



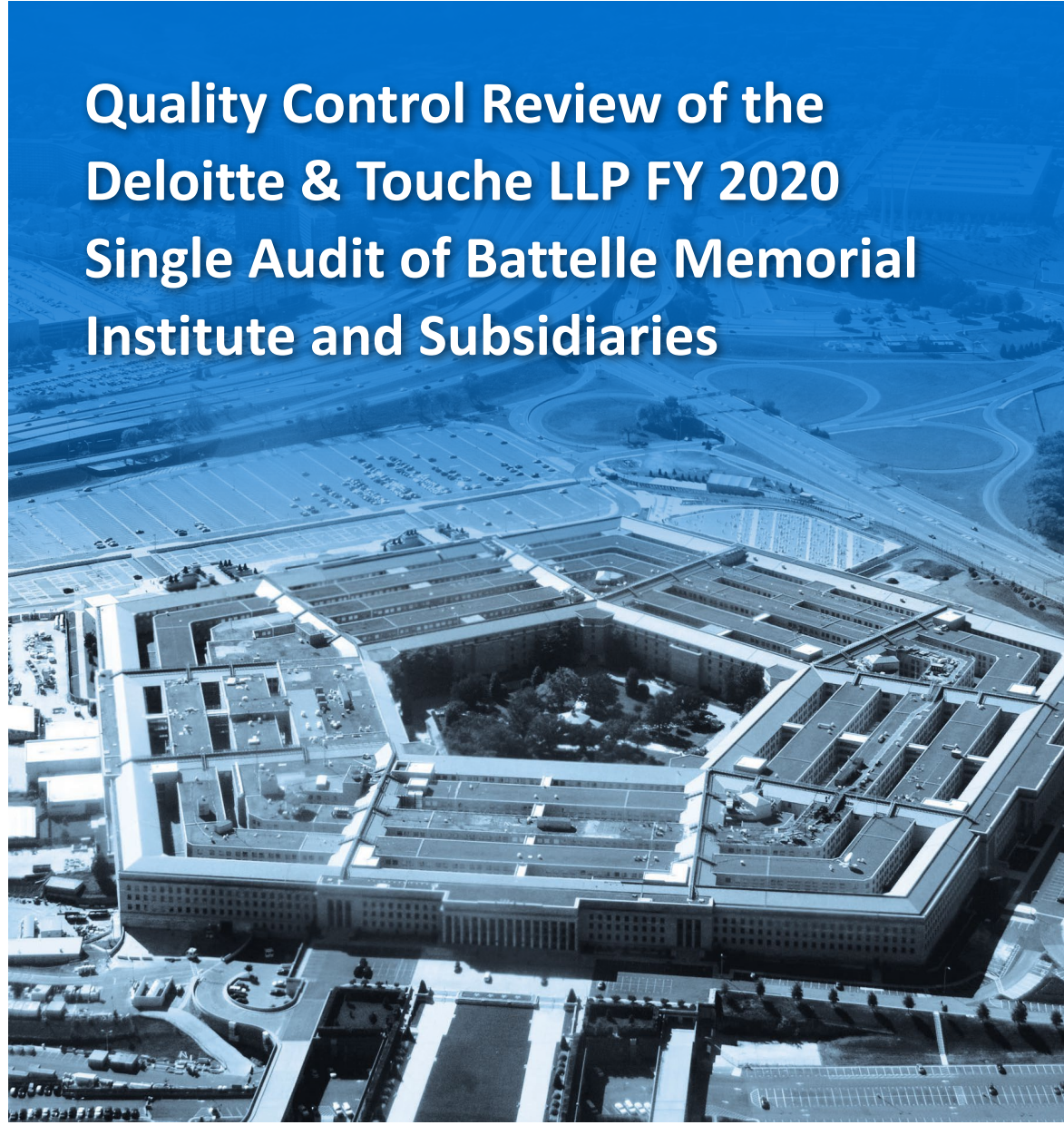
# INSPECTOR GENERAL

*U.S. Department of Defense*

APRIL 22, 2022



## Quality Control Review of the Deloitte & Touche LLP FY 2020 Single Audit of Battelle Memorial Institute and Subsidiaries



INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE







# Results in Brief

## *Quality Control Review of the Deloitte & Touche LLP FY 2020 Single Audit of Battelle Memorial Institute and Subsidiaries*

