



# **National State Auditors Association**

Commonwealth of Massachusetts  
Office of the State Auditor

External Peer Review  
for the period  
July 1, 2009, through December 31, 2010

**LETTER OF COMMENTS**



# National State Auditors Association

March 8, 2011

The Honorable Suzanne M. Bump, State Auditor  
Office of the State Auditor  
State House Room 230  
Boston, MA 02133

Dear Auditor Bump:

We have reviewed the system of quality control for performance audits of the Massachusetts Office of the State Auditor (the Office) in effect for the period July 1, 2009, through December 31, 2010, and have issued our report thereon dated March 8, 2011. That report should be read in conjunction with the comments in this letter.

## Independence

**Comment:** GAGAS states that in all matters relating to audit work, audit organizations and the individual auditor must be free from personal, external and organizational impairments. Likewise, they must maintain independence so their opinions, findings, conclusions, judgments and recommendations will be impartial and viewed as such by objective third parties. GAGAS also requires the audit organization to decline work if impairments to independence exist, except under certain circumstances, in which case the government audit organization must disclose the impairment and modify the GAGAS compliance statement. (GAO 3.02-.04)

- *Organizational Impairments:* The Massachusetts Office of the State Auditor has not developed a policy requiring organizational independence outside of its authority as expressed in Massachusetts State Law. The policies and procedures also do not address modifying the GAGAS statement when organizational impairments exist though the Office cannot decline to perform the work because of legal requirements. The Auditor is required, under statute, to serve on a number of boards, councils, and commissions, or appoint members of boards, councils, and commissions. The Office also conducts audits of some of these entities but has not modified the GAGAS compliance statement in its reports of these entities to reflect the potential impairment. It has not documented a policy statement on its organizational independence for these particular engagements.
- *Personal Impairments:* In addition, GAGAS requires auditors participating on an assignment to be free from personal impairments to independence. When the organization identifies a personal impairment prior to or during an audit, it should take action to resolve the impairment in a timely manner. (GAO 3.07-.09 ) Section III of the Office's policy manual requires auditors to formally document their personal independence at the beginning of each audit. These independence forms are to be retained in the engagement workpapers. However, on three of the audits reviewed, a portion of the independence forms were omitted or not signed by all of the individuals on the engagement. The policies and procedures also state that, if a personal impairment is identified, audit management is to be notified. However, the policies do not state how the impairment will be addressed or the resolution documented.

- *External Impairments:* GAGAS requires audit organizations to be free from external impairments to independence—those factors external to the organization that may restrict auditors' ability to form independent and objective findings and conclusions. (GAO 3.10) Specifically, GAO 3.10c requires the audit organization to be free from unreasonable restrictions on the time allowed to complete an audit or issue the report. GAO 3.10f requires the organization to be free from restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities. Massachusetts General Laws Chapter 11, Section 12 requires the Office to audit, "...no ...less than once in every two years...the accounts, programs, activities, and functions related to ....all departments, offices, commissions, institutions, and activities of the commonwealth...." During the review, managers of the audit organization noted that the Office was unable to achieve the two-year cycle requirement. According to the Auditor, the Office's appropriation has also been reduced in the past budget cycle. As a result, from the perspective of the reviewers, it appeared that the audit content was guided less by risk and more by the statutory requirements to review a high number of organizations, and that organization resources were not directed to high risk audit areas.
- *Nonaudit Services:* GAGAS recognizes that governmental audit organizations at times may perform nonaudit services that are not performed in accordance with GAGAS. In these cases, the organization must evaluate whether providing the services creates an independence impairment either in fact or appearance with respect to entities they audit. GAGAS states that the organization should establish policies and procedures for accepting engagements to perform nonaudit services so that independence is not impaired with respect to entities they audit. Applying safeguards, such as documenting the consideration of nonaudit services, establishing the scope of work and management's responsibilities in writing for the engagement, excluding personnel who conducted the nonaudit services from conducting audit work related to the nonaudit service, and ensuring that the scope and extent of audit work is maintained at a level appropriate as if the nonaudit services had been performed by an unrelated party. (GAO 3.20-.30) During the review period, the Office conducted two nonaudit engagements and provided one consultation. The Office does not have a policy regarding nonaudit services, a framework to evaluate whether a nonaudit service would create an independence impairment, or a documented system of safeguards to ensure nonaudit services do not impair independence.

