Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Issued March 23, 2012

2011 Annual Report — Quality Assurance
January 1, 2011 – December 31, 2011

Introduction

The purpose of this report is to document the Office of the State Auditor's quality assurance procedures and results for the 2011 calendar year, as well as focus areas for 2012. Government Auditing Standards (the "Yellow Book" or "GAGAS") requires this report to be completed on an annual basis. Specifically, the 'Quality Control & Assurance – Monitoring of Quality' section of the Yellow Book states:

3.95 The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.

2011 Year in Review

Suzanne M. Bump was sworn in as the 25th State Auditor of Massachusetts on January 19, 2011. As the first new Auditor in 24 years, Auditor Bump communicated her plan to lead the administration to be a catalyst for making state government work better by elevating standards of transparency, accountability, and performance.

One of her first initiatives was to request an independent peer review by the National State Auditors Association, in which a selection of performance audits issued during the period of July 1, 2009 through December 31, 2010 were reviewed. This review resulted in an adverse opinion, revealing many issues and deficiencies within the four main areas of the OSA's quality control system for performance audits: planning, competence, documentation, and reporting.
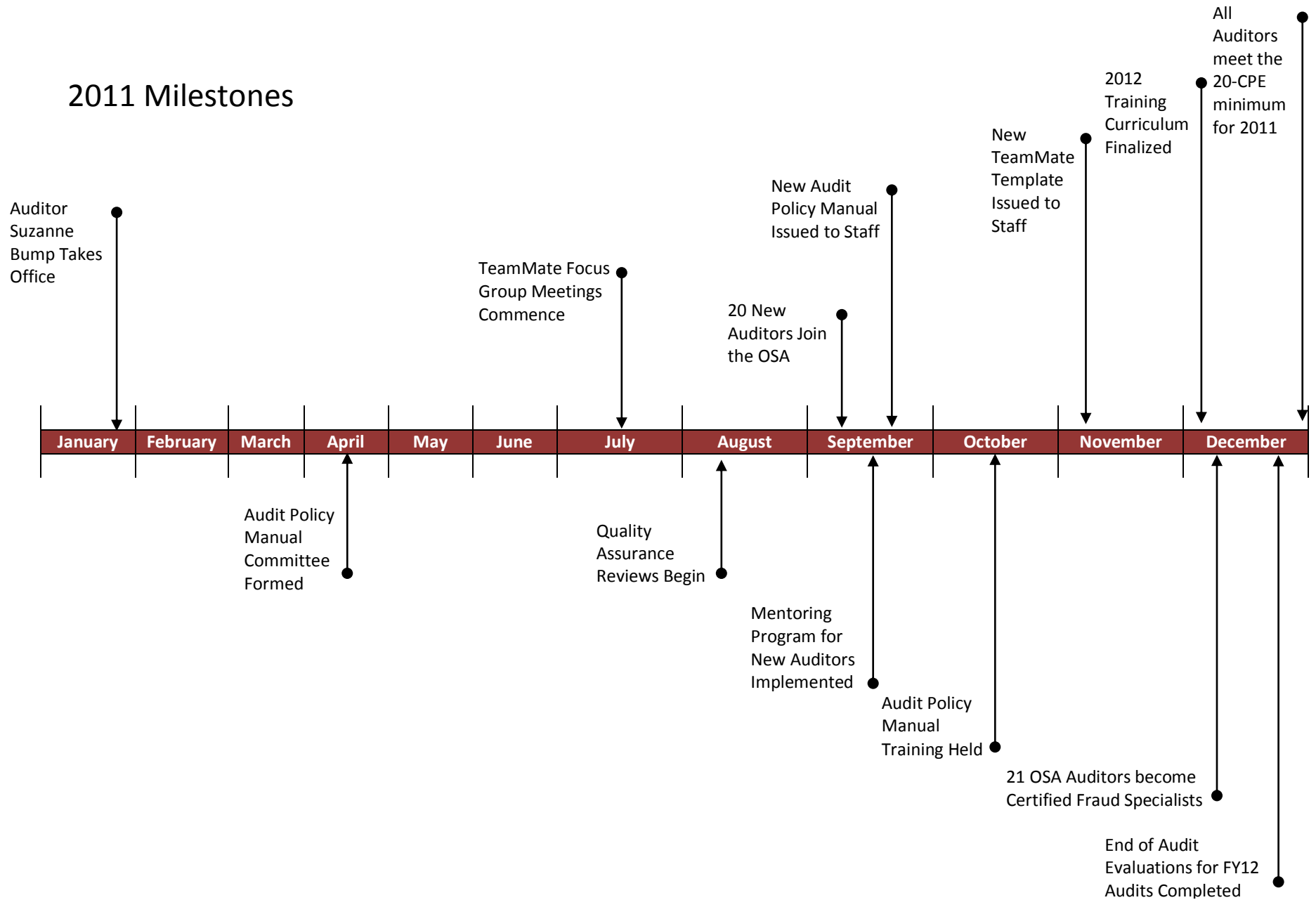
As part of the corrective action plan created to respond to the peer review results, Auditor Bump communicated her vision to strengthen the existing Quality Assurance ("QA") review function. The following milestones were reached in 2011 as part of these efforts:

