an ineligible cost of \$1,811. See Finding No. 2019-01 in the Schedule of Findings and Questioned Costs section of this report.

### (B) Other Expertise, Supplies, and Equipment

Stanford reported a total other expertise, supplies, and equipment cost of \$809,637 for the period from January 15, 2010 through December 31, 2017.

Stanford was unable to provide evidence of price reasonableness/justification check for various purchases. This resulted in unsupported costs of \$105,763. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.

### (C) Contractual

Stanford reported a total contractual cost of \$3,289,891 for the period from January 15, 2010 through December 31, 2017. During our sample review of transactions related to one of Stanford's major subcontractor, the following was noted:

- a. Stanford was unable to provide evidence of price quotations, as required by its subcontractor's Procurement Manual, for purchases made. This resulted in unsupported costs of \$16,004, which is inclusive of indirect costs claimed by the subcontractor. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.
- b. Stanford's subcontractor claimed life insurance and pension costs that were not explicitly approved in the subcontractor's agreement. This resulted in ineligible costs of \$6,104, which is inclusive of indirect costs claimed by the subcontractor. See Finding No. 2019-05 in the Schedule of Findings and Questioned Costs section of this report.

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<sup>2</sup> These Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.

## LELAND STANFORD JUNIOR UNIVERSITY

Financial Audit of Costs Incurred under  
Grant Nos. SINLEC10GR0020 and SINLEC12GR074

### Notes to Questioned Costs Presented on Special Purpose Financial Statement

(Continued)

c. Stanford was unable to provide adequate support documentation to sufficiently support the allowability of costs claimed. This resulted in unsupported costs of \$130,168, which is inclusive of indirect costs claimed by the subcontractor. See Finding No. 2019-06 in the Schedule of Findings and Questioned Costs section of this report.

As a result of these findings, we questioned a total of \$146,172 of unsupported costs and \$6,104 of ineligible costs, which resulted in total questioned costs of \$152,276.

(D) **Indirect**

Stanford reported a total indirect cost of \$938,491 for the period from January 15, 2010 through December 31, 2017. Indirect costs associated with the costs questioned in **Note B** above which totaled \$29,843 are being questioned as unsupported indirect costs.



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Trustees  
Leland Stanford Junior University  
Palo Alto, California

To the Office of the Special Inspector General for Afghanistan Reconstruction  
2530 Crystal Drive  
Arlington, Virginia 22202

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 Special Purpose Financial Statement of Leland Stanford Junior University ("Stanford") representing revenues received and costs incurred under the Department of State's Grant Nos. SINLEC10GR0020 and SINLEC12GR074 with the Department of State - Bureau for International Narcotics and Law Enforcement Affairs ("State-INL"), Afghanistan Legal Education Project ("ALEP") at Stanford Law School, for the period January 15, 2010 through December 31, 2017, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated August 1, 2019. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

### Internal Control over Financial Reporting

Stanford's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the grant; and transactions are recorded properly to permit the preparation of the Special Purpose Financial Statement in conformity with the basis of presentation described in Note 2 to the Special Purpose Financial Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Special Purpose Financial Statement of Stanford for the period January 15, 2010 through December 31, 2017, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Special Purpose Financial Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

*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. We identified two findings reported in the accompanying Schedule of Findings and Questioned Costs as Findings 2019-01 and 2019-05 that we consider internal control deficiencies.

*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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify three internal control deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2019-03, 2019-04, and 2019-06, that we consider to be significant deficiencies.

### **Stanford's Response to Findings**

Stanford's response to the findings identified in our audit is included verbatim in Appendix A. Stanford's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

### **Purpose of this Report**

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

### **Restriction on Use**

This report is intended for the information of Leland Stanford Junior University, Department of State - Bureau for International Narcotics and Law Enforcement Affairs, and the Special Inspector General for Afghanistan Reconstruction and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the

public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Conrad LLP*

Lake Forest, California  
August 1, 2019



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Trustees  
Leland Stanford Junior University  
Palo Alto, California

To the Office of the Special Inspector General for Afghanistan Reconstruction  
2530 Crystal Drive  
Arlington, Virginia 22202

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 Special Purpose Financial Statement of Leland Stanford Junior University ("Stanford") representing revenues received and costs incurred under the Department of State's Grant Nos. SINLEC10GR0020 and SINLEC12GR074 with the Department of State - Bureau for International Narcotics and Law Enforcement Affairs ("State-INL"), Afghanistan Legal Education Project ("ALEP") at Stanford Law School, for the period of January 15, 2010 through December 31, 2017, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated August 1, 2019. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

### Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the grant and corresponding modifications are the responsibility of the management of Stanford.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stanford's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned grants, 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. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2019-03, 2019-04, 2019-05, and 2019-06.



## **Stanford's Response to Findings**

Stanford's response to the findings identified in our audit is included verbatim in Appendix A. Stanford's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of compliance, and the results of that testing, and not to provide an opinion 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. Accordingly, this communication is not suitable for any other purpose.

## **Restriction on Use**

This report is intended for the information of Leland Stanford Junior University, Department of State - Bureau for International Narcotics and Law Enforcement Affairs, and the Special Inspector General for Afghanistan Reconstruction and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, flowing style.

Lake Forest, California  
August 1, 2019

# LELAND STANFORD JUNIOR UNIVERSITY

Financial Audit of Costs Incurred under  
Grant No. SINLEC10GR0020 and SINLEC12GR074  
For the Period January 15, 2010 through December 31, 2017

## Schedule of Findings and Questioned Costs

### **Finding 2019-01: Credit identified after closeout was not refunded to the Sponsor in a timely manner**

**Nature of Finding:** Internal Control - Deficiency

**Condition:** State-INL Grant No. SINLEC12GR074 ended on December 31, 2017. In May 2018, five months after the close-out of the State-INL Grant No. SINLEC12GR074, Stanford made a retroactive credit of \$1,811 related to the vacation hours for the Executive Director of this project. Stanford is required to refund this \$1,811, retroactive credit to State-INL as part of its post award closeout responsibilities, and do so in a timely manner. Stanford refunded the \$1,811 to State-INL on January 18, 2019, eight months after they identified the refund.

Because the \$1,811 was refunded after December 31, 2017, the amount is included in the SPFS as an expenditure under Personnel.

**Criteria:** 2 CFR 200.303, *Internal Controls*, states in part:

“The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the Non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award...”

2 CFR 200.302, *Financial Management System*, b.4, states in part:

“...Effective control over, and accountability for, all funds, property, and other assets...”

2 CFR 200.344, *Post-Closeout Adjustments and Continuing Responsibilities*, states in part:

“(a) The closeout of the Federal Award does not affect any of the following...  
(2) The obligation of the non-Federal entity to return any funds due as a result of later refunds, corrections, or other transactions including final indirect cost rate adjustments.”

THE U.S. DEPARTMENT OF STATE STANDARD TERMS AND CONDITIONS, Provision XXI, *Post Award Requirement for Closeout*, states in part:

“Closeout procedures require:

1. submission by the grant non-Federal entity of final financial and program reports within ninety (90) calendar days after the project period end date;
2. reconciliation of all cost or expenditure discrepancies;
3. prompt payment of allowable costs;
4. immediate collection of any unexpended funds or disallowed costs;
5. de-obligation of excess funds; and...”

