



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

# ASSESSMENT REPORT

DOE-OIG-18-16

February 2018

**AUDIT COVERAGE OF  
COST ALLOWABILITY FOR  
STANFORD UNIVERSITY  
DURING FISCAL YEARS 2014 AND 2015  
UNDER DEPARTMENT OF ENERGY  
CONTRACT NO. DE-AC02-76SF00515**



**Department of Energy**  
Washington, DC 20585

February 7, 2018

MEMORANDUM FOR THE ACTING MANAGER, SLAC SITE OFFICE

A handwritten signature in blue ink that reads "Jonathan A. Black".

FROM: Jonathan Black  
Acting Deputy Assistant Inspector General  
for Audits and Inspections  
Office of Inspector General

SUBJECT: INFORMATION: Assessment Report on "Audit Coverage of Cost Allowability for Stanford University During Fiscal Years 2014 and 2015 Under Department of Energy Contract No. DE-AC02-76SF00515"

BACKGROUND

Since 1962, Stanford University (Stanford) has managed and operated the SLAC National Accelerator Laboratory (SLAC) under a management and operating contract with the Department of Energy. SLAC is one of the Department's Office of Science laboratories and is home to a two-mile-long particle accelerator, an X-ray laser, and scientific experiments spanning from neutrinos to cosmic inflation. During fiscal years (FY) 2014 and 2015, Stanford incurred and claimed costs for SLAC totaling \$384,596,380.60 and \$430,229,715.83, respectively.

As an integrated management and operating contractor, Stanford has its financial accounts integrated with those of the Department, and the results of transactions are reported monthly according to a uniform set of accounts. Stanford is required by its contract to account for all funds advanced by the Department annually on its annual Statement of Costs Incurred and Claimed, to safeguard assets in its care, and to claim only allowable costs. Allowable costs are incurred costs that are reasonable, allocable, and allowable in accordance with the terms of the contract and applicable cost principles, laws, and regulation.

The Department's Office of Inspector General, Office of Acquisition Management, integrated management and operating contractors, and other select contractors have implemented a Cooperative Audit Strategy (Strategy) to make efficient use of available audit resources while ensuring that the Department's contractors claim only allowable costs. This Strategy places reliance on the contractors' internal audit activities to provide audit coverage of the allowability of incurred costs claimed by the contractors. Consistent with the Strategy, Stanford is required by its contract to maintain an internal audit activity with responsibility for conducting audits, including audits of the allowability of incurred costs. In addition, Stanford must conduct or

arrange for audits of its subcontractors when costs incurred are a factor in determining the amount payable to a subcontractor.

To help ensure the adequacy of allowable cost audit coverage for FYs 2014 and 2015, our assessment objectives were to determine whether

- Stanford's internal audit activity (Internal Audit) conducted allowable cost audits that complied with professional standards and could be relied upon;
- Stanford conducted or arranged for audits of its subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor; and
- Stanford adequately resolved questioned costs and internal control weaknesses affecting allowable costs that had been identified in prior reports and reviews.

## RESULTS OF ASSESSMENT

Nothing came to our attention during our assessment to indicate that Internal Audit's allowable cost-related audit work for FYs 2014 and 2015 could not be relied upon. We did not identify any material internal control weaknesses with the allowable cost audits, which generally met the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. As part of its FYs 2014 and 2015 allowable cost audits, Internal Audit reviewed subcontracts for which incurred costs were a factor in determining the amount payable to the subcontractor. Internal Audit identified internal control weaknesses in both audits and questioned costs totaling \$3,128 in the FY 2015 audit. The internal control weaknesses and questioned costs had all been resolved.

During our retesting work, we identified additional questioned costs of \$990 related to printing expenses, which have been resolved.

## SCOPE AND METHODOLOGY

We performed this assessment from September 2016 through February 2018 at SLAC, located in Menlo Park, California. We limited the assessment to Internal Audit activities, subcontract audits, and resolution of questioned costs and internal control weaknesses that affected costs claimed by Stanford on its FYs 2014 and 2015 Statements of Costs Incurred and Claimed. We conducted the assessment under Office of Inspector General project number A16LL065. To accomplish our objectives, we

- Assessed allowable cost audit work conducted by Internal Audit, which included reviewing allowable cost audit reports, work papers, auditor qualifications, independence, audit planning (including risk assessment and overall Internal Audit strategy), and compliance with applicable professional auditing standards;
- Reviewed regulations, policies, procedures, and contract requirements;

- Evaluated resolution of questioned costs and internal control weaknesses affecting allowable costs that had been identified in prior audits and reviews conducted by the Office of Inspector General and Internal Audit; and
- Retested a judgmentally selected sample of 18 of the 192 transactions Internal Audit reviewed in its FY 2015 allowable cost audit.

We conducted our assessment in accordance with generally accepted Government auditing standards for attestation engagements. Those standards require that we plan and perform the review to obtain sufficient appropriate evidence to provide a reasonable basis for our conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objectives. A review is substantially less in scope than an examination or audit, where the objective is an expression of opinion on the subject matter; accordingly, we express no such opinion for this review. Additionally, because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our review. We relied on computer-processed data to accomplish our assessment objectives. Based in part on a recent review of SLAC information technology controls performed by KPMG LLP on behalf of the Office of Inspector General, we determined the data were sufficiently reliable for the purposes of this review.

We held an exit conference on January 23, 2018.

This report is intended for the use of the Department, contracting officers, and site offices in managing their contracts. It is not intended to, and should not, be used by anyone other than these specified parties.

Attachments

**PRIOR REPORT**

Assessment report on [\*Audit Coverage of Cost Allowability for Stanford University During Fiscal Years 2012 and 2013 Under Department of Energy Contract No. DE-AC02-76SF00515\*](#) (OAI-V-15-04; September 2015). Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by Stanford University's internal audit activity for fiscal years 2012 and 2013 could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits, which generally met the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. Further, Stanford University reported that no questioned costs were identified in other reviews performed by its internal audit activity, SLAC National Accelerator Laboratory, and the Department of Energy. However, we identified issues that need to be addressed to ensure that only allowable costs are claimed and reimbursed to the contractor. Specifically, we found that

- The internal audit activity's work papers did not always include documentation to support its conclusions;
- Although Stanford University's subcontract audits and reviews did not identify any unallowable costs, it did not ensure that all cost-type subcontract, specifically non-university subcontracts, were subject to an audit as required; and
- Stanford University was found to be noncompliant with Cost Accounting Standard 405.

## **FEEDBACK**

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Washington, DC 20585

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