- A team comprised of OSA Deputies, Directors, Managers, and Audit Supervisors was selected to develop a new OSA Audit Policy Manual. The Committee convened in April 2011 and worked for several months to develop a Manual to include all current policies and procedures required by government auditing standards. The Committee created a set of workpaper templates (referred to as "Exhibits" in the Manual), which are required to be used on every audit to enhance audit documentation. The Manual became effective for new performance audits beginning on or after September 15, 2011.

- In an effort to enhance technical capabilities, audit software (TeamMate) was revised to include audit steps and documentation requirements outlined in the new Audit Policy Manual, in order to enforce compliance with government auditing standards.

- A new QA checklist was developed to monitor audit staff compliance with government auditing standards and the OSA Audit Policy Manual. The QA checklist is now required to be completed in the draft report phase (before the audit is issued) so that any non-compliance items can be addressed prior to report issuance. This new approach kicked off in August.

- Revised position descriptions containing specific educational and professional job requirements were created to form the basis of a new recruitment and hiring process for audit staff. This resulted in the hiring of 20 new (replacement) auditors in September, and the development and implementation of a comprehensive new-hire training curriculum.

- A mentoring program was developed and implemented, in order to assist new audit staff obtain the guidance, support, and training needed in order to succeed in their new roles at the OSA.

- A new training program focused on providing relevant and quality training in the area of government auditing standards was implemented. Numerous courses were offered throughout 2011, including Yellow Book, AGA Fraud Conference, OSA Audit Policy Manual, AGA Professional Development conference, Massachusetts Management Accounting & Reporting Systems workshops, etc. Members of senior management also attended several professional conferences offered by the National Association of State Auditors, Comptrollers, and Treasurers, as well as the Association of Government Accountants. In addition, an intensive training program has been developed for 2012, which incorporates quality assurance review results, suggestions received through staff evaluations, and peer review recommendations.

- A new OSA Audit Training Policy was developed not only to describe the training subject areas, methodology and sources of the 2012 training curriculum, but also to define procedures for enrolling in courses, obtaining supervisor approval, CPE recordkeeping, etc. to ensure consistent practices are utilized across the audit organization.

- Performance evaluations were required to be completed by December 31 for all staff working on audits issued between July – December. These evaluations were carefully reviewed, and recommended training and professional development ideas were incorporated into the 2012 training curriculum as well as staff assignments.

- Twenty-one OSA Auditors became Certified Fraud Specialists in December/January, after submitting a petition for certification before the National Professional Standards and Admissions Committee of the Association of Certified Fraud Specialists, and receiving approval from that Board. This is just one example of increased focus from audit staff on enhancing professional presence in the field of accounting and auditing.

- As of December 31, all OSA Audit CPE earners were in compliance with the required number of CPEs for the 2011 calendar year, as required by 'Guidance on GAGAS Requirements for Continuing Professional Education.'

The chart on the following page depicts the timeline of the 2011 milestones reached, as part of the overall effort to strengthen the OSA quality assurance program.

2011 Milestones

Auditor Suzanne Bump Takes Office — January

Audit Policy Manual Committee Formed — April

TeamMate Focus Group Meetings Commence — July

Quality Assurance Reviews Begin — August

20 New Auditors Join the OSA — September

New Audit Policy Manual Issued to Staff — September

Mentoring Program for New Auditors Implemented — September

New TeamMate Template Issued to Staff — October

Audit Policy Manual Training Held — October

2012 Training Curriculum Finalized — November

All Auditors meet the 20-CPE minimum for 2011 — December

21 OSA Auditors become Certified Fraud Specialists — December

End of Audit Evaluations for FY12 Audits Completed — December

| January | February | March | April | May | June | July | August | September | October | November | December |

Quality Assurance Reviews – Approach and Results

Prior to Auditor Suzanne Bump taking office, the OSA had an internal quality control system which required a select number of audits from the previous year to be reviewed on an annual basis. The nature, timing, and extent of these reviews was significantly revised in 2011, to focus on providing real-time audit feedback and training to audit staff members, at a point where audit fieldwork is substantially completed and the report is in the process of being drafted. This new approach is expected to not only prevent non-compliant audits from being issued, but also to provide staff with immediate learning opportunities and allow senior management to incorporate feedback from these reviews into necessary Audit Policy Manual updates, changes to the training curriculum, etc.

In addition to the timing changes to the QA review process, the content of the reviews has also been revamped. As mentioned above, a new Quality Assurance checklist was developed in conjunction with the creation of the OSA Audit Policy Manual. The checklist was developed using a variety of sources, including (a) the 2010 MA Peer Review "Letters of Comment," (b) NSAA "Guide for Review of Performance Audit Engagements," (c) OSA "Audit Policy Manual," and (d) Government Auditing Standards – 2011 Revision.