**Recommendation:** The Office should develop a policy and procedure to address instances when it has not complied with GAGAS independence standards and should include a modified GAGAS compliance statement in its reports to disclose any impairments or potential impairments. It should also develop a policy statement to address the potential impairment of organizational independence in cases where the Office audits boards, councils, and commissions upon which the Auditor is required, by law, to serve as a member or has appointing authority. It should ensure that it includes a modified GAGAS compliance statement in reports of councils, boards, and commissions affected by this condition.

The Office should also enhance its policies and procedures surrounding personal independence to provide clear guidance on how auditors should sign, file and maintain independence forms for each engagement. The policy should include which members of the engagement are required to include independence statements in the engagement workpapers. For audit management, the Office should consider an annual process that is centrally maintained to ensure all team members are free of personal impairments and that this is documented in the Office's records. Updates to the policies

and procedures should also include a description of the process used to document and resolve independence impairments.

To address the external impairments related to unreasonable time restrictions, the Auditor should seek additional flexibility in assigning audits. The Office should seek legal authority to apply a comprehensive risk assessment to the governmental entities it is responsible for auditing, identifying significant risks and designing its biennial audit plan and allocating its resources to those high-risk areas.

Finally, the Office should develop policies and procedures addressing nonaudit services, including identifying nonaudit services, implementing a framework to evaluate nonaudit services and their potential impact on independence, and a system of safeguards to ensure that nonaudit services do not impair independence.

### **Competence**

**Comment:** GAGAS requires staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required. (GAO 3.40-42)

- *Workforce:* GAGAS requires an audit organization's management to consider whether its workforce has the essential skills for the scope of audit performed and implement a process for recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce. The Office's job specifications do not establish minimum education requirements. Of the 23 employees sampled, 7 had a BS in Accounting or a finance-related subject. An additional 8 had BAs and 3 had an MS or MA in a variety of subjects. Five had an associate's degree, high school education or no education recorded.

Also, the Massachusetts Office of the State Auditor Personnel Policies Chapter 2 (C) Performance Appraisal System states that "through the OSA's Performance Appraisal System, the performance of all employees shall be evaluated periodically." Office representatives told the reviewers that evaluations were conducted for audit team members after each engagement and at least annually for managers. We tested a sample of 16 employees who had been employed on the audits we examined. Of those 16 employees, only 8 had project-related evaluations on file. Of the others, some had not received evaluations recently (since 2004 and 2007), some did not receive evaluations in a timely manner (up to 22 months after the conclusion of the project), and others had a very irregular evaluation history with as much as two decades between reviews.

- *Professional Development:* Auditors maintain competence through a commitment to learning and development throughout their professional life. This continuous development contributes to competence, which enables an auditor to make sound professional judgments. GAGAS requires auditors performing work under the standards to complete at least 80 hours of training every two years with a portion related to government auditing and a portion that enhances the auditor's professional capacity to perform audits. CPE programs should be structured educational activities with objectives to maintain or enhance participant's knowledge and skills. (GAO 3.46-47). The GAO has developed guidance pertaining to CPE requirements to help auditors and audit organizations comply with CPE requirements

*(Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education, GAO- 05-568G (Washington, D.C.: April 2005)). (GAO 3.46, 3.48)*

The Office's personnel policy manual requires auditors to obtain CPEs in accordance with GAGAS requirements (Chapter 3, section F). In addition, the Office maintains records of training hours attended for each audit employee. However, some of the training courses offered during the two-year period examined did not meet GAO CPE requirements and may have included hours that were not applicable (e.g., breaks and lunch). The Office did not maintain detailed agendas to support the hours recorded and we could not determine the total number of hours that would not have been applicable. Further, CPEs were not always calculated in accordance with GAO requirements.

Of the 38 employee records examined, 7 would not meet CPE requirements with the ineligible courses deducted from the total. An additional 11 employees, for a total of 18 were within 3 hours of the minimum and could also have been below required CPEs depending on the accuracy of CPE calculation for several additional courses. This affected three of the audits examined.

Based on the outcome of this review and the pervasive nature of noncompliance with several standards, it appears that the training provided to staff on how to conduct their audit work in compliance with GAGAS has been insufficient. In particular, the topics selected may not have been appropriately targeted to needed skill development, the depth of instruction may not have been sufficient to resolve ongoing compliance and performance issues, and use of self-study may not provide a sufficiently structured environment for staff to learn and apply the standards and associated requirements.

