



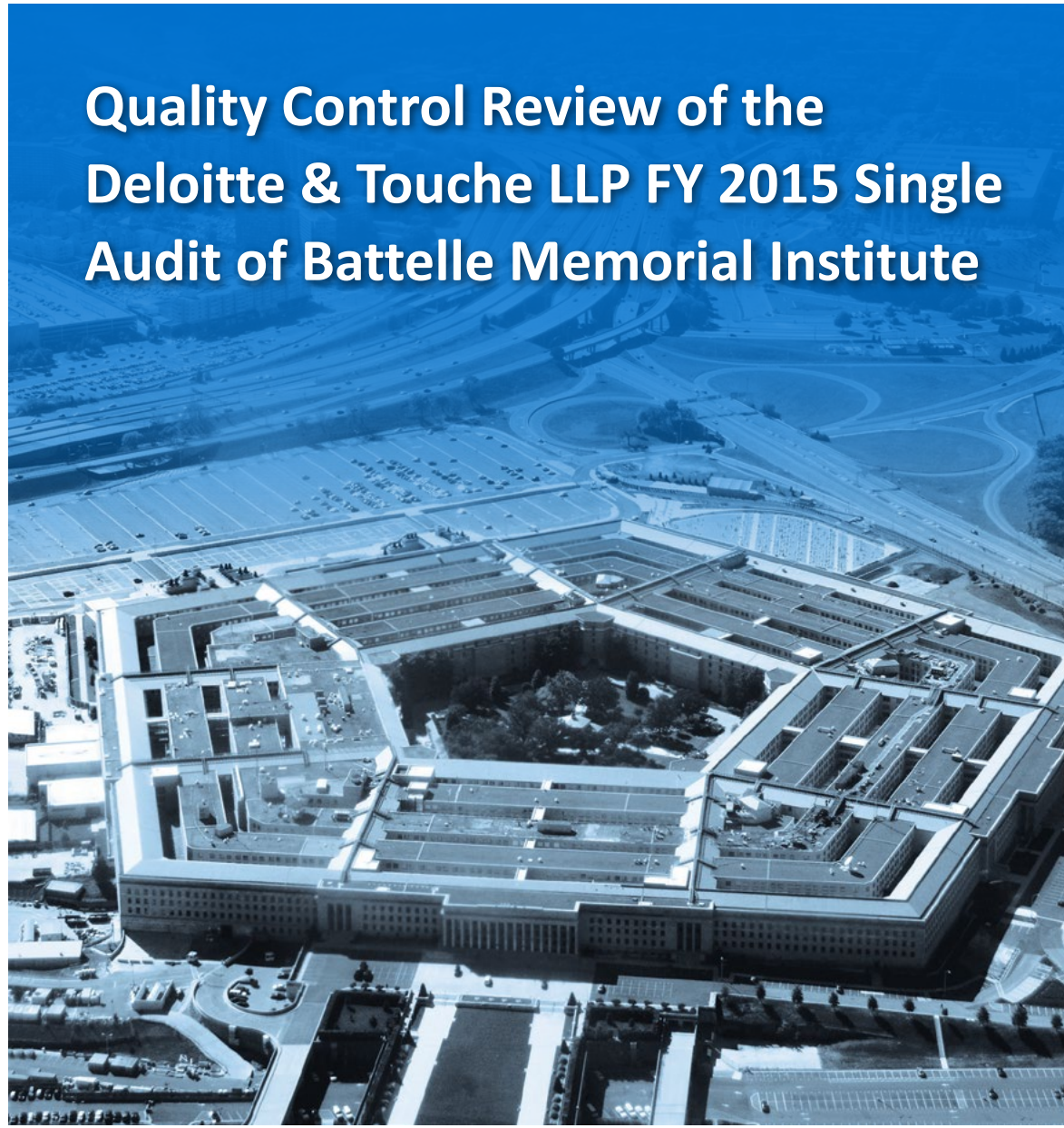
# INSPECTOR GENERAL

*U.S. Department of Defense*

OCTOBER 27, 2017



## Quality Control Review of the Deloitte & Touche LLP FY 2015 Single Audit of Battelle Memorial Institute



INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

## Mission

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# Results in Brief

## *Quality Control Review of the Deloitte & Touche LLP FY 2015 Single Audit of Battelle Memorial Institute*

October 27, 2017

### Objective

We conducted a quality control review of the Deloitte & Touche LLP (D&T) FY 2015 single audit of Battelle Memorial Institute (Battelle) to determine whether the single audit was conducted in accordance with auditing standards and the requirements of the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

