



INSPECTOR GENERAL

U.S. Department of Defense

SEPTEMBER 7, 2021



Quality Control Review of the BKD, LLP FY 2020 Single Audit of MRIGlobal and Related Entities

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Quality Control Review of the BKD, LLP FY 2020 Single Audit of MRIGlobal and Related Entities

September 7, 2021

Objective

The objective of this quality control review was to determine whether BKD, LLP (BKD) performed the FY 2020 single audit of MRIGlobal and Related Entities (MRI) in accordance with generally accepted government auditing standards and Federal requirements for single audits.

Background

Non-Federal entities that expend Federal funds of \$750,000 or more in a year are subject to Public Law 104-156, "Single Audit Act Amendments of 1996," (the Single Audit Act) and Title 2 Code of Federal Regulations (CFR) part 200 (the Uniform Guidance) requirements. The Single Audit Act was enacted to promote sound financial management of Federal awards administered by non-Federal entities and to establish uniform requirements for audits of Federal awards. The Uniform Guidance establishes the standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.

Background (cont'd)

MRI is a not-for-profit research and development organization established in 1944 and based in Kansas City, Missouri. MRI conducts global technology-based research in national security and defense, energy and environment, life and animal sciences, agriculture, and food safety and transportation. MRI performs research for government agencies, commercial businesses, and academic institutions. During FY 2020, MRI spent \$62.7 million in Federal awards on one major program, the Research and Development Cluster. Of the \$62.7 million, MRI spent \$36 million on DoD programs. MRI engaged BKD to perform the FY 2020 single audit.

Review Results

BKD complied with generally accepted government auditing standards and Uniform Guidance requirements when it performed the FY 2020 single audit of MRI.





**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE**
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

September 7, 2021

Director, Assistant Accounting
& Auditing Director
BKD, LLP

SUBJECT: Quality Control Review of the BKD, LLP FY 2020 Single Audit of
MRIGlobal and Related Entities (Report No. DODIG-2021-121)

This final report provides the results of the DoD Office of Inspector General's quality control review. We shared a discussion draft of this report with BKD, LLP representatives, who responded with no comments. We did not make any recommendations; therefore, no additional comments are required.

We appreciate the cooperation and assistance we received during the quality control review. If you have any questions, please contact [REDACTED]

A handwritten signature in black ink, appearing to read "Randolph A. Stone", is positioned above the printed name.

Randolph A. Stone
Assistant Inspector General for Evaluations
Space, Intelligence, Engineering and Oversight

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Introduction

Objective

The objective of this quality control review was to determine whether BKD, LLP (BKD) performed the FY 2020 single audit of MRIGlobal and Related Entities (MRI) in accordance with generally accepted government auditing standards and Federal requirements for single audits.¹ Appendix A contains our scope and methodology. Appendix B lists the compliance requirements that BKD identified as direct and material to MRI's fiscal year ended September 30, 2020.

Background

Non-Federal entities that expend Federal funds of \$750,000 or more in a year are subject to Public Law 104-156, "Single Audit Act Amendments of 1996," (the Single Audit Act) and Title 2 Code of Federal Regulations (CFR) part 200 (the Uniform Guidance) requirements. The Single Audit Act was enacted to promote sound financial management of Federal awards administered by non-Federal entities and to establish uniform requirements for audits of Federal awards. The Uniform Guidance establishes the standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.²

In accordance with the Uniform Guidance, non-Federal entities must have an annual single or program-specific audit performed in accordance with generally accepted government auditing standards. Non-Federal entities must also submit a complete reporting package to the Federal Audit Clearinghouse.³ The single audit includes an audit of the non-Federal entity's financial statements and Federal awards. The auditors performing the single audit determine whether the financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles. In addition, the auditors perform procedures on the non-Federal entity's internal controls over Federal programs. Also, the auditors determine whether the non-Federal entity complied with Federal statutes, regulations, and the terms and conditions of Federal awards

¹ The Government Accountability Office's "Government Auditing Standards," incorporates the American Institute for Certified Public Accountants' "Codification of Statements on Auditing Standards." Federal requirements for single audits are established in Title 2 Code of Federal Regulations (CFR), part 200, subpart F, "Audit Requirements."

