



# INSPECTOR GENERAL

*U.S. Department of Defense*

MARCH 27, 2023



## Quality Control Review of the BDO USA, LLP FY 2021 Single Audit of Advanced Technology International

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





# Results in Brief

## *Quality Control Review of the BDO USA, LLP FY 2021 Single Audit of Advanced Technology International*

**March 27, 2023**

### **Objective**

The objective of this quality control review was to determine whether BDO USA, LLP (BDO) performed the FY 2021 single audit of Advanced Technology International (ATI) 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 the requirements of Public Law 104-156, "Single Audit Act Amendments of 1996," (the Single Audit Act), and title 2 Code of Federal Regulations part 200 (Uniform Guidance). The Single Audit Act was enacted to promote sound financial management of Federal awards

### **Background (cont'd)**

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.

ATI is a nonprofit corporation that recruits, organizes, and manages teams of large and small businesses, academic institutions, and nonprofit organizations to conduct federally funded research and development activities in areas such as armaments, advanced materials, shipbuilding, and weapons of mass destruction countermeasures. In FY 2021, the ATI spent approximately \$7 billion in DoD funds on one major program, the Research and Development Cluster. ATI engaged BDO to perform its FY 2021 single audit.

### **Review Results**

BDO complied with generally accepted government auditing standards and Uniform Guidance requirements when it performed the FY 2021 single audit of ATI.





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

March 27, 2023

Assurance Partner  
BDO USA, LLP

**SUBJECT:** Quality Control Review of the BDO USA, LLP FY 2021 Single Audit of Advanced Technology International (Report No. DODIG-2023-058)

This final report provides the results of the DoD Office of Inspector General's quality control review. We previously provided a copy of the discussion draft report to BDO USA, 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 that we received during the quality control review. If you have any questions, please contact [REDACTED]

FOR THE INSPECTOR GENERAL:

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

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

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# Introduction

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## Objective

The objective of this quality control review was to determine whether BDO USA, LLP (BDO) performed the FY 2021 single audit of Advanced Technology International (ATI) in accordance with generally accepted government auditing standards (GAGAS) and Federal requirements for single audits.<sup>1</sup> Appendix A contains our scope and methodology. Appendix B lists the compliance requirements that BDO identified as direct and material to ATI's major program for the fiscal year ended September 30, 2021.

## Background

Non-Federal entities that expend Federal funds of \$750,000 or more in a year are subject to the requirements of Public Law 104-156, "Single Audit Act Amendments of 1996," (the Single Audit Act), and title 2 Code of Federal Regulations (CFR) part 200 (Uniform Guidance). 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.<sup>2</sup>

In accordance with the Uniform Guidance, non-Federal entities must have an annual single or program-specific audit performed in accordance with GAGAS. Non-Federal entities must also submit a complete single audit reporting package (reporting package) to the Federal Audit Clearinghouse.<sup>3</sup> 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 fairly presented 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

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<sup>1</sup> The Government Accountability Office's "Government Auditing Standards" incorporates the American Institute for Certified Public Accountants' "Codification of Statements on Auditing Standards." Title 2 Code of Federal Regulations part 200, subpart F, "Audit Requirements," identifies the Federal requirements for single audits.

<sup>2</sup> 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 (January 2021).

<sup>3</sup> 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 2 CFR 200.512(c) requires. The Office of Management and Budget designated the Federal Audit Clearinghouse as the repository of record for single audit reports. As 2 CFR 200.512(g) requires, the Federal Audit Clearinghouse maintains a database of completed audits, provides appropriate information to Federal agencies, and performs follow-up with auditees that have not submitted the required information.

the non-Federal entity complied with Federal laws, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on its major programs. The Single Audit Act and Uniform Guidance require Federal agencies to assess the quality of single audits. Our quality control review of ATI's FY 2021 single audit satisfies this requirement.

### ***Advanced Technology International Conducts Research and Development Programs***

ATI is a nonprofit corporation that recruits, organizes, and manages teams of large and small businesses, academic institutions, and nonprofit organizations to conduct federally funded research and development activities in areas such as armaments, advanced materials, shipbuilding, and weapons of mass destruction countermeasures. During FY 2021, ATI spent approximately \$7 billion in DoD funds on one major program, the Research and Development Cluster.<sup>4</sup> ATI engaged BDO to perform its FY 2021 single audit.

### ***BDO Performed the Single Audit***

BDO is a member of BDO International and provides assurance, tax, and financial advisory services for a wide range of companies. As required by GAGAS, BDO is responsible for establishing and maintaining a system of quality control. The system of quality control must provide reasonable assurance that the audit organization and its staff comply with professional standards and legal and regulatory requirements.<sup>5</sup> BDO must also obtain an external peer review of its system of quality control conducted by reviewers who are independent of the audit organization.<sup>6</sup> The most recently published external peer review report concluded that BDO had suitably designed and complied with its system of quality control for its accounting and auditing practice.<sup>7</sup> The BDO office in Raleigh, North Carolina, performed ATI's FY 2021 single audit.

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<sup>4</sup> 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.