### Background

Public Law 104-156, "Single Audit Act Amendments of 1996," 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. OMB Circular A-133 implements this Act and establishes the standards for the audit of non-Federal entities expending Federal awards. The audit includes the non-Federal entity's financial statements and Federal awards as described in OMB Circular A-133.

### Findings

The D&T single audit contained quality deficiencies that require corrective action. The D&T auditors:

- did not include an opinion paragraph in the report on Battelle's compliance with requirements that are direct and material to the research and development cluster (see Appendix B for a list of the requirements that are direct and material to the research and development cluster),

### Findings (cont'd)

- did not always properly define the population of transactions when performing audit sampling, and
- did not adequately document audit procedures performed to support conclusions on the cash management, reporting, and key personnel requirements.

### Recommendations

We recommend that the Partner, D&T, revise the audit report to include an audit opinion paragraph on Battelle's compliance with the requirements that are direct and material to the research and development cluster. In addition, we recommend that, for future audits, the Partner, D&T:

- properly define the population of transactions for audit sampling that are relevant to the audit objective and planned audit procedures and
- improve audit documentation for the internal control testing of the cash management compliance requirement, the compliance testing for the reporting compliance requirement, and the identification and evaluation of the key personnel requirement.

### Management Comments and Our Response

Comments from the Partner, D&T, addressed all specifics of the recommendations, and no further comments are required. The Partner, D&T, has revised the audit report and agreed to take corrective action on future audits to address the additional findings and recommendations. We verified the actions taken on the revised report and closed the recommendation. We will close the other recommendations related to future audit work after we perform followup upon completion of the next single audit by D&T. Please see the Recommendations Table on the back of this page.

## ***Recommendations Table***

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Deloitte & Touche LLP	None	B.1 and C.1	A.1

Note: The following categories are used to describe agency management's comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.





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

October 27, 2017

Board of Directors  
Battelle Memorial Institute

Controller  
Battelle Memorial Institute


Partner  
Deloitte & Touche LLP

**SUBJECT:** Quality Control Review of the Deloitte & Touche LLP FY 2015 Single Audit of  
Battelle Memorial Institute (Report No. DODIG-2018-005)

We are providing this report for your information and use. We considered management comments on a draft of this report when preparing the final report. Comments from Deloitte & Touche (D&T) addressed all specifics of the findings and recommendations; therefore, we do not require additional comments.

The purpose of our review was to determine whether the single audit was conducted in accordance with auditing standards and the requirements of the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The D&T audit generally met auditing standards and OMB Circular A-133 requirements. However, D&T had to reissue the report on compliance for each major Federal program to include the required opinion paragraph. In addition, we identified deficiencies with sampling methodologies and the documentation of audit procedures that need to be addressed in future audits. We conducted this review in accordance with the "Quality Standards for Inspection and Evaluation," published in January 2012 by the Council of the Inspectors General on Integrity and Efficiency.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Ms. Carolyn R. Hantz at (703) 604-8877 (DSN 664-8877).

  
Randolph R. Stone  
Deputy Inspector General  
Policy and Oversight

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# Introduction

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## Objective

As the Department of Defense is the cognizant Federal agency for Battelle Memorial Institute, we performed a quality control review of the Deloitte & Touche LLP (D&T) single audit report and supporting audit documentation for the audit period of October 1, 2014, through September 30, 2015.<sup>1</sup> Our objective was to determine whether the single audit was conducted in accordance with generally accepted government auditing standards, generally accepted auditing standards, and the requirements of the Office of Management and Budget (OMB) Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations.” Appendix A contains additional details on our scope and methodology. Appendix B lists the compliance requirements that D&T determined to be direct and material to the audit period ended September 30, 2015.