Stanford’s Research Policy Handbook, Fiscal Responsibilities of Principal Investigator, Section 3.2 (4) *Review of Project Expenditures by the Research Administrator*, states, in part:

“Sponsored project and cost sharing accounts must be reviewed by the Research Administrator and the review recorded/verified quarterly in the eCertification system...

- Any questionable charges must be brought promptly to the PI's attention, and, if needed, corrected by an appropriate transfer.
- Transfers should be initiated as soon as possible after a need has been identified.”

**Cause:** Stanford’s internal controls omitted a supervisory review to ensure credits to Federal awards identified after closeout were refunded in a timely manner.

**Effect:** Stanford’s untimely refund of the \$1,811 resulted in Federal funds being unavailable for the United States Government use for other purposes.

**Questioned Costs:** The total ineligible costs of \$1,811, which was included in the Consolidated SPFS.

**Recommendation:** We recommend Stanford improve its internal controls related to supervisory oversight over processing of Federal refunds to ensure refunds are processed in a timely manner. There is no request for repayment of the \$1,811, because Stanford refunded it to State-INL in January 2019.

**Finding 2019-02: *Finding removed based on further review of Stanford's Management Response, see Stanford's Management Response in Appendix B and the Auditor's Response at Appendix C.***

**Finding 2019-03: Lack of evidence to support price reasonableness of procurement expenses**

**Nature of Finding:** Non-Compliance and Internal Control – Significant Deficiency

**Condition:** Conrad judgmentally tested 50 out of 816 transactions under supplies, expendable materials and services, and other expertise to determine if costs incurred were adequately supported, allowable, allocable, and reasonable under the grants. For 20 of the 50 samples tested, Stanford was unable to provide support evidencing price reasonableness checks, resulting in \$105,763 in questioned costs, detailed as follows:

<u>Sample ID No.</u>	<u>Vendor</u>	<u>Items/Services Description</u>	<u>Amount</u>
<b>Supplies</b>			
GR0020-55101-1	Amazon.com	Purchase of Flip HD Video camera	\$ 118
GR0020-55101-2	Amazon.com	Purchase books for ALEP program	418
GR0020-55101-3	Stanford Bookstore	External drive purchased for ALEP	162
GR074-55101-2	Relymedia	Purchase of flash drives	1,373
<b>Other Expertise</b>			
GR074-54201-3	Elite Legal Services	Translation of An Introduction to the Constitutional Law of Afghanistan from English to Dari	16,380
GR074-54201-4	Elite Legal Services	Translation of An Introduction to the Constitutional Law of Afghanistan from English to Pashto	16,380
GR074-54201-6	Elite Legal Services	Translation & vetting of Commercial Code of Afghanistan from Dari to English	8,373
GR074-54201-10	Elite Legal Services	Translation & vetting of An Introduction to the Law of Obligations of Afghanistan from English to Dari	17,150
GR074-54201-11	Elite Legal Services	Translation & vetting of An Introduction to the Law of Obligations of Afghanistan from English to Pashto	17,150
GR074-54201-12	██████████	Consultant services to review textbooks for ALEP	1,314
<b>Expendable materials and Services</b>			
GR0020-52200-1	International SOS Assistance Inc.	Membership fee for Law School	1,500
GR0020-54301-1	The Chronicle	Advertisement for ALEP's upcoming fellowship openings	260
GR0020-54501-1	Chase VP	Business cards for ALEP	220
GR0020-54501-2	Chase VP	Business cards for ██████████	220
GR0020-54501-3	Kinkos.com	100 double-sided color copies of a two-page ALEP document	125
GR0020-55401-1	Simon & Schuster	Purchase of Dari Language CD set	402
GR0020-56201-1	International SOS Assistance Inc.	Membership for 6 travelers to Afghanistan	9,000
GR074-52200-1	International SOS Assistance Inc.	Membership for 9 travelers to Afghanistan	13,500
GR074-54501-1	Herring & Robinson Bindery	Hard cover binding of textbooks produced by ALEP	1,500
GR074-54501-2	Chase VP	Business cards for ██████████	218
<b>Total</b>			<b>\$ 105,763</b>

In addition to the 20 items above questioned above, Conrad judgmentally selected 13 out of 72 contractual cost billings claimed by Stanford's only subcontractor, American University of Afghanistan (AUAF), to determine if costs incurred were adequately supported, allowable, allocable, and reasonable under Stanford's grants. For 12 of the 13 billings, Stanford and AUAF were unable to provide evidence of required quotations for procurement of goods and services. Furthermore, Stanford was unable to provide further evidence that these costs were reasonable under the terms and conditions imposed by the grants and the DoS. As a result, Conrad also questioned \$16,004 of these costs.

**Criteria:** 2 CFR 200.331, Requirements for pass-through entities, states, in part:

"...Required information includes:

(a)(2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award...

...(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved..."

2 CFR 200.303 (c), Internal Controls, states, the non-Federal entity must:

"Evaluate and monitor the non-federal entity's compliance with statutes, regulations and the terms and conditions of the Federal awards."

Section 5.1.1.2 of Stanford's Procurement Policies, states in part:

"The University's policy is that acquisition of products or services will be by competition between potential suppliers, to the maximum practical extent subject to the requirements of quality, price and performance. Attestation of price reasonableness should be acquired prior to submitting any requisition for approval. This is the responsibility of the requestor. Therefore, individuals that request goods and services are responsible for attaining and documenting their efforts related to purchases requests. Requestors may elect to do one or more of the following to ensure and/or document price reasonableness..."

Stanford's Research Policy Handbook, 16. Subawards, Section 16.4, *Subrecipient Monitoring*, states, in part:

**"5. Principal Investigator Monitoring Responsibilities (Assisted by their Departmental Administrators)**

Stanford is responsible for ensuring that sponsor funds, including those provided by Stanford to other entities, are spent in accordance with all applicable laws and regulations. The Uniform Guidance requires Stanford, as the pass-through entity, to monitor its subrecipients. This monitoring requirement places Stanford in much the same position as if it were a Federal agency dealing with its own primary recipient

Stanford has designated the PI as the individual primarily responsible for monitoring the programmatic and financial performance and progress of a subaward...

...2. To insure that Subrecipient's invoices are prepared in accordance with subaward requirements; to verify that the costs incurred are in accordance with the approved budget or permissible re-budgeting; that costs were incurred within the approved period of performance and overall cost limitations, and are aligned in terms of cost and type of expense with the scientific progress reported to date; and that the costs are allowable, allocable and reasonable as they relate to the terms and conditions imposed by the sponsor and the subaward issued by Stanford..."

AUAF's 2011 Procurement Manual:

"In the procurement of goods and services that are under 999 USD, award is made to the lowest priced acceptable competitive offer, with two quotations, provided the prices are reasonable. Such purchases are distributed equitably between two qualified vendors. Three written quotations from qualified vendors are required for procurement between 1,000 and 2,999 USD..."

2 CFR 200.404, *Reasonable Costs*, states:

"A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally funded. In determining reasonableness of a given cost, consideration must be given to:

...(c) Market prices for comparable goods or services for the geographic area.

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal government.

(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost."

2 CFR 200.403 *Factors affecting allowability of costs* further states:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles...

(g) Be adequately documented..."