In 2011, the OSA Quality Assurance team performed reviews of 12 audits. The audits were selected on a random basis, while ensuring coverage of a variety of different types of audits (e.g. Judicial, Housing, State) as well as OSA Directors and Managers. The QA team had the opportunity to work with every OSA Director and Manager on the 12 selected audits, during the time period of August (when the new QA procedures were finalized and implemented) through the end of the calendar year in December. It was a transitional period, as most of the audits reviewed were not yet required to use the new Exhibits included in the Audit Policy Manual (in most cases fieldwork for these audits had begun months and sometimes years before the new Policy Manual was released). For the selected audits, the Quality Assurance team worked with the audit teams to resolve any non-compliant areas prior to report issuance.

Over the course of the five month review period, the Quality Assurance team noted clear improvement with respect to compliance with GAGAS standards included in the QA checklist. In fact, two audits reviewed in December were found to be near 100% compliant.

In addition to the twelve audits reviewed, the Quality Assurance team was also involved in several specialized reviews for certain audits which were perceived to be at a higher risk, given the nature of the audit topic, size of the audit, or extent of work performed.

Overall, the reviews conducted in 2011 revealed several common areas for improvement, which were in turn developed into training opportunities to be offered to staff in 2012. Listed below are the training suggestions noted as part of the quality assurance reviews:

- Planning and testing of Information Systems
- Completing the "Audit Issues" tab in TeamMate, to include exceptions noted during the audit and how they were resolved
- How to develop a sampling approach, including when to use statistical vs. non-statistical methods, and if/when to project results to the population
- Planning and testing of Internal Controls

- Planning Fraud and Abuse strategy
- Use of ACL to conduct data analysis on audits
- Workpaper preparation/documentation, to include the new standard template for documenting source, purpose, analysis, conclusion
- How to write an audit program
- The importance of supervision on audits
- Enhancement of writing skills
- How to complete the new OSA report template

Looking Forward – 2012 Goals

As mentioned above, training recommendations resulting from the 2011 Quality Assurance reviews have already been incorporated into the 2012 OSA Audit training curriculum. In addition to the implementation and monitoring of this intensive training program, the following additional goals will be focus areas in 2012:

Goal	Achievement Strategy	Anticipated Timeline
Continue to educate auditors on new policies and procedures included in the Audit Policy Manual	Implementation of bi-weekly workshops to provide further training on Audit Policy Manual forms	Begin in April and hold ongoing sessions as needed
Identify training and educational opportunities for audit staff around performance auditing and efficiency	Seek appropriate training course and develop implementation strategy	June/July
Strengthen the use of information technology within audit work	Gain proficiency office-wide in the use of ACL and embed this data analysis tool in all audit programs. Explore the use of other data analysis techniques through participation in a data mining focus group. Require information systems assessment on all audits.	April - June
Increase volume of audits reviewed as part of the Quality Assurance process	Hire a Quality Assurance Manager as well as additional QA Analysts	QA Manager – March QA Analysts – by September
Continue to establish the best means of collaboration possible between QA team and the audit teams	Surveys will be sent to all teams who participated in QA reviews to solicit feedback	Ongoing throughout the year – surveys will be sent as soon as reviews are completed
In conjunction with QA reviews, become more involved in the reporting phase of the audit, to ensure that TeamMate findings and conclusions are correctly stated in the report	Amend QA process to incorporate review of draft report	Begin in April

Goal	Achievement Strategy	Anticipated Timeline
Monitor completion of end-of-audit ("EOA") evaluations, to ensure each individual receives feedback after each audit	Appoint admin individual to track EOA completion and follow-up with staff as necessary	April (after Halogen training is completed)
Enhance community outreach to obtain and share best practices regarding quality assurance, professional development, training courses, etc.	Attend professional conferences and networking events offered by organizations such as AGA, NASACT, and MSCPA. Encourage office participation in the NSAA peer reviews of other states.	Ongoing
Expand OSA mentoring program, to foster teamwork and collaboration	Currently the program is mandatory for audit new hires, but participation will be encouraged for existing audit staff as well	October/November
Continue to enhance functionality of TeamMate audit software	Audit participation in the upcoming upgrade to TeamMate version 10, as well as the move from decentralized to centralized. Monitor and update the newly developed TeamMate template, as necessary.	March - June

Conclusion

In summary, there were many positive changes implemented during 2011 in conjunction with the new administration taking office in January and working to achieve Auditor Bump's vision for the office. The OSA made significant strides towards addressing NSAA peer review deficiencies and recommendations, and focus areas for 2012 have been clearly articulated. Overall, we are confident that our new policies and processes will ultimately result in improved audit reports that will not only be GAGAS compliant, but will also provide additional assurance to the public that every dollar given to state government is a dollar well spent.