## Background

### ***Battelle Memorial Institute***

The Battelle Memorial Institute (Battelle) is a nonprofit corporation providing technology-based research, management, commercialization, and educational services to government and industrial clients. During FY 2015, Battelle expended \$563 million in Federal awards on one program, the research and development cluster.<sup>2</sup> Of the \$563 million, \$386 million was expended for Department of Defense awards. Battelle engaged D&T to perform the FY 2015 single audit.

### ***Deloitte and Touche LLP***

D&T is a subsidiary of Deloitte LLP, a member firm of Deloitte Touche Tohmatsu Limited, and provides a wide array of business services, including audit, consulting, tax, and advisory services. D&T maintains its own system of internal quality control over its accounting and auditing practices as required by the American Institute of Certified Public Accountants. D&T’s office in Columbus, Ohio, performed Battelle’s FY 2015 single audit.

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<sup>1</sup> Office of Management and Budget Circular A-133 states that the cognizant agency is the Federal agency that provides the predominant amount of direct funding to a non-Federal entity and is the Federal agency designated to perform quality control reviews.

<sup>2</sup> The research and development cluster is made up 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 compliance requirements.

## **Single Audit**

Public Law 104-156, “Single Audit Act Amendments of 1996,” (the 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. OMB Circular A-133 was issued pursuant to the Act and establishes the standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards. Entities that expend Federal funds of \$500,000 or more in a year are subject to the Act and OMB Circular A-133 requirements. Therefore, these entities must have an annual single or program-specific audit performed in accordance with generally accepted government auditing standards and 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 as described in OMB Circular A-133.

## **Review Results**

The D&T audit generally met auditing standards and OMB Circular A-133 requirements. However, D&T’s report on compliance for each major Federal program did not include an opinion on whether Battelle complied, in all material respects, with the compliance requirements on the major program (Finding A). As a result, D&T must revise the single audit report to include the appropriate opinion paragraph on Battelle’s compliance with requirements. In addition, we identified deficiencies with sampling methodologies (Finding B) and the documentation of audit procedures (Finding C) that need to be addressed in future audits. Battelle complied with OMB Circular A-133 reporting requirements in preparing the schedule of expenditures of Federal awards, the summary schedule of prior audit findings, and the corrective action plan for the FY 2015 single audit.

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<sup>3</sup> The Federal Audit Clearinghouse is designated by the OMB 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.



## Finding A

### Opinion Paragraph Omitted in the Report on Compliance for Each Major Federal Program

D&T did not comply with auditing standards and OMB Circular A-133 requirements when preparing the “Report on Compliance for Each Major Federal Program.” Specifically, the report did not include the required opinion paragraph on Battelle’s compliance with requirements that are direct and material to the major program. As a result, the report will need to be revised to include the appropriate opinion paragraph to allow Federal agencies to have a clear understanding of D&T’s overall conclusions on Battelle’s compliance.

### Opinion Paragraph on the Research and Development Cluster

D&T did not correctly prepare the “Report on Compliance for Each Major Federal Program.” D&T reported that Battelle had one major program, the research and development cluster. However, the auditor’s report did not include an opinion on Battelle’s compliance with the requirements that are direct and material to the research and development cluster, as required by auditing standards and OMB Circular A-133. See the table in Appendix B for a list of compliance requirements that are direct and material to the research and development cluster.

Auditing standards state the objectives of the compliance audit are to obtain sufficient audit evidence to form an opinion and report on whether the entity complied, in all material respects, with the applicable compliance requirements. OMB Circular A-133 states that the auditor’s report must include an opinion as to whether the auditee complied with laws, regulations, and the provisions of contracts or grants agreements that could have a direct and material effect on each major program.

D&T must comply with auditing standards and OMB Circular A-133 in preparing the audit report so that Federal agencies are provided all information necessary to allow them to effectively monitor Battelle’s use of Federal funds. As a result, D&T should correct the report to include the appropriate opinion paragraph on Battelle’s compliance with the requirements that are direct and material to the research and development cluster.