<sup>5</sup> Government Auditing Standard 5.02, "Quality Control and Assurance," July 2018 (Updated April 2021).

<sup>6</sup> Government Auditing Standard 5.60, "External Peer Review," July 2018 (Updated April 2021).

<sup>7</sup> "Report of the Firm's System of Quality Control," dated November 22, 2021, completed by Baker Tilly US, LLP.

## Review Results

We determined that BDO complied with GAGAS and Uniform Guidance requirements when it performed the FY 2021 single audit of ATI. We used the Council of the Inspectors General on Integrity and Efficiency (CIGIE), “Guide for Quality Control Reviews of Single Audits,” to perform our review. The CIGIE Guide identifies audit procedures that auditors must perform and document during the single audit to meet GAGAS and Uniform Guidance requirements. We reviewed BDO’s audit documentation, analyzed the nature and extent of BDO’s audit procedures, and verified whether BDO obtained sufficient evidence to support its conclusions and audit report opinion. Specifically, we verified whether BDO complied with the requirements for each of the following aspects of the FY 2021 single audit of ATI:

- qualification of auditors,
- auditor independence,
- due professional care,
- planning and supervision,
- audit followup,
- determination of direct and material compliance requirements,
- internal control and compliance testing,
- schedule of expenditures of Federal awards, and
- reporting.

## Appendix A

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### Scope and Methodology

We conducted this quality control review from October 2022 through March 2023 in accordance with the “Quality Standards for Inspection and Evaluation,” published in December 2020 by the CIGIE. Those standards require that we adequately plan and perform 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 believe that the evidence we obtained is sufficient, competent, and relevant to lead a reasonable person to sustain the 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 ATI’s FY 2021 single audit report on February 23, 2022. The single audit report identified the Research and Development Cluster as the one major Federal program at ATI. We reviewed BDO’s FY 2021 single audit of ATI using the CIGIE “Guide for Quality Control Reviews of Single Audits” (2021 edition). 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,
- determination of direct and material requirements,
- internal control and compliance testing,
- schedule of expenditures of Federal awards, and
- reporting.

We conducted interviews with the BDO auditors assigned to BDO’s Raleigh, North Carolina, office who performed the FY 2021 single audit of ATI. We reviewed BDO’s audit files for the FY 2021 single audit to assess whether BDO conducted the single audit in accordance with GAGAS and Uniform Guidance requirements.

GAGAS incorporates the American Institute for Certified Public Accountants “Codification of Statements on Auditing Standards” by reference. Uniform Guidance requirements for single audits are identified in 2 CFR part 200.

Our review included:

- evaluating evidence of BDO’s independence, auditor qualifications, and the latest external peer review;
- reviewing all audit documentation that the BDO auditors prepared to support the audit opinions on whether ATI’s financial statements and its schedule of expenditures of Federal awards were fairly presented in all material respects;
- verifying that the BDO auditors supported their determination on the compliance requirements they identified as direct and material to the major program; and
- reviewing all audit documentation that the BDO auditors prepared to support the audit opinion on whether ATI complied with the compliance requirements that could have a direct and material effect on the major program.

Our review of BDO’s audit documentation on direct and material compliance requirements included analyzing audit procedures the BDO auditors performed to: (1) understand ATI’s internal controls, (2) select samples for testing, and (3) test the internal controls and compliance with Federal requirements.

As necessary, we held discussions with the BDO auditors to understand and verify the audit work they performed. Appendix B lists the compliance requirements that BDO identified as direct and material to ATI’s major program for the fiscal year ended September 30, 2021.

## Use of Computer-Processed Data

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

## Prior Coverage

During the last 5 years, the DoD Office of Inspector General (DoD OIG) issued one report discussing a single audit that BDO performed.

Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

***DoD OIG***

Report No. DODIG-2021-052, “Quality Control Review of the BDO USA, LLP FY 2019 Single Audit of the Henry M. Jackson Foundation for the Advancement of Military Medicine,” February 8, 2021

BDO complied with auditing standards and Uniform Guidance requirements when it performed the FY 2019 single audit of the Henry M. Jackson Foundation for the Advancement of Military Medicine.

## Appendix B

### Compliance Requirements

The Office of Management and Budget issues the Compliance Supplement, which provides guidance to assist auditors in determining compliance requirements applicable to the audit.<sup>8</sup> 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. The following table identifies the compliance requirements that the BDO auditors determined were direct and material to the major program.

*Table. Uniform Guidance Compliance Requirements that BDO Identified as Direct and Material to the Research and Development Cluster 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	
Matching, Level of Effort, Earmarking	
Period of Performance	X
Procurement, Suspension, and Debarment	X
Program Income	
Reporting	
Subrecipient Monitoring	X
Special Tests and Provisions	X

Source: The DoD OIG, based on BDO's audit documentation.

<sup>8</sup> 2 CFR part 200, Appendix XI, "Compliance Supplement," July 2021.

## Acronyms and Abbreviations

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- ATI** Advanced Technology International
- CFR** Code of Federal Regulations
- CIGIE** Council of the Inspectors General on Integrity and Efficiency
- GAGAS** generally accepted government auditing standards

# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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