**April 22, 2022**

### **Objective**

The objective of this quality control review was to determine whether Deloitte & Touche LLP (Deloitte & Touche) performed the FY 2020 single audit of Battelle Memorial Institute and Subsidiaries (Battelle) 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) audit 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)**

Battelle is a nonprofit corporation headquartered in Columbus, Ohio. Battelle provides technology-based research, management, commercialization, and education services to government and industrial clients. During FY 2020, Battelle spent \$714.1 million in Federal awards on one major program, the Research and Development Cluster. Of the \$714.1 million, Battelle spent \$354.3 million on DoD awards within the Research and Development Cluster. Battelle engaged Deloitte & Touche to perform its FY 2020 single audit.

### **Review Results**

Deloitte & Touche complied with generally accepted government auditing standards and Uniform Guidance requirements when it performed the FY 2020 single audit of Battelle.





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DEPARTMENT OF DEFENSE**  
4800 MARK CENTER DRIVE  
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April 22, 2022

Partner  
Deloitte & Touche LLP

**SUBJECT:** Quality Control Review of the Deloitte & Touche LLP FY 2020 Single Audit  
of Battelle Memorial Institute and Subsidiaries (Report No. DODIG-2022-087)

This final report provides the results of the DoD Office of Inspector General's quality control review. We previously provided a discussion draft of this report to Deloitte & Touche 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 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

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## Objective

The objective of this quality control review was to determine whether Deloitte & Touche LLP (Deloitte & Touche) performed the FY 2020 single audit of Battelle Memorial Institute and Subsidiaries (Battelle) in accordance with generally accepted government auditing standards and Federal requirements for single audits.<sup>1</sup> Appendix A contains our scope and methodology. Appendix B lists the compliance requirements that Deloitte & Touche identified as direct and material to Battelle'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) audit 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.<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 generally accepted government auditing standards. Non-Federal entities must also submit a complete 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 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

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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." Federal requirements for single audits are identified in Title 2 Code of Federal Regulations (CFR), part 200, subpart F, "Audit Requirements."

<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 (2020).

<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 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).

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 review of Battelle's FY 2020 single audit satisfies this requirement.

### ***Battelle Provides Technology-Based Research and Development Services to the Government and Industry***

Battelle is a nonprofit corporation headquartered in Columbus, Ohio. Battelle provides technology-based research, management, commercialization, and education services to government and industrial clients. During FY 2020, Battelle spent \$714.1 million in Federal awards on one major program, the Research and Development Cluster.<sup>4</sup> Of the \$714.1 million, Battelle spent \$354.3 million on DoD awards within the Research and Development Cluster. Battelle engaged Deloitte & Touche to perform its FY 2020 single audit.

### ***Deloitte and Touche Performed the Single Audit***

Deloitte & Touche provides audit and assurance, tax, legal, risk and financial advisory, and consulting services. As required by generally accepted government auditing standards, Deloitte & Touche 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. Deloitte & Touche must also obtain an external peer review of its system of quality control.<sup>5</sup> The most recently published external peer review report concluded that Deloitte & Touche had suitably designed and complied with its system of quality control for its accounting and auditing practice.<sup>6</sup> The Deloitte & Touche office in Columbus, Ohio, performed Battelle's FY 2020 single audit.

## **Review Results**

We determined that Deloitte & Touche complied with generally accepted government auditing standards and Uniform Guidance requirements when it performed the FY 2020 single audit of Battelle. 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

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<sup>4</sup> The Compliance Supplement states that 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 5.60, "External Peer Review," December 2018.

<sup>6</sup> Report of the Firm's System of Quality Control, dated November 16, 2020, completed by Grant Thornton LLP.



meet generally accepted government auditing standards and Uniform Guidance requirements. We reviewed Deloitte & Touche’s audit documentation, analyzed the nature and extent of the Deloitte & Touche audit procedures, and verified that Deloitte & Touche obtained sufficient evidence to support its conclusions and audit report opinion. Specifically, we verified that Deloitte & Touche complied with the requirements for each of the following aspects of the FY 2020 single audit of Battelle.