## Recommendation, Management Comment, and Our Response

### ***Recommendation A.1***

**We recommend that the Partner, Deloitte & Touche LLP, revise the “Report on Compliance for Each Major Federal Program,” to include the required opinion paragraph and coordinate with Battelle Memorial Institute to resubmit the reporting package to the Federal Audit Clearinghouse.**

### *Deloitte & Touche LLP Comments*

The Partner, D&T, agreed with the recommendation and stated that D&T made the correction to the “Report on Compliance for Each Major Federal Program,” and resubmitted the report to the Federal Audit Clearinghouse. The Federal Audit Clearinghouse accepted the reissued report on September 14, 2017.

### *Our Response*

Comments from the Partner, D&T, addressed all specifics of the recommendation. The Partner, D&T, corrected and reissued the “Report on Compliance for Each Major Federal Program,” to include the opinion paragraph. We obtained the report from the Federal Audit Clearinghouse and confirmed the corrective actions taken. As a result, this recommendation is closed.

## Finding B

### Adequacy of Audit Sampling on Federal Program Audit

D&T used audit sampling to perform certain tests of internal controls and compliance. However, the D&T auditors did not properly identify the population of transactions when performing audit sampling for the procurement, suspension, and debarment; equipment; and activities allowed or unallowed and allowable costs/cost principles (allowable costs) compliance requirements. Specifically, we determined that the population of transactions from which the sample items were selected included items not related to the planned audit procedures or excluded items relevant to the audit objective.

As a result, we had to obtain additional explanations and review other supporting documentation to accept there was sufficient evidence to support the audit conclusions and overall audit opinion on the research and development cluster. For future audits, D&T must ensure the population of transactions used to select audit samples is appropriate for the audit objective and audit procedures being performed.

### Defining the Population of Transactions

D&T did not properly define the population of transactions from which it selected sample items to test Battelle's internal control and compliance with the procurement, suspension, and debarment; equipment; and allowable costs compliance requirements.<sup>4, 5, 6</sup> We noted the D&T auditors:

- excluded items from the population that were directly related to the audit objective being tested,
- included items in the population that were not subject to the planned procedures being performed or the OMB Circular A-133 audit, and
- failed to ensure that the sampled items were adequate to provide sufficient coverage of all audit objectives for the compliance requirement tested.

<sup>4</sup> The audit objective for the procurement, suspension, and debarment compliance requirement is to determine whether the non-Federal entity's procurements under Federal awards were made in compliance with applicable Federal regulations and that the non-Federal entity verified that entities were not suspended or debarred.

<sup>5</sup> The audit objective for the equipment compliance requirement is to determine whether the non-Federal entity maintains proper records for equipment and adequately safeguards and maintains equipment purchased with Federal awards.

<sup>6</sup> The audit objective for the allowable costs compliance requirements is to determine whether the non-Federal entity complied with Federal regulations when charging costs to Federal awards.

For an OMB Circular A-133 audit, the auditors typically use attribute sampling for the tests of controls and compliance testing. The American Institute of Certified Public Accountants Audit Guide, “Government Auditing Standards and Single Audits,” (the Audit Guide) February 1, 2015, provides guidance on audit sampling in chapter 11. The Audit Guide directs the auditors to define the population in a manner consistent with the audit objective and the internal control and compliance attributes being tested. The appropriate sampling population should include items that constitute the transactions of interest for the audit objective and may only be a subset of the transaction population subject to a particular control or compliance requirement. If an initial sample does not include a particular attribute being tested, it may be an indication that the sampling population was not defined properly. Finally, the Audit Guide states that the type of expenditures related to an audit objective is also an important factor in determining whether further division of the population may be necessary to achieve the stated objective.

### ***Procurement, Suspension, and Debarment***

D&T incorrectly defined the population of transactions for the procurement, suspension, and debarment compliance requirement because it excluded subaward transactions.<sup>7</sup> Subaward transactions should have been included in the population because procurement attributes being tested also apply to subaward transactions. In addition, the auditors designed audit procedures to test procurement attributes that only applied to transactions of more than \$25,000. However, the population of transactions from which the sample was drawn included transactions of less than \$25,000. Because the population was not properly defined for the audit objective and planned testing, some attributes tested were not applicable to the sample selection.