Stanford's Administrative Guide, Section 3.1.5, *Retention of Financial Records*, states, in part:

"... 3. Retention Times

a. Minimum Paper and Electronic Record Retention Times

Legal and Audit Requirements

When requirements for long-term retention of records overlap, the responsible office should retain records for the maximum period needed to meet legal and audit requirements..."

**Cause:** There were two causes to this finding: 1) Stanford's procurement practice was not in accordance with its procurement policy. Stanford's procurement policy requires that the requestor obtain and document price reasonableness for all goods and services. However, for individual procurements under \$25,000 Stanford's procurement system only requires a purchase requester check a box acknowledging that they complied with Stanford's reasonableness but does not require the requestor to maintain

supporting documentation. Stanford stated that its practice for procurement only required a formal competition for purchases over \$25,000; 2) In addition, Stanford's Principal Investigator did not adequately monitor AUAF and ensure AUAF's costs were properly procured, in accordance with Stanford's subrecipient monitoring policy and the terms and conditions of the grants.

**Effect:** Failure to retain sufficient evidence to support the reasonableness of purchases resulted in Government overpaying for goods and services, which increased the risk of subcontractor's abusing Federal funds by charging unreasonable amounts for goods and services.

**Questioned Costs:** Total unsupported costs of \$151,610, of which \$29,843 represent the associated indirect costs.

**Recommendation:**

- (1) We recommend that Stanford provide evidence of reasonableness check to determine the costs were reasonable or return \$151,610 of unsupported costs to State-INL.
- (2) We recommend that Stanford provide training to its staff to strictly adhere to its procurement policy, and the retention of documentation to support price reasonableness. Stanford should update its procurement system's acknowledgement practice to require supporting documentation be retained to support price reasonableness in accordance with Stanford's policy.
- (3) We recommend that Stanford strictly adhere to its sub-recipient monitoring procedures to ensure subcontractor costs are properly procured in accordance with applicable procurement policies and the CFR requirements.



## **Finding 2019-04: Lack of evidence for Exclusion and Anti-terrorist check**

### **Nature of Finding:** Non-Compliance and Internal Control – Significant Deficiency

**Condition:** Conrad judgmentally selected 13 out of 72 billings claimed by Stanford's only subcontractor, AUAF, under the contractual cost category to determine if exclusion and/or anti-terrorist checks were performed prior to purchases. For 12 out of the 13 sampled billings, Stanford was unable to provide evidence that the exclusion and/or anti-terrorist check was performed. Conrad performed exclusion and anti-terrorist checks on the vendors related to the 12 billings, and found no exceptions. As such, no costs are being questioned.

**Criteria:** In accordance 2 CFR 200, Appendix II to, Section I - *Contract Provisions for Non-Federal Entity Contracts Under Federal Awards*, states in part:

"(I) Debarment and Suspension - A contract award (see 2 CFR 180.220) must not be made to parties listed on the governmentwide Excluded Parties List System in the System for Award Management (SAM), in accordance with the OMB guidelines at 2 CFR 180 that implement Executive Orders 12549 (3 CFR Part 1986 Comp., p. 189) and 12689 (3 CFR Part 1989 Comp., p.235), "Debarment and Suspension." The Excluded Parties List System in SAM contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than Executive Order 12549."

Furthermore, THE U.S. DEPARTMENT OF STATE STANDARD TERMS AND CONDITIONS, Provision XXXIII, *Blocking Property and Prohibiting Transactions who Commit, Threaten to Commit, or Support Terrorism Executive Order 13224*, states:

"Executive Order 13224 designated certain individuals and entities that commit or pose a significant risk of committing terrorist acts and authorized the Secretary of state to designate additional individuals and entities.

The Order also authorized the Secretary of the Treasury to designate additional individuals and entities that provide support or services to, are owned or controlled by, act for or on behalf of, or are "otherwise associated with," an individual or entity who has been designated in or under the order. All property and interests in property of the individual or entity in the United States or in the possession or control of United States persons are blocked. The order prohibits all transactions and dealings in blocked property or interests in the United States or by United States persons, and also prohibits transactions with, and provision of support for, individuals or entities listed in or subject to the Order.

Non-Federal entities should be aware of Executive Order 13224 and the names of the individuals and entities designated thereunder. A list of these names can be found in the exclusions section of the SAM.gov. The web site is: <http://www.sam.gov>.

Non-Federal entities are reminded that U.S. Executive Order and U.S. laws prohibit transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the legal responsibility of the non-Federal entity/contractor to ensure compliance with these Executive Orders and laws."

Stanford's Research Policy Handbook, 16. Subawards, Section 16.4, *Subrecipient Monitoring*, states, in part:

**“5. Principal Investigator Monitoring Responsibilities (Assisted by their Departmental Administrators)**

Stanford is responsible for ensuring that sponsor funds, including those provided by Stanford to other entities, are spent in accordance with all applicable laws and regulations. The Uniform Guidance requires Stanford, as the pass-through entity, to monitor its subrecipients. This monitoring requirement places Stanford in much the same position as if it were a Federal agency dealing with its own primary recipient

Stanford has designated the PI as the individual primarily responsible for monitoring the programmatic and financial performance and progress of a subaward...

...2. To insure that Subrecipient's invoices are prepared in accordance with subaward requirements; to verify that the costs incurred are in accordance with the approved budget or permissible re-budgeting; that costs were incurred within the approved period of performance and overall cost limitations, and are aligned in terms of cost and type of expense with the scientific progress reported to date; and that the costs are allowable, allocable and reasonable as they relate to the terms and conditions imposed by the sponsor and the subaward issued by Stanford...”

2 CFR 200.331, *Requirements for pass-through entities*, states, in part:

“...Required information includes:

(a)(2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award...

...(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved...”

2 CFR 200.403, *Factors affecting allowability of costs*, further states:

“Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles...

(g) Be adequately documented...”

**Cause:** Stanford did not properly adhere to its subrecipient monitoring policy to ensure costs were allowable. Specifically, Stanford did not monitor its subcontractor, AUAF, to ensure exclusion and/or anti-terrorist checks were conducted prior to purchases, which brings doubt if the vendor of the goods and services purchased from were not terrorists. In addition, AUAF did not have or provide any policies and procedures for exclusion or anti-terrorist check on purchases prior to 2018. AUAF did develop a policy for exclusion and anti-terrorist check in 2018; however, this was after our audit period.

**Effect:** Stanford's inability to provide the evidence of exclusion or anti-terrorist checks resulted in raising the risk that Federal funds might be used in support of terrorist activities.

**Questioned Costs:** None

**Recommendation:** We recommend that Stanford strictly adhere to its subrecipient monitoring policy and adequately monitor its subcontractor's costs. Specifically, Stanford should ensure its subcontractor performs exclusion and anti-terrorist checks on all vendors prior to issuing payment, and evidence of exclusion checks are maintained.

**Finding 2019-05: Life Insurance and Pension costs claimed were not authorized in Subcontractor's Agreement**

**Nature of Finding:** Non-Compliance and Internal Control – Deficiency

**Condition:** Conrad judgmentally selected 13 out of 72 contractual cost billings claimed by Stanford's only subcontractor, AUAF, to determine if costs claimed were allowable and authorized in the subcontractor agreement. In eight out of the 13 billings tested, AUAF billed Stanford for insurance and pension costs. However, Stanford's sub-agreement did not authorize AUAF to bill Stanford for these items, and therefore these are not allowable charges to the grant, resulting in questioned costs of \$5,041.