² Office of Management and Budget, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," commonly referred to as the Uniform Guidance, implemented in 2 CFR part 200 (2020).

³ The reporting package includes the auditor's reports, the financial statements, the schedule of expenditures of Federal awards, the summary schedule of prior audit findings, and a corrective action plan, as required by 2 CFR 200.512(c). The Federal Audit Clearinghouse is designated by the Office of Management and Budget as the repository of record for single audit reports and maintains a database of completed audits, provides appropriate information to Federal agencies, and performs followup with auditees that have not submitted the required information, as identified in 2 CFR 200.512(g).

that may have a direct and material effect on the non-Federal entity's major programs. The Single Audit Act and Uniform Guidance require Federal agencies to assess the quality of single audits. Our review of MRI's FY 2020 single audit satisfies this requirement.

MRI Conducts Global Technology-Based Research

MRI is a not-for-profit research and development organization established in 1944 and based in Kansas City, Missouri. MRI conducts global technology-based research in national security and defense, energy and environment, life and animal sciences, agriculture, and food safety and transportation. MRI performs research for government agencies, commercial businesses, and academic institutions. During FY 2020, MRI spent \$62.7 million in Federal awards on one major program, the Research and Development Cluster.⁴ Of the \$62.7 million, MRI spent \$36 million on DoD programs. MRI engaged BKD to perform the FY 2020 single audit.

BKD Performed the Single Audit

BKD is a national accounting and advisory firm headquartered in Springfield, Missouri, that provides audit and assurance, tax, and advisory services. As required by generally accepted government auditing standards, BKD is responsible for establishing and maintaining a system of quality control. The system of quality control is designed to provide reasonable assurance that the audit organization and its staff comply with professional standards and legal and regulatory requirements. BKD must also obtain an external peer review of its system of quality control.⁵ The latest external peer review report, issued in November 2020, concluded that BKD had suitably designed and complied with its system of quality control for the accounting and auditing practice.⁶ The BKD office located in Kansas City, Missouri, performed MRI's FY 2020 single audit.

⁴ The Research and Development Cluster consists of a variety of research and development activities performed under different types of funding agreements, such as grants, cooperative agreements, and contracts that have similar requirements.

⁵ Government Auditing Standards section 5.02, "Requirement: Quality Control and Assurance," and section 5.60, "Requirements: General," July 2018.

⁶ "Report of the Firm's System of Quality Control," November 2, 2020, completed by Postlethwaite & Netterville.

Review Results

We determined that BKD complied with generally accepted government auditing standards and Uniform Guidance requirements when it performed the FY 2020 single audit of MRI. We used the Council of the Inspectors General on Integrity and Efficiency (CIGIE) “Guide for Quality Control Reviews of Single Audits” to conduct our review. The CIGIE Guide identifies audit procedures that auditors must perform and document during the single audit to meet generally accepted government auditing standards and Uniform Guidance requirements. We reviewed the BKD audit documentation, analyzed the nature and extent of the BKD audit procedures, and verified that BKD obtained sufficient evidence to support its conclusions and audit report opinion.

Appendix A

Scope and Methodology

We conducted our quality control review from February 2021 through August 2021 in accordance with the CIGIE “Quality Standards for Inspection and Evaluation,” published in January 2012. The CIGIE standards require that we adequately plan the quality control review to ensure that objectives are met and that we perform the review to obtain sufficient, competent, and relevant evidence to support the findings, conclusions, and recommendations. We evaluated BKD’s FY 2020 single audit of MRI using the CIGIE “Guide for Quality Control Reviews of Single Audits” (2016 edition). We believe that the evidence we obtained is sufficient, competent, and relevant to lead a reasonable person to sustain our conclusions.