We asked D&T about audit sampling and D&T stated that the population of transactions included all procurement items and that the sample items were representative of the population. D&T also confirmed that the population did not include subaward transactions. However, D&T noted that additional suspension and debarment tests were performed during the testing of the subrecipient monitoring compliance requirement.<sup>8</sup>

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<sup>7</sup> A subaward transaction occurs when a non-Federal entity provides an award to a subrecipient to carry out part of a Federal award.

<sup>8</sup> The audit objective of the subrecipient monitoring compliance requirement is to determine whether the non-Federal entity identified applicable requirements in the subaward and monitored subrecipient activities to provide reasonable assurance that the subrecipient administered the subaward in compliance with Federal requirements.

We reviewed the testing performed on the subrecipient monitoring compliance requirement, the nonsampling audit procedures performed, and the limited testing of procurement attributes for the sampled items selected. We accepted that D&T's overall audit procedures provided sufficient evidence to support the conclusions on the procurement, suspension, and debarment compliance requirement in the current year audit. Nevertheless, for future audits, D&T must ensure that all items relevant to the audit objective are included in the population and that audit procedures planned are appropriate for the population and sample items identified.

### ***Equipment***

D&T identified a population and sample of transactions that included equipment items purchased under firm-fixed-price awards. OMB Circular A-133 defines Federal awards as Federal financial assistance and Federal cost-reimbursement contracts. As a result, the transactions from firm-fixed-price awards are not subject to the OMB Circular A-133 audit and cannot be used to provide evidence on Battelle's compliance with equipment requirements.

We asked D&T about including firm-fixed price awards in the testing and they agreed these awards were not subject to OMB Circular A-133 audit procedures. Based on this discussion, D&T identified the correct population of equipment items and determined that the sample items tested included sufficient transactions from awards subject to OMB Circular A-133 procedures. Based on our review, we agree that there is sufficient evidence to support conclusions on the equipment compliance requirement. However, for future audits, D&T should ensure that the population of transactions and sampled items are only from awards subject to OMB Circular A-133.

### ***Allowable Costs***

D&T comingled both direct and indirect expenditures into one population when selecting the sample items for testing the allowable costs compliance requirements. The audit objective for indirect costs distinguishes them from direct costs; therefore, direct and indirect costs should have been evaluated in separate samples. As a result of the comingled sample, D&T could perform the indirect cost procedures on only a limited number of sample items. However, we noted that D&T performed other nonsampling procedures to test indirect costs. Based on our review, we accepted that D&T obtained sufficient evidence overall to support conclusions on the allowable costs compliance requirements. Nevertheless, D&T should consider the types of expenditures related to an audit objective when identifying the population of transactions to be tested. The internal controls over the expenditures and compliance testing planned may vary depending on whether the expenditure is a direct or indirect expenditure.



## Recommendation, Management Comment, and Our Response

### **Recommendation B.1**

We recommend that, for future audits, the Partner, Deloitte & Touche LLP:

- a. Define the population of transactions so that it properly includes the items applicable to the audit objective and planned audit procedures.
- b. Document consideration of whether additional sample items or audit procedures are necessary when the attributes tested are found to be not applicable to the original sample items.
- c. Assess whether the population of transactions should be subdivided for testing a compliance requirement to ensure that sufficient evidence is obtained to support audit conclusions.

### *Deloitte & Touche LLP Comments*

The Partner, D&T, agreed with the recommendation and stated that D&T will include all relevant transactions within the procurement, suspension, and debarment population and will ensure that the audit procedures are appropriate for this population. In addition, the Partner stated that D&T will ensure that the population of equipment transactions and sample items are only from awards subject to the Uniform Guidance.<sup>9</sup> Finally, the Partner stated that D&T will ensure that the testing of allowable costs provides sufficient coverage of both direct and indirect costs. The actions will be completed by June 30, 2018.

### *Our Response*

Comments from the Partner, D&T, addressed all the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we perform followup procedures on a future D&T audit to verify the actions taken fully address the recommendation.

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<sup>9</sup> The Uniform Guidance (2 CFR 200) supersedes OMB Circular A-133 for the non-Federal entities' fiscal years beginning on or after December 26, 2014. As a result, the Uniform Guidance would be applicable to Battelle's future single audits.