**Recommendation:** We recommend that the Massachusetts Office of the State Auditor implement a process for recruitment, hiring, continuous development and evaluation for its staff that will help it ensure a professional, qualified workforce. The Office might consider including additional educational or professional requirements in its job specifications. It also should consider improving the consistency and timeliness of its performance appraisal process to ensure employees receive regular feedback on work performance.

Also, the Office should apply the standards outlined in *Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education* to its CPE program. It should ensure it retains adequate documentation for CPEs including agendas for its various training programs. It should also deduct any courses that do not meet GAO requirements for CPEs to ensure its CPE calculation is correct. Finally, it should closely examine the content and form of its training programs to ensure they provide staff the appropriate skills and technical training needed to maintain their abilities to perform audits. The information contained in this letter and in the results of employee evaluations could serve as a basis for identifying certain training needs.

### **Planning**

**Comment:** GAGAS states that performance audits that comply with the standards provide reasonable assurance that evidence is sufficient and appropriate to support the auditors' findings and conclusions. Objectives for performance audits range from narrow to broad and involve varying

types and quality of evidence. Auditors must adequately plan and document the planning of the work necessary to address the audit objectives. (GAO 7.03, 7.06)

- *Objectives:* GAGAS describes the objectives as what the audit is intended to accomplish, identifying the subject matter and performance aspects to be included. It describes audit objectives as questions about the program that the auditors seek to answer. Scope is defined as the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess, the necessary documents or records, the period of time reviewed, and the locations that will be included. (GAO 7.08-.09) The Office's policies and procedures address objectives and scope in several sections of the manual (IV 32-34, IV 46, VII 55, XIII 27). However, in 5 of the 15 audits reviewed (33%), the objectives stated in the assignment sheet were broader than those that were actually the subject of the audit. In these instances, refinement of the objectives was not documented through a scope change memo. Reviewers were unable to determine if the objectives of the audits had actually been met in these audits because the initial objectives and those disclosed in the report were so broadly defined.
- *Significance and Audit Risk:* GAGAS defines significance as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of various factors. GAGAS requires auditors to assess the audit risk and significance in the context of the objectives and gain an understanding of the nature of the program, internal and information system controls, legal and regulatory requirements and provisions of contracts and grant agreements, and the results of previous audits. Furthermore, auditors must plan the audit to reduce risk to an appropriate level for the auditors to provide reasonable assurance that the evidence is sufficient and appropriate to support the findings and conclusions. (GAO 7.04-.05, 7.07, 7.11) The concept of audit risk is not mentioned in the performance audit section of the Office's policies and procedures. Section VII of the manual mentions significance and the role it plays in planning the audit, but there are no instructions to auditors on how to use significance to address audit risk or how to document this information, nor is there additional consideration of reducing audit risk, how this might be documented, and how to apply the assessment of risk in approaching the audit objectives. In 9 of the 15 audits examined, auditors did not document their assessment of risk and/or did not document how the understanding of risk and significance were applied to the audit approach (objectives, scope and methodology).
- *Internal Controls:* GAGAS requires auditors to develop an understanding of internal controls significant within the context of the objectives. The assessment of internal controls may cause auditors to modify the audit procedures. (GAO 7.16-.18). Although the Massachusetts Office of the State Auditor policies and procedures mention internal controls, particularly in Section X, the references and supporting material are outdated (circa 1994 and 1998). In the audits examined in this review, reviewers noted several omissions in the assessment of internal controls that could affect the sufficiency and appropriateness of the evidence collected in the course of audit work. These include relying on the internal control assessments of others that did not relate to the objectives of the performance audit, no assessment of the significance of internal controls as it related to the planning of the audit, no documentation of assessments of internal controls or how the assessments were applied to the audit work. These problems were noted in 6 of the 15 audits examined (40%).

- *Information System Controls (General and Application):* GAGAS requires auditors to consider information system controls when they are used extensively throughout the program under audit. Auditors should be primarily interested in those information system controls that are significant to the audit objectives. When appropriate, auditors should evaluate the effectiveness of information system controls to ensure they obtain sufficient, appropriate evidence. Auditors should also determine which audit procedures related to information system