**Criteria:** Page 23 of the Executive Agreement between Stanford and AUAF, states in part:

"Internationals receive a package that includes the cost of acquiring visas and work permits, a 5% general fringe benefit, a travel allowance, health insurance, and the shipping of personal belongings..."

Stanford's Research Policy Handbook, 16. Subawards, Section 16.4, *Subrecipient Monitoring*, states, in part:

**"5. Principal Investigator Monitoring Responsibilities (Assisted by their Departmental Administrators)**

Stanford is responsible for ensuring that sponsor funds, including those provided by Stanford to other entities, are spent in accordance with all applicable laws and regulations. The Uniform Guidance requires Stanford, as the pass-through entity, to monitor its subrecipients. This monitoring requirement places Stanford in much the same position as if it were a Federal agency dealing with its own primary recipient

Stanford has designated the PI as the individual primarily responsible for monitoring the programmatic and financial performance and progress of a subaward...

...2. To insure that Subrecipient's invoices are prepared in accordance with subaward requirements; to verify that the costs incurred are in accordance with the approved budget or permissible re-budgeting; that costs were incurred within the approved period of performance and overall cost limitations, and are aligned in terms of cost and type of expense with the scientific progress reported to date; and that the costs are allowable, allocable and reasonable as they relate to the terms and conditions imposed by the sponsor and the subaward issued by Stanford..."

**Cause:** Stanford's sub-agreement with AUAF did not list life insurance and pension costs as allowable costs. Stanford's Principal Investigator did not properly review the terms of the sub-agreement against the subcontractor's invoices to ensure all costs billed were in accordance with the terms of the agreement.

**Effect:** Unapproved cost items claimed resulted in excessive costs being charged to the Government and a potential misuse of funds. This also resulted in ineligible costs claimed to the grant awards.

**Questioned Costs** Total ineligible costs of \$6,104, of which \$1,063 represent the associated indirect costs.

**Recommendation:**

- (1) We recommend that Stanford provide evidence to support the costs were allowable or return \$6,104 of ineligible costs.
- (2) We recommend that Stanford provide training to responsible staff to strictly adhere to its subrecipient monitoring policy and adequately monitor its subcontractor's costs to determine allowability and consistency with the approved items outlined in the subcontractor agreement.

**Finding 2019-06: Lack of evidence or insufficient evidence to support subcontractor costs claimed**

**Nature of Finding:** Non-Compliance and Internal Control – Significant Deficiency

**Condition:** Conrad judgmentally selected 13 out of 72 contract cost billings claimed by Stanford's only subcontractor, AUAF, to determine if costs claimed were properly supported, allowable, reasonable, and allocable to the grants. For 12 out of 13 AUAF billings, there was a lack of evidence or insufficient evidence provided to properly substantiate \$104,931 in costs charged to the grants.

**Criteria:** 2 CFR 200.403, Factors affecting allowability of costs, states:

“Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both Federally-financed and other activities of the non-Federal entity.
- (d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federally-financed program in either the current or a prior period. See also § 200.306 Cost sharing or matching paragraph (b).
- (g) Be adequately documented.”

Stanford's Research Policy Handbook, 16. Subawards, Section 16.4, *Subrecipient Monitoring*, states, in part:

**“5. Principal Investigator Monitoring Responsibilities (Assisted by their Departmental Administrators)**

Stanford is responsible for ensuring that sponsor funds, including those provided by Stanford to other entities, are spent in accordance with all applicable laws and regulations. The Uniform Guidance requires Stanford, as the pass-through entity, to monitor its subrecipients. This monitoring requirement places Stanford in much the same position as if it were a Federal agency dealing with its own primary recipient

Stanford has designated the PI as the individual primarily responsible for monitoring the programmatic and financial performance and progress of a subaward...

...2. To insure that Subrecipient's invoices are prepared in accordance with subaward requirements; to verify that the costs incurred are in accordance with the approved budget or permissible re-budgeting; that costs were incurred within the approved period of performance and overall cost limitations, and are aligned in terms of cost and type of expense with the scientific

progress reported to date; and that the costs are allowable, allocable and reasonable as they relate to the terms and conditions imposed by the sponsor and the subaward issued by Stanford..."

Section 5.1.1.2 of Stanford's Procurement Policies, states in part:

"The University's policy is that acquisition of products or services will be by competition between potential suppliers, to the maximum practical extent subject to the requirements of quality, price and performance. Attestation of price reasonableness should be acquired prior to submitting any requisition for approval. This is the responsibility of the requestor. Therefore, individuals that request goods and services are responsible for attaining and documenting their efforts related to purchases requests. Requestors may elect to do one or more of the following to ensure and/or document price reasonableness..."

AUAF's 2011 Procurement Manual:

"In the procurement of goods and services that are under 999 USD, award is made to the lowest priced acceptable competitive offer, with two quotations, provided the prices are reasonable. Such purchases are distributed equitably between two qualified vendors. Three written quotations from qualified vendors are required for procurement between 1,000 and 2,999 USD..."

2 CFR 200.331, *Requirements for pass-through entities*, states, in part:

"...Required information includes:

(a)(2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award...

...(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved..."

**Cause:** Stanford did not properly monitor its subcontractor to ensure costs claimed were properly supported and that appropriate support documentation was retained.

**Effect:** The lack of evidence for costs claimed resulted in Government overpaying for goods and services as well as increasing the risk of subcontractor's abusing Federal funds by charging goods and services that might not have been incurred.

**Questioned Costs:** Total unsupported costs of \$130,168, of which \$25,237 represent the associated indirect costs.

**Recommendation:**

- (1) We recommend that Stanford provide the appropriate source documentation to properly substantiate that the costs claimed were allowable or return \$130,168 to State-INL.

(2) We recommend that Stanford implement stronger controls to ensure costs billed and claimed by its' subcontractor are not paid unless they were properly supported, and that source documentation should be properly maintained.



## LELAND STANFORD JUNIOR UNIVERSITY

Financial Audit of Costs Incurred under  
Grant No. SINLEC10GR0020 and SINLEC12GR074  
For the Period January 15, 2010 through December 31, 2017

### Status of Prior Audit Findings

We requested from Stanford as well as conducted a search online of various governmental websites, including SIGAR, DoS, and other applicable Federal agencies, for any prior engagements including audits, reviews, and evaluations pertinent to Stanford's activities. We had identified four prior engagements below that contained five findings that could have a material effect on the SPFS.

We have reviewed the corrective actions taken to address the five findings and recommendations contained in the reports. Our review procedures include a follow-up discussion with management of the corrective action taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. Based on our review, Stanford had not taken adequate corrective action on the recommendation on one of the five findings and took adequate corrective actions on the remaining four findings. The reports, findings, and status of corrective actions are listed below:

#### Report #1: National Science Foundation Audit of Incurred Costs, dated September 29, 2015

**Issue #1:** Unreasonable and Unallowable Travel Costs - Questioned unreasonable and unallowable travel expenditures for 24 different transactions, related to 19 National Science Foundation ("NSF") awards. NSF recommended Stanford worked with NSF to resolve the questioned costs and strengthen its administrative and management controls over reviewing and approving travel expenses.