## Finding C

### Audit Documentation Needs Improvement

D&T's audit documentation did not always provide a clear description of the audit procedures performed and evidence obtained to support its conclusions on the cash management, reporting, and special tests and provisions compliance requirements. As a result, additional explanations were required for us to conclude that D&T obtained sufficient evidence to support the auditor's conclusions on these three compliance requirements.

Auditing standards require that audit documentation be appropriately detailed to provide a clear understanding of the work performed, the evidence obtained, and the conclusions reached. The documentation and audit evidence should be in sufficient detail to enable an experienced auditor with no previous connection to the audit to understand the nature, timing, extent, and results of audit procedures performed that support the significant judgements and conclusions.

### Cash Management Compliance Requirement

D&T obtained an understanding of Battelle's internal controls and identified key internal controls to be tested for the cash management compliance requirement. However, D&T did not adequately document the internal control testing performed to support conclusions. The OMB 2015 Compliance Supplement states that when funds are received on a reimbursement basis, the audit objective for the cash management compliance requirement is to ensure program costs are paid with entity funds before requesting reimbursement from the U.S. Government. In addition, the Federal Acquisition Regulation states that costs should be paid or, if the non-Federal entity is not delinquent in paying expenses, will be paid ordinarily within 30 days of requesting reimbursement from the U.S. Government.

We noted that the audit documentation did not provide a clear understanding of how the audit procedures performed related to the key control being tested or how the key control tested related to the audit objective of the cash management compliance requirement. For example, D&T identified the review and approval of expenses as an internal control, but not how this internal control relates to the cash management requirement. It was necessary to obtain additional explanations from D&T and perform further analysis to verify that the testing performed

provided sufficient evidence to meet the audit objective and support conclusions. For future audits, D&T must enhance its documentation on the internal control testing performed so that it is clear how it relates to the audit objective for the cash management compliance requirement.

## Reporting Compliance Requirement

D&T needs to improve audit documentation on its review of Battelle's compliance with reporting requirements. The audit objective of the reporting compliance requirement is to determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented. The auditors documented that they reviewed selected reports to ensure that those reports included the required information and were submitted timely to the appropriate Government representative. However, the auditors did not adequately document the audit procedures performed to ensure that the financial data included in the reports was supported by Battelle's accounting records. We had to obtain additional explanations from D&T to enable us to determine whether the audit procedures completed were sufficient to support D&T's conclusions on compliance with reporting requirements.

Based on our review, we accepted that D&T obtained sufficient evidence to support conclusions on Battelle's compliance with reporting requirements. However, for future audits, D&T should improve its audit documentation to clearly describe the audit procedures performed to ensure that the financial data included in the reports is supported by Battelle's accounting records.

## Special Tests and Provisions Compliance Requirement

The specific requirements for special tests and provisions are unique to each Federal program and are found in the laws, regulations, and provisions of contracts or grant agreements. D&T reviewed contracts, identified a special provision, and performed procedures to test internal controls and compliance. However, we identified an additional special provision on a schedule of expenditures of Federal awards that Battelle provided.<sup>10</sup> The schedule included the identification of awards with a key personnel requirement, which D&T had not identified or tested as a special provision. The OMB 2015 Compliance Supplement, part 5, identifies key personnel as a specific special term and condition for the research and development cluster; therefore, this requirement should have been evaluated for testing.

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<sup>10</sup> The schedule of expenditures of Federal awards is a required list of Federal program expenditures by Federal agency.

We asked D&T about the evaluation of the special tests and provisions compliance requirement and, in particular, the key personnel requirement. D&T stated that its evaluation of contracts only disclosed the one special provision during the FY 2015 audit. However, D&T identified and tested the key personnel requirement during the FY 2016 audit. D&T provided us with the FY 2016 audit documentation, which included audit procedures for the compliance testing of the key personnel requirement.

Based on our review, we concluded that additional audit procedures were not necessary on the special tests and provisions compliance requirement. Nevertheless, for future audits, D&T must document an evaluation of whether the key personnel requirement is direct and material to the single audit and perform testing of both internal controls and compliance, as necessary.

