



NATIONAL SCIENCE FOUNDATION
Division of Institution & Award Support

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May 1, 2014

Kenneth Schulz
Associate Vice President
Research Financial Compliance and Services
Stanford University
128 Encina Commons
Stanford, CA 94305

Re: Audit Report #13-1005

Dear Mr. Schulz:

The National Science Foundation (NSF) has completed the review and resolution of the NSF Office of Inspector General (OIG) audit report of the San Andreas Fault Observatory Depth (SAFOD), dated September 30, 2013.

The audit report identified questioned costs of \$339,277 under NSF cooperative agreement EAR-0323938. After review and consideration of the documentation provided by Stanford University, NSF has determined to allow \$43,060 of the costs questioned by the auditors and to disallow \$296,217 as indicated in the table below:

Finding #	Cost Type	Questioned	Allowed	Sustained
01	Costs for Uninsured Drilling Equipment	\$ 290,000	\$ 0	\$ 290,000
02	Overpayment to Subawardee	\$43,024	\$ 43,024	
03	Unallowable Costs	\$ 6,253	\$ 36	\$ 6,217
	Total, Questioned Costs	\$339,277	\$43,060	\$296,217

For finding number 1, NSF review of documentation, as well as discussions with SAFOD staff at Stanford University and NSF program officials, resulted in the determination that actions leading up to the loss of the equipment in question were unreasonable, and thus not in accordance with Appendix A of 2 CFR 220, C.3. Therefore, NSF sustains and disallows the amount of \$290,000.

To resolve the costs disallowed, Stanford University provided documentation of additional, unreported project expenses in excess of \$290,000 to offset the cost disallowance. As a result, the finding and questioned costs are fully resolved and closed.

Under finding number 2, “pre-award planning and water rights” costs in the amount of \$43,024, were identified as having been inadvertently excluded from association with the subawardee in the new accounting system, and were questioned as overpayment to a subawardee. These costs were determined to be allocable and allowable, and the retroactive programmatic approval obtained from NSF by Stanford University to re-allocate participant support costs to cover the expenses has been accepted. Finding number 2 is fully resolved and closed.

During resolution of finding number 2, NSF also reviewed Stanford University’s subawardee monitoring policy. As a result of that review, NSF concluded that the subawardee monitoring issues identified in the audit report were likely due to a deviation from the established policy by staff. NSF therefore encourages Stanford University to conduct additional training in this area to ensure awareness among all staff involved with subawardee monitoring activities.

Stanford University concurred with the unallowable costs identified in finding number 3. However, due to a small difference in the actual indirect cost rate, NSF sustains and disallows a total of \$6,217. The disallowed amount was returned to NSF via repayment, and this finding and the questioned costs are fully resolved and closed.

Please be aware that the University's rights to appeal disallowed costs are set forth in Chapter VII.B of NSF's *Award and Administration Guide*, which may be found at: http://www.nsf.gov/pubs/policydocs/pappguide/nsf14001/aag_7.jsp#VIIB

On behalf of NSF, I thank you for cooperating with the audit resolution process. In the event that you have questions concerning this letter, please feel free to contact Taina Muñoz-Mulero at 703-292-5013.

Sincerely,

Rochelle Ray
Team Lead for Audit Resolution
Cost Analysis and Audit Resolution Branch