**Status:** Based on our follow-up with Stanford, Stanford properly resolved the questioned costs with NSF and had strengthened its management oversight on reviewing and approving travel expenses, including different levels of management review and approval required in its purchasing system before a travel expense can be approved.

During our testing of travel costs, we did not identify any travel costs that were deemed unallowable. This issue was not repeated.

**Issue #2:** Improperly Charged or Inadequately Documented Costs - Identified inadequately supported or erroneous charges to nine NSF awards. NSF recommended Stanford work with NSF to resolve the questioned costs and strengthen its administrative and management controls over documenting, reviewing and approving expenses.

**Status:** Based on our follow-up with Stanford, Stanford properly resolved the questioned costs with NSF and had strengthened its' management oversight on reviewing and approving expenses, including different levels of management review and approval required in its purchasing system before an expense can be approved.

However, during our testing of contractual expenses as stated in Finding 2019-06, we identified a similar condition, where there was insufficient evidence to support costs claimed due to lack of adequate oversight on its subcontractor's documentation process, this issue was not properly corrected.

**Report #2: Reports on Federal Awards Programs in Accordance with OMB Circular A-133, dated December 10, 2014**

**Issue #3:** Overpayment of Salary to Employee - Total salary paid exceeded the salary stated in the approved salary letter for one employee. The Auditor recommended that Stanford implement a control to ensure employees are not paid more than the authorized amount.

**Status:** Based on our follow-up with Stanford, the overpayment was removed from the award by Stanford, and the Director of Financial Aid and the Graduate Financial Support Trainer collaborated and issued revisions to the related payment procedures. In addition, during our testing of personnel costs, we did not identify any issues related to overpayment of an employee's salary. This issue was not repeated.

**Report #3: Reports on Federal Awards in Accordance with OMB Uniform Guidance, dated December 6, 2016**

**Issue #4:** Inaccurate Direct Cost related to Compensation Charged to Federal Awards - Four inaccurate salary calculations impacting three federal awards were noted. The auditor recommended Stanford increase its existing control by reviewing and approving compensation.

**Status:** Based on our follow-up with Stanford, Stanford had discussions with several university departments regarding inaccurate direct costs related to compensation charged to Federal Awards. A Graduate Financial Support System redesign was completed March 2018, which included enhancements to data entry and administration functionalities which facilitate calculation of salaries and assistantships. In addition, during our testing of personnel costs, we did not identify any issues related to inaccurate salary calculations. This issue was not repeated.

**Report #4: Reports on Federal Awards in Accordance with OMB Uniform Guidance, dated December 5, 2017**

**Issue #5:** System of Award Management (SAM) Check Not Performed Timely - Three purchase orders did not comply with Excluded Parties List System/SAM check prior to engaging services with vendor. The checks were performed after and did not identify any exclusions.

**Status:** Based on our follow-up with Stanford, it was noted that the Contract Advisors completed compliance training in Uniform Guidance principles pertaining to procurement, in particular, about timely performance of SAM checks on May 1, 2018 and FAN was completing OCR for the PD3B form which is the document that purchasing advisors and contracts advisors must complete for all federal orders. During our testing, we did not identify any similar issues pertaining to Stanford's purchasing system regarding exclusion/SAM check. This issue was not repeated.

## LELAND STANFORD JUNIOR UNIVERSITY

Financial Audit of Costs Incurred under  
Grant No. SINLEC10GR0020

## Special Purpose Financial Statement

For the Period January 15, 2010 - March 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
Grant No. SINLEC10GR0020	\$ <u>1,269,575</u>	\$ <u>1,230,683</u>	\$ _____	\$ _____	\$ _____	(5)
Total revenues	<u>1,269,575</u>	<u>1,230,683</u>	_____	_____	_____	
Costs incurred:						
Personnel	359,367	350,857	-	-	-	
Fringe benefits	109,117	106,384	-	-	-	
Other expertise, supplies, and equipment	134,602	126,221	-	12,426	12,426	(B)
Contractual	395,465	395,465	1,999	13,883	15,882	(C)
Travel	86,839	72,945	-	-	-	
Indirect	<u>184,185</u>	<u>178,811</u>	_____	<u>908</u>	<u>908</u>	(D)
Total costs incurred	<u>1,269,575</u>	<u>1,230,683</u>	\$ <u>1,999</u>	\$ <u>27,217</u>	\$ <u>29,216</u>	
Outstanding fund balance	\$ _____	\$ _____				

## LELAND STANFORD JUNIOR UNIVERSITY

Financial Audit of Costs Incurred under  
Grant No. SINLEC12GR074

## Special Purpose Financial Statement

For the Period September 12, 2012 - December 31, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
Grant No. SINLEC12GR074	\$ <u>6,166,745</u>	\$ <u>6,094,806</u>	\$ -	\$ -	\$ -	(5)
Total revenues	<u>6,166,745</u>	<u>6,094,806</u>	-	-	-	
Costs incurred:						
Personnel	1,077,736	1,085,434	1,811	-	1,811	(A)
Fringe benefits	291,247	294,996	-	-	-	
Other expertise, supplies, and equipment	794,730	683,416	-	93,337	93,337	(B)
Contractual	2,807,869	2,894,426	4,105	132,289	136,394	(C)
Travel	397,626	376,854	-	-	-	
Indirect	<u>797,537</u>	<u>759,680</u>	-	<u>28,935</u>	<u>28,935</u>	(D)
Total costs incurred	<u>6,166,745</u>	<u>6,094,806</u>	\$ <u>5,916</u>	\$ <u>254,561</u>	\$ <u>260,477</u>	
Outstanding fund balance	\$ -	\$ -				

**LELAND STANFORD JUNIOR UNIVERSITY**

Financial Audit of Costs Incurred under  
Grant No. SINLEC10GR0020 and SINLEC12GR074  
For the Period January 15, 2010 through December 31, 2017

**Stanford's Responses to Findings**

Included on the following pages is Stanford's response received to the findings identified in this report.

## Stanford Responses to Audit Findings

### A. Summary of Stanford's Responses

At the outset, Stanford underscores Conrad's acknowledgement that the audit found no evidence of detected or suspected fraud, waste, or abuse. According to Conrad's audit report at page 5, "In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under Government Auditing Standards. Evidence of such items was not identified by our testing."

Stanford complied with the terms of the award and applicable laws and regulations, and diligently followed its processes to ensure compliance with the relevant regulations. Stanford's summary responses to the individual audit findings are as follows:

#### Finding 2019-01: Grant Credit Identified After Close-Out Were Not Credited Back to Sponsor in Timely Manner (\$1,811)

**Stanford response:** Stanford disagrees with this audit finding and the associated questioned costs. Stanford identified the credit during its regular review in January 2019, and refunded the credit to the sponsor. The initiation of the audit did not bear any causal relationship to the discovery of the \$1,811 credit. The refund to the sponsor was processed on January 18, 2019, which was within two weeks of identification by Stanford, and not eight months later.