## **Recommendation, Management Comment, and Our Response**

### ***Recommendation C.1***

**We recommend that, for future audits, the Partner, Deloitte & Touche LLP:**

- a. Improve audit documentation to clearly describe the relationship between the internal control audit procedures and the audit objective for the cash management requirement.**
- b. Improve audit documentation on the procedures performed to verify whether the financial data included in required reports were supported by Battelle's accounting records.**
- c. Document an evaluation of whether the key personnel requirement is direct and material to the single audit and perform testing of internal controls and compliance, as necessary.**

### ***Deloitte & Touche LLP Comments***

The Partner, D&T, agreed with the recommendation and stated that D&T will enhance the documentation on the internal control testing performed to clarify how the control meets the audit objective of the cash management compliance requirement. In addition, the Partner stated that D&T will improve the documentation to clearly describe its verification of the financial data in the selected reports and how it is supported by accounting records. Finally, D&T will document the evaluation of whether the key personnel requirement is direct

and material to the major program, perform the necessary procedures for the key personnel requirement, and perform procedures to determine whether there are other special tests and provisions that are direct and material to Battelle. The actions will be completed by June 30, 2018.

### *Our Response*

Comments from the Partner, D&T, addressed all the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we perform followup procedures on a future D&T audit to verify the actions taken fully address the recommendation.



## Appendix A

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### Scope and Methodology

We conducted our quality control review from March through August 2017 in accordance with the “Quality Standards for Inspection and Evaluation,” published in January 2012 by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). Those standards require that we plan and perform our review to obtain sufficient appropriate evidence to provide a reasonable basis for our findings, conclusions, and recommendations based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations.

We reviewed the FY 2015 single audit of Battelle performed by D&T. The Federal Audit Clearinghouse received the single audit report on June 20, 2016. For this review, we used the 2015 edition of the CIGIE “Guide for Quality Control Reviews of OMB Circular A-133 Audits.” The review focused on the following qualitative aspects of the single audit:

- Qualification of Auditors,
- Auditor Independence,
- Due Professional Care,
- Planning and Supervision,
- Audit Follow-up,
- Internal Control and Compliance Testing,
- Schedule of Expenditures of Federal Awards, and
- Data Collection Form.

### Use of Computer-Processed Data

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

### Prior Coverage

During the last 5 years, the Department of Defense Office of Inspector General has not issued a quality control review related to Battelle or D&T’s OMB Circular A-133 audits.

# Appendix B

## Compliance Requirements

Table. Compliance Requirements that D&T Determined Were Direct and Material to the Research and Development Cluster.

OMB Circular A-133 Compliance Requirements	Direct & Material	Not Direct & Material
Activities Allowed or Unallowed	X	
Allowable Costs/Cost Principles	X	
Cash Management	X	
Eligibility		X
Equipment and Real Property Management	X	
Matching, Level of Effort, Earmarking	X	
Period of Performance	X	
Procurement, Suspension, and Debarment	X	
Program Income		X
Reporting	X	
Subrecipient Monitoring	X	
Special Tests and Provisions	X	

# Management Comments

## Deloitte & Touche LLP



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October 2, 2017

Mr. Randolph R. Stone  
Deputy Inspector General, Policy and Oversight  
Department of Defense Office of Inspector General  
Re: Quality Control Review of the Deloitte & Touche, LLP FY 2015 Single Audit of  
Battelle Memorial Institute (Project No. D2017-DAPOSA-0098.000)

Dear Mr. Stone:

In connection with your quality control review of our audit of Battelle Memorial Institute's ("Battelle") Single Audit in accordance with Office of Management and Budget's Circular A-133 as of and for the year ended September 30 2015 ("Review"), we have provided herein our responses to your findings in your report dated September 28, 2017:

### **Finding A**

#### **Opinion Paragraph Omitted in the Report on Compliance for Each Major Federal Program**

**Recommendation A-1:** We recommend the Partner, Deloitte & Touche LLP, revise the "Report on Compliance for Each Major Federal Program," to include the required opinion paragraph, and coordinate with Battelle Memorial Institute to resubmit the reporting package to the Federal Audit Clearinghouse.