- 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

## Appendix A

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### Scope and Methodology

We conducted this quality control review from September 2021 through March 2022 in accordance with the “Quality Standards for Inspection and Evaluation,” published in January 2012 by the Council of Inspectors General on Integrity and Efficiency. Those standards require that we adequately plan the evaluation to ensure that objectives are met and that we perform the evaluation to obtain sufficient, competent, and relevant evidence to support the findings, conclusions, and recommendations. We believe that the evidence we obtained was 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 the Battelle single audit report on June 24, 2021. The report identified the Research and Development Cluster as the one major program at Battelle. We evaluated the FY 2020 single audit of Battelle performed by Deloitte & Touche using the CIGIE “Guide for Quality Control Reviews of Single Audits” (2016 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
- Internal control and compliance testing
- Schedule of expenditures of Federal awards
- Reporting

We conducted interviews with the Deloitte & Touche, Columbus, Ohio, auditors who performed the FY 2020 single audit of Battelle. We reviewed Deloitte & Touche’s audit files for the FY 2020 single audit to assess whether Deloitte & Touche conducted the single audit 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,” which is incorporated in the generally accepted government auditing standards by reference. Uniform Guidance requirements for single audits are identified in 2 CFR Part 200.

Our review included evaluating evidence of Deloitte & Touche independence, auditor qualifications, and external peer review. We also reviewed all audit documentation that Deloitte & Touche prepared to support the audit opinions on whether Battelle’s financial statements and its schedule of expenditures of Federal awards were presented fairly in all material respects. In addition, we reviewed all documentation that the Deloitte & Touche auditors prepared to support the audit opinion on whether Battelle complied with the compliance requirements that have a direct and material effect on the Research and Development Cluster. Our review of Deloitte & Touche’s audit documentation on direct and material compliance requirements included analyzing audit procedures the Deloitte & Touche auditors performed to: (1) gain an understanding of Battelle’s internal controls, (2) select samples for testing, and (3) test the internal controls and compliance with requirements. As necessary, we discussed the Deloitte & Touche audit procedures performed with the Deloitte & Touche auditors to understand and verify the audit work they performed. Appendix B lists the compliance requirements that Deloitte & Touche identified as direct and material to Battelle’s fiscal year ended September 30, 2020.

## 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 two reports discussing single audits performed by Deloitte & Touche.

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

### **DoD OIG**

Report No. DODIG-2020-070, “Quality Control Review of the Defense Contract Audit Agency and Deloitte & Touche Fiscal Year 2016 Single Audit of the Aerospace Corporation,” March 17, 2020

The DoD OIG determined that Deloitte & Touche generally complied with auditing standards and Uniform Guidance requirements. However, Deloitte & Touche did not consider the entire population of equipment, purchased with Federal funds, when they verified that Aerospace properly safeguarded and maintained

equipment. In addition, Deloitte & Touche did not clearly document the audit procedures planned and performed when testing the operating effectiveness of internal controls over compliance with Federal requirements.

Report No. DODIG-2018-005, “Quality Control Review of the Deloitte & Touche LLP FY 2015 Single Audit of Battelle Memorial Institute,” October 27, 2017

The DoD OIG determined that Deloitte & Touche generally complied with auditing standards and Office of Management and Budget Circular No. A-133 requirements.<sup>7</sup> However, Deloitte & Touche did not include an opinion paragraph in the report on Battelle’s compliance with requirements that were direct and material to the research and development cluster. In addition, Deloitte & Touche did not always properly define the population of transactions when performing audit sampling and did not always provide a clear description of the audit procedures performed and evidence obtained to support its conclusions on compliance requirements identified as direct and material.

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<sup>7</sup> The Uniform Guidance replaced Office of Management and Budget Circular No. A-133 for non-Federal entity fiscal years beginning on or after December 26, 2014.

## 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 following compliance requirements: Eligibility; Matching, Level of Effort, and Earmarking; Program Income; and Reporting. 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 Deloitte & Touche auditors determined were direct and material to the major program.

*Table. Uniform Guidance Compliance Requirements that Deloitte & Touche 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	X
Procurement, Suspension, and Debarment	X
Program Income	
Reporting	
Subrecipient Monitoring	X
Special Tests and Provisions	X

Source: DoD OIG, based on Deloitte & Touche audit documentation.

<sup>8</sup> 2 CFR Part 200, Appendix XI, "Compliance Supplement," August 2020.



## Acronyms and Abbreviations

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**CFR** Code of Federal Regulations

**CIGIE** Council of the Inspectors General on Integrity and Efficiency

# **Whistleblower Protection**

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

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