The Office of Management and Budget designated the Federal Audit Clearinghouse as the repository of record for single audit reports. The Federal Audit Clearinghouse received MRI’s FY 2020 single audit report on February 5, 2021. The report identified the Research and Development Cluster as the one major program at MRI. We focused our review on the following aspects of the single audit.

- Qualification of auditors
- Auditor independence
- Due professional care
- Planning and supervision
- Audit followup
- Internal control and compliance testing
- Schedule of expenditures of Federal awards
- Reporting

We conducted virtual meetings and interviewed the BKD auditors, assigned to BKD’s Kansas City, Missouri, office who performed the FY 2020 single audit of MRI. We reviewed BKD’s audit files for its FY 2020 single audit to assess whether the single audit was conducted in accordance with generally accepted government auditing standards and Uniform Guidance requirements. Generally accepted government auditing standards include both the Government Accountability Office’s “Government Auditing Standards” and the American Institute for Certified Public Accountants’ “Codification of Statements on Auditing Standards.” Uniform Guidance requirements for the single audit are identified in 2 CFR part 200.

Our review included evaluating evidence of the BKD auditor qualifications, independence, and quality assurance. We also reviewed all audit documentation that the BKD auditors prepared to support the audit opinions on whether MRI's financial statements and its schedule of expenditures of Federal awards were fairly presented in all material respects. In addition, we reviewed all documentation that the BKD auditors prepared to support the audit opinion on whether MRI complied with the compliance requirements that could have a direct and material effect on the Research and Development Cluster. Our review of BKD's audit documentation included analyzing audit procedures that BKD performed to: (1) obtain an understanding of MRI's internal controls, (2) identify sampling methodologies, and (3) test the internal controls and compliance with direct and material compliance requirements. We discussed BKD's audit procedures performed with the BKD auditors, as necessary, to understand the audit work performed.

Use of Computer-Processed Data

We did not use computer-processed data to perform this review.

Prior Coverage

No prior coverage has been conducted on BKD or MRI during the last 5 years.

Appendix B

Compliance Requirements

The Office of Management and Budget annually issues the Compliance Supplement. The Compliance Supplement provides guidance to assist auditors in determining compliance requirements applicable to the audit.⁷ The Compliance Supplement summarizes Federal requirements into 12 compliance requirements. For the Research and Development Cluster, the Compliance Supplement states that all compliance requirements are applicable, except for the Eligibility; Matching, Level of Effort, and Earmarking; Program Income; and Reporting compliance requirements. Auditors who perform a single audit are required to test those compliance requirements that are direct and material to the major program. See the table below for the compliance requirements that the BKD auditors determined were direct and material to the major program.

Table. Uniform Guidance Compliance Requirements that BKD Identified as Direct and Material to the Major Program

| Uniform Guidance Compliance Requirements | Direct and Material |
|--|---------------------|
| Activities Allowed or Unallowed | X |
| Allowable Costs/Cost Principles | X |
| Cash Management | X |
| Eligibility | |
| Equipment and Real Property Management | X |
| Matching, Level of Effort, Earmarking | |
| Period of Performance | |
| Procurement, Suspension, and Debarment | X |
| Program Income | |
| Reporting | |
| Subrecipient Monitoring | |
| Special Tests and Provisions | X |

Source: The DoD Office of Inspector General, based on BKD audit documentation.

⁷ 2 CFR part 200, Appendix XI, "Compliance Supplement," August 2020.

Acronyms and Abbreviations

BKD BKD, LLP

CFR Code of Federal Regulations

CIGIE Council of the Inspectors General on Integrity and Efficiency

MRI MRIGlobal and Related Entities



Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

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**For more information about DoD OIG
reports or activities, please contact us:**

Congressional Liaison
703.604.8324

Media Contact
public.affairs@dodig.mil; 703.604.8324

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4800 Mark Center Drive
Alexandria, Virginia 22350-1500
www.dodig.mil
DoD Hotline 1.800.424.9098