**D&T Response –** We have made the change recommended and the report was resubmitted to the Federal Clearinghouse and auditor certified on September 12, 2017. The changes made included the following:

- 1) Independent Auditors' Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133. The following has been added under the section "Opinion on Each Major Federal Program" in that report: In our opinion, Battelle complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.
- 2) Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on and Audit on Financial Statements Performed in Accordance with *Government Auditing Standards*: The following

## Deloitte & Touche LLP (cont'd)

has been added under the section “Internal Control Over Financial Reporting” in that report: Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Planned Response Completion Date:** Completed on September 12, 2017 as noted above.

### **Finding B**

#### **Adequacy of Audit Sampling on Federal Program Audit**

#### **Recommendation B-1: We recommend that, for future audits, the Partner, Deloitte & Touche LLP:**

- a) Define the population of transactions so that it properly includes the items applicable to the audit objective and planned audit procedures.
- b) Document consideration of whether additional sample items or audit procedures are necessary when the attributes tested are found to be not applicable to the original sample items.
- c) Assess whether the population of transactions should be subdivided for testing a compliance requirement to ensure sufficient evidence is obtained to support audit conclusions.

**D&T Response –** In response to the recommendation noted above, D&T will implement the following changes during our fiscal year 2017 audit:

Procurement, Suspension & Debarment:

- 1) All items relevant to the audit objective, including subaward transactions, will be included in the Procurement, Suspension & Debarment population and will ensure audit procedures planned to test Procurement, Suspension & Debarment are appropriate for the population and sample items identified.

Equipment:

- 2) We will ensure the population of equipment transactions and sampled items are only from awards subject to Uniform Grant Guidance. We will ensure that the equipment testing population is appropriately determined as all reportable equipment items that are in the possession of Battelle.

## Deloitte & Touche LLP (cont'd)

Activities Allowed or Unallowed and Allowable Cost/Cost:

- 3) We will ensure that during our activities allowed or unallowed and allowable costs/cost principles that we perform testing that will provide sufficient testing and coverage of both direct and indirect costs.

**Planned Response Completion Date:** June 30, 2018; at the completion of our FY2017 audit and issuance of our opinions related to compliance and controls over compliance.

### **Finding C**

#### **Audit Documentation Needs Improvement**

#### **Recommendation C-1: We recommend that, for future audits, the Partner, Deloitte & Touche LLP:**

- a) Improve audit documentation to clearly describe the relationship between the internal control audit procedures and the audit objective for the cash management requirement.
- b) Improve audit documentation on the procedures performed to verify whether the financial data included in required reports was supported by Battelle's accounting records.
- c) Document an evaluation of whether the key personnel requirement is direct and material to the single audit and perform testing of internal controls and compliance, as necessary.

**D&T Response –** In response to the recommendation noted above, D&T will implement the following changes during our fiscal year 2017 audit:

Cash Management Compliance Requirement:

- 1) We will enhance our documentation on the internal control testing performed so that it is clear how the control meets the audit objective for the cash management compliance requirement.

Reporting Compliance Requirement:

- 2) We will improve our audit documentation to clearly describe our verification of the financial data in the selected required reports and how it is supported by Battelle's accounting records.



## Deloitte & Touche LLP (cont'd)

Special Tests and Provisions Compliance Requirement:

- 3) We will document an evaluation of whether the key personnel requirement is direct and material to the Research and Development Cluster and will perform testing of internal controls and compliance as necessary.
- 4) We will also perform procedures to determine whether there are any other new special tests and provisions that are direct and material to the single audit and perform compliance and internal controls testing as necessary.

**Planned Response Completion Date:** June 30, 2018; at the completion of our FY2017 audit and issuance of our opinions related to compliance and controls over compliance.

Sincerely,

A black rectangular redaction box covering the signature of the partner.

, Partner  
Deloitte & Touche LLP

## Acronyms and Abbreviations

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<b>Battelle</b>	Battelle Memorial Institute
<b>CIGIE</b>	Council of the Inspectors General on Integrity and Efficiency
<b>D&amp;T</b>	Deloitte & Touche LLP
<b>OMB</b>	Office of Management and Budget



# **Whistleblower Protection**

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

*The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal. The DoD Hotline Director is the designated ombudsman. For more information, please visit the Whistleblower webpage at [www.dodig.mil/Components/Administrative-Investigations/DoD-Hotline/](http://www.dodig.mil/Components/Administrative-Investigations/DoD-Hotline/).*

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