#### Finding 2019-02: Lacked Evidence to Support Approval of Facilities and Administrative (Indirect Cost) Rate Used (\$671)

**Stanford response:** Stanford disagrees with this audit finding and the associated questioned costs. First, Stanford did not violate the Department of State ["DoS"] Provision XV as it underspent the IDC budget by \$5,374 on this award. Second, Stanford applied the IDC rate of 26.6% per the negotiation agreement (NICRA) authorized by Office of Naval Research (ONR), Stanford's cognizant USG agency. According to OMB Uniform Guidance 2 CFR 200.414 (c) (1), Stanford is legally bound to apply its authorized NICRA. Third, the DoS implicitly accepted the 26.6% IDC when it accepted Stanford's Final Financial Report (FFR) in April 2013. That FFR clearly states the IDC rate used was the 'predetermined rate of 26.6%' during the life of the award. Fourth, this request for documented sponsor approval is beyond the three-year document retention policy requirements stipulated by the Office of Management and Budget.

#### Finding 2019-03: Lacked Evidence to Support Reasonableness of Procurement Expenses (\$151,610 including \$29,843 indirect costs)

**Stanford response:** Stanford disagrees with this audit finding and the associated questioned costs. Substantial documentation of price reasonableness of procurement expenses was provided as audit evidence: Stanford's system that requires price reasonableness attestation to be submitted electronically; Stanford's \$25,000 micro-purchase threshold specifically authorized by the Office of Naval Research, Stanford's cognizant agency; Stanford's procurement policy that is based on ONR's specific authorization; Stanford's detailed explanation for choosing a sole source vendor

for translation services, an explanation that was accepted by the Office of Inspector General in a previous audit; OMB's clear three-year document retention guideline for purchases; and Stanford's detailed explanation for sole-sourced travel insurance from iSOS, Stanford's preferred vendor. Each of the purchases identified in this finding met the requirements of OMB Uniform Guidance 2 CFR 200.404 (Reasonable Costs) and 2 CFR 200.403 (Factors affecting Allowability of costs). The business purpose for the purchases was documented and price reasonableness and allowability criteria were met in accordance with grant terms and conditions.

**Finding 2019-04: Lacked Evidence for Exclusion and Anti-terrorist Check (\$0)**

**Stanford response:** Stanford agrees with this audit finding with an important qualification. The Management Action Plan will be implemented by AUAF to address this finding. However, it is important to note that these were small dollar purchases of office supplies, printing & photocopying charges, postage and freight charges, telephone charges, food supplies, and textbooks purchased from preferred vendors that AUAF has used since its inception. For instance, the procured items ranged from \$14.56 to \$3,966 from, among others, well-established vendors including DHL and Roshan Telecommunications (owned by the Aga Khan Fund for Economic Development).

**Finding 2019-05: Life Insurance and Pension Costs Claimed That Were Not Approved in Sub-Contractor's Agreement (\$6,104 including \$1,063 indirect costs)**

**Stanford response:** Stanford agrees with this audit finding. The life insurance and pension costs for internationals were not included in the sub-award agreement due to a drafting oversight. These are normal and necessary personnel costs incurred in the course of conducting business in strife-ridden Afghanistan. AUAF's HR policy also includes clause **8.5 Life and Accident Cover:** "AUAF will explore arrangements for a suitable life insurance policy from a reputable local insurance company to cover regular employees in cases of death during service; where employee is declared medically unfit to continue work; temporary disablement; and accidental medical needs." Therefore, according to AUAF's policy, these are allowable costs charged to the grant. Stanford will include these cost items in the next amendment to the subaward agreement. Thereafter, AUAF will include these cost items in the employment contracts covered by the current award.

**Finding 2019-06: Lacked Evidence or Insufficient Evidence to Support Costs Incurred (\$130,168 including \$25,237 indirect costs)**

**Stanford response:** Stanford disagrees with this audit finding and the associated questioned costs. Most of the questioned costs are as a direct result of the audit deadline for document submission that gave AUAF three days to respond to seventy-seven questions at the end of the audit. AUAF provided documentation requested by Conrad in their DRLs (Document Request List) dated April 4, April 12 and April 23, 2019 respectively. However, the initial cut-off date provided for submitting documents in response to April 23, 2019 DRL was April 26, and because AUAF was closed and the city of Kabul was shut down from April 26 through May 5 due to government-convened Loya Jirga, these requested documents could not be submitted by the audit exit conference date of May 8, 2019. This was unfortunate because, for example, \$56,920 of the

questioned costs pertain to personnel costs including payments for teaching summer courses which were authorized by AUAF. The documentation for such costs would have been easily verified if sufficient time were available to submit them.

[Stanford's detailed responses are found in Appendix B.]



## **B. Stanford's Responses (Appendix B)**

At the outset, Stanford underscores Conrad's acknowledgement that the audit found no evidence of detected or suspected fraud, waste, or abuse. According to Conrad's audit report at page 5, "In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under Government Auditing Standards. Evidence of such items was not identified by our testing."

Stanford complied with the terms of the award and applicable laws and regulations, and diligently followed its processes to ensure compliance with the relevant regulations. Responses to the individual audit findings are as follows:

### **Finding 2019-01: Grant Credit Identified After Close-Out Were Not Credited Back to Sponsor in Timely Manner (\$1,811)**

**Stanford response:** Stanford disagrees with this audit finding and the associated questioned costs. Stanford, identified the credit during its regular review in January 2019, and refunded the credit to the sponsor. The initiation of the audit did not bear any causal relationship to the discovery of the \$1,811 credit. That credit to the grant arose from the reclassification of vacation hours in the Stanford system which auto-generated the credit. The refund to the sponsor was processed on January 18, 2019, which was within two weeks of identification by Stanford.

### **Finding 2019-02: Lacked Evidence to Support Approval of Facilities and Administrative (Indirect Cost) Rate Used (\$671)**

**Stanford response:** Stanford disagrees with this audit finding and the associated questioned costs.

First, Stanford did not violate the Department of State ["DoS"] Provision XV as it underspent the IDC budget by \$5,374 on this award. Provision XV provides that: "Indirect cost recovery for any actual indirect costs incurred by the non-Federal entity which are greater than the indirect cost line item in the approved award budget is limited up to the award amount." Stanford did not exceed the IDC cost line item in the approved award budget as is evidenced by the Indirect Cost (IDC) line in the Special Purpose Financial Statement attached to this audit report.

Second, Stanford provided the IDC rate negotiation agreement (NICRA) authorized by Office of Naval Research, Stanford's cognizant USG agency, as evidence of the predetermined FY10 IDC rate of 26.6% applied to the life of the award (grant SINLEC10GR0020). According to OMB Uniform Guidance 2 CFR 200.414 (c) (1), the negotiated rates must be accepted by all Federal awarding agencies. This is an explicit requirement for all Federal agencies to reimburse grantee's indirect costs by applying the Federally negotiated indirect cost rate. This statement is reiterated in the NICRA letter authorized by ONR, "The Facilities and Administrative Cost rates contained herein are for use on grants, contracts and/or other agreements issued or awarded to Stanford University by *all Federal Agencies* of the United States of America, in accordance with the provisions and cost principles mandated by 2 CFR 220 (formerly OMB Circular A-21)."

Third, the DoS implicitly accepted the 26.6% IDC when it accepted Stanford's Final Financial Report (FFR) in April 2013. That FFR clearly states the IDC rate used was the 'predetermined rate of 26.6%' during the life of the award. The U.S. Department of State Standard Terms and Conditions revised on April 8, 2016, Provision XXI, *Post-Award Requirements for Closeout*, states "The settlement for any upward or downward adjustment to the Federal share of costs for provisional NICRA rates are based on the non-Federal entity's submission of its Final SF-425 and, for rate increases, the availability of funds remaining in the award obligation." There was no need for adjustment to federal share of costs as the appropriate IDC rate was used.

Fourth, this request is beyond the three-year document retention policy requirements stipulated by the Office of Management and Budget. Although Stanford searched its email records for communication to DoS about the use of the NICRA authorized rate, the request is contrary to the data retention requirements per OMB Uniform Guidance 2 CFR 200.333 "Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report. Federal awarding agencies and pass-through entities must not impose any other record retention requirements upon non-Federal entities."

In sum, Stanford complied with the terms of the award and applicable laws and regulations.

**Finding 2019-03: Lacked Evidence to Support Reasonableness of Procurement Expenses (\$151,610 including \$29,843 indirect costs)**

**Stanford response:** Stanford disagrees with this audit finding and the associated questioned costs based on the following facts:

Price Reasonableness Electronic Attestation: The stated costs pertain to purchases (POs and PCards) below \$25,000 each. In accordance with Stanford's procurement policy, each of the PO purchases had an electronic attestation to the price reasonableness of the item procured.

\$25,000 Micro Purchase Threshold: Stanford provided its \$25,000 micro-purchase threshold specifically authorized by its cognizant agency, ONR, and the explanations for vendor selection and for price comparison with prior purchases. ONR approved Stanford's micro-purchase threshold based on review of the most recent Single Audit reports (2012-2016) for Stanford. ONR stated that Stanford qualified as a low-risk auditee in accordance with 2 CFR 200.520 under each of those five audit reports. According to OMB Uniform Guidance 2 CFR 200.320 'Methods of procurement to be followed', no bid or quote is required if price is considered to be reasonable; reasonableness could be determined by comparing the price to past purchases or other published prices and/or requesting prices from more than one vendor.

ONR- authorized Stanford Procurement Policy for Purchases Less Than \$25,000: Stanford complied with its Procurement Policy, section 2 'Competition', for purchases under the micro-purchase threshold of \$25,000, which states that: "Individuals that request goods and services are responsible for attaining and documenting their efforts related to purchases

requests. Requestors may elect to do one or more of the following to ensure and/or document price reasonableness: a. Solicit competitive bids, b. Compare pricing across suppliers, c. Document justification for a single source or sole source.” ONR through annual Contractor Purchasing Systems Reviews (CPSR), has approved Stanford’s procurement policy. The current CPSR review letter explicitly states that “based on the results of the review, Stanford University’s purchasing system is determined to be adequate to protect the Government’s interests.” The CPSR also accepted “past price histories as the primary basis for price reasonableness”.

Sole sourced vendor for Other Expertise: In the case of Other Expertise costs listed in this finding, \$98,817 pertained to one vendor who was hired for translation and vetting of law books through the duration of the project. Through its various quarterly reports, Stanford consistently notified the sponsor of the use of this vendor for its specialized knowledge. An analysis of the rates charged by this vendor indicating the same rate per unit charged through the duration of the grant was provided along with historical evidence of detailed vendor assessments, sole source justifications, emails and various quarterly reports to Conrad.

Data retention period: Moreover, \$13,338 of the purchases listed in this finding pertained to grant SINLEC10GR0020 which ended in March 2013. Although Stanford searched its email records for documentation of price reasonableness requested by Conrad, the request is contrary to the data retention requirements per OMB Uniform Guidance 2 CFR 200.333 “Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report. Federal awarding agencies and pass-through entities must not impose any other record retention requirements upon non-Federal entities.”

Sole sourced vendor for international travel insurance: Finally, \$24,000 of the costs listed in this finding pertained to purchase of travel assistance (insurance for travel to Afghanistan) from Stanford’s preferred vendor iSOS international. These expenses were considered reasonable in light of the state of war in Afghanistan at the time, as well as the restricted availability for any travel coverage to war risk countries. These expenses were specifically authorized by Stanford’s Associate Vice President of Risk Management.

Stanford followed its processes diligently to ensure reasonableness and allowability of these charges to the grant.

#### **Finding 2019-04: Lacked Evidence for Exclusion and Anti-terrorist Check (\$0.00)**

**Stanford response:** Stanford agrees with this audit finding with an important qualification. The Management Action Plan will be implemented by AUAF to address this finding. However, it is important to note that these were small dollar purchases of office supplies, printing & photocopying charges, postage and freight charges, telephone charges, food supplies, and textbooks purchased from preferred vendors that AUAF has used since its inception. For instance, the procured items ranged from \$14.56 to \$3,966 from, among others, well-established vendors including DHL and Roshan Telecommunications (owned by the Aga Khan Fund for Economic Development).

**Finding 2019-05: Life Insurance and Pension Costs Claimed That Were Not Approved in Sub-Contractor's Agreement (\$6,104 including \$1,063 indirect costs)**

**Stanford response:** Stanford agrees with this audit finding. Technically, the life insurance and pension costs for internationals were not included in the sub-award agreement due to a drafting oversight. However, these are normal and necessary personnel costs incurred in the course of conducting business in strife-ridden Afghanistan. AUAF's HR policy also includes clause **8.5 Life and Accident Cover:** "AUAF will explore arrangements for a suitable life insurance policy from a reputable local insurance company to cover regular employees in cases of death during service; where employee is declared medically unfit to continue work; temporary disablement; and accidental medical needs." Therefore, according to AUAF's policy, these are allowable costs charged to the grant. Stanford will include these cost items in the next amendment to the subaward agreement. Thereafter, AUAF will include these cost items in the employment contracts covered by the current award.

**Finding 2019-06: Lacked Evidence or Insufficient Evidence to Support Costs Incurred (\$130,168 including \$25,237 indirect costs)**

**Stanford response:** Stanford disagrees with this audit finding and the associated questioned costs.

Most of the questioned costs are as a direct result of the audit deadline for document submission that gave AUAF three days to respond to seventy-seven questions at the very end of the audit. AUAF provided documentation requested by Conrad in their DRLs (Document Request List) dated April 4, April 12 and April 23, 2019 respectively. However, the initial cut-off date provided for submitting documents in response to April 23, 2019 DRL was April 26, and because AUAF was closed and the city of Kabul was shut down from April 26 through May 5 due to government-convened Loya Jirga, these requested documents could not be submitted by the audit exit conference date of May 8, 2019. This was unfortunate because, for example, \$56,920 of the questioned costs pertain to personnel costs including payments for teaching summer courses which were authorized by AUAF. The documentation for such costs would have been easily verified if sufficient time were available to submit them.

## LELAND STANFORD JUNIOR UNIVERSITY

Financial Audit of Costs Incurred under  
Grant No. SINLEC10GR0020 and SINLEC12GR074  
For the Period January 15, 2010 through December 31, 2017

### Auditor's Rebuttal to Stanford's Responses to the Audit Report

Stanford agreed with Finding 2019-04 and 2019-05, and disagreed with Findings 2019-01, 2019-02, 2019-03 and 2019-06. We have reviewed Stanford's responses and provided the following rebuttals to the findings which Stanford disagreed:

- 2019-01: Stanford disagreed with the finding by stating that the \$1,811 credit was identified in January 2019 and was not attributed to the initiation of the audit and was refunded to the sponsor within two weeks of identification.

Auditor Rebuttal: It is acknowledged that Stanford's personnel, not this audit, identified the credit in January 2019. However, a system-generated reclassification of vacation hours occurred in May 2018 and it generated a credit of \$1,811 at that time. That credit remained unnoticed and unrefunded from May 2018 until January 2019. The existence of the system generated credit and that Stanford's personnel identified the credit in January 2019 is acknowledged in Stanford's detailed response to this finding (documented at Appendix B). It is the responsibility of the grant recipient to identify any manual or automated credit, and to ensure that the credit be refunded in a timely manner. As such, our finding, identified questioned costs, and recommendation remain unchanged.

- 2019-02: Stanford disagreed with this audit finding and the associated questioned costs stating that: 1) Stanford underspent the total approved Indirect Cost budget amount even with the questioned amount; 2) the 26.6% was an approved NICRA rate, accordingly to OMB Uniform Guidance 2 CFR 200.414 (c) (1), Stanford is legally bound to apply its authorized NICRA. (3) Documentation does not need to be retained as it was beyond the three-year document retention policy stipulated by Office of Management and Budget.

Auditor's Response: Based on further review of Stanford's response and the applicable Office Management and Budget Uniform Guidance 2 CFR 200.414, Conrad, is in agreement, with Stanford that the approved NICRA rate should be applied. As such, this finding has been removed.

- 2019-03: Stanford disagreed with the finding by stating in summary that processes were followed to ensure reasonableness and allowability of costs charged to the grant. Further response details are as follows:
  - Stanford stated that there is a micro-purchase threshold of \$25,000 in place based on their procurement policy, and were in compliance with this policy. Stanford also stated that its purchasing system required an electronic attestation to the price reasonableness of the item procured.

Auditor Rebuttal: The \$25,000 micro-purchase threshold was set by Stanford for open and competitive bid process. However, as stated in the finding criteria, Stanford procurement policy also required to maintain evidence of effort for obtaining price reasonableness on all purchases. In this case, all the transactions identified in this finding were not

## LELAND STANFORD JUNIOR UNIVERSITY

Financial Audit of Costs Incurred under  
Grant No. SINLEC10GR0020 and SINLEC12GR074  
For the Period January 15, 2010 through December 31, 2017

## Auditor's Rebuttal to Stanford's Responses to the Audit Report

accompanied by a reasonableness check and evidence of such checks were not provided upon our request. The electronic attestation of checking a box acknowledging compliance with Stanford's reasonableness check does not alleviate the award recipient from retaining actual evidence of the check.

In addition, as stated in the finding, Stanford's subcontractor, AUAF, did not comply with its own procurement manual, as it relates to price reasonableness, that was in place during the applicable review period.

- o Stanford stated that a sole source justification was provided for a translation vendor.

Auditor Rebuttal: The sole source justification was only related to the first translation service provided by the vendor and the Auditors had accepted the justification. However, the vendor had performed several other translation services in subsequent month(s) and year(s), but a sole source justification pertaining to those particular services not provided nor was any other evidence of price reasonableness. Furthermore, Stanford did not have a service agreement in place with this vendor that would represent a contractual time period. Given the market change and the fact that new competitor(s) can enter the market through time, a sole source justification or evidence of price reasonableness should have been performed to ensure that the price this vendor charged still qualified as a sole source or that their rates were competitive to the market.

- o Stanford stated that the record retention period according to OMB is three years after the grant close-out.

Auditor Rebuttal: As stated in the finding criteria, Stanford's retention policy required "...for long-term retention of records overlap, the responsible office should retain records for the maximum period needed to meet legal and audit requirements...". Since an audit of this grant had not been previously conducted, the documentation should have been maintained. Stanford's retention policy was added to the criteria section of this finding.

- o Stanford stated it had provided a detailed explanation for the sole-sourced travel insurance provided by iSOS, which is Stanford's preferred vendor.

- o Auditor Rebuttal: During our review of audit evidence and our discussions with Stanford, it was noted that Stanford utilized a preferred vendor for international travel including the travel insurance to areas such as Afghanistan. The Auditor requested the evidence of price reasonableness that would support the use of the preferred vendor or a sole-source justification, if any, that was conducted prior to engaging this preferred vendor. Stanford provided an email response during fieldwork explaining any international travel along with the travel insurance was purchased by this preferred vendor and Stanford stated that associated insurance costs were considered reasonable based on location of travel.

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Stanford also stated that the preferred vendor was authorized by Stanford's Risk Management; however, Stanford could not provide the sole-source justification for this vendor nor any evidence that would demonstrate that the insurance costs were reasonable prior to engaging this preferred vendor.

As such, our finding, identified questioned costs, and recommendation remain unchanged.

- 2019-06: Stanford disagreed with the finding by stating that Stanford and AUAF were not given sufficient time to submit the requested information.

Auditor Rebuttal: On January 9, 2019, Conrad and Stanford had their first teleconference meeting to discuss the audit and on the same day the audit notification letter along with the initial document request list was sent to Stanford. During the meeting, it was asked if all subcontractor records would be available for review. It was acknowledged that the records would be available and that communications to AUAF would be channeled through Stanford. It was further stated that all detailed support documentation would be included in the subcontractor payment packages.

The subcontractor expenditure detail for each grant were provided by Stanford on January 22, 2019. On February 7, 2019, the Auditors sent Stanford the sample selections along with a detailed document request list which listed out the required supporting evidence (i.e. subcontractor's timesheet, invoice for purchases made by subcontractor, evidence of reasonable/competitive purchase, etc.) that was needed for each sample. All applicable supporting evidence should be readily available on or before the first day of the field visit. At the time the samples were sent, a follow up email was sent to Stanford to point out that the subcontractor samples should be looked at first to clarify any questions.

We commenced our onsite visit at Stanford starting on March 11, 2019. During our field visit, Conrad learned that the subcontractor support was still being worked on. As of the end of our field visit on March 15, 2019, Stanford still could not provide the requested supporting evidence for the subcontractor samples. We included these subcontractor samples and requests for supporting evidence in our outstanding item list as of March 15, 2019. After our field visit, Stanford provided the supporting evidence for the subcontractor samples and we responded with further questions and requests on April 4, 2019, April 12, 2019, April 22, 2019, and April 23, 2019, mainly due to incomplete supporting evidence provided.

As in all similar engagements, a document cutoff date was given so that fieldwork could be concluded, and all potential issues could be conveyed in a completed manner. The document cutoff was a discussion point during the entrance meeting and an actual date was not determined until the end of fieldwork. The fact that AUAF had a closure during the week of April 26, 2019 did not alleviate them from providing the requested information

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in a timely manner. Furthermore, if Stanford had provided all appropriate detailed source documentation as requested by the initial due date, it would have allowed Stanford sufficient time to provide the follow up requested information in timely manner.

In summation, multiple discussions were conducted to address the subcontractor requests from the onset of this engagement, we had responded in a timely manner with additional questions and/or requests as new information was made available, and Stanford was given sufficient time to deliver the requested information. As such, our finding, identified questioned costs, and recommendation remain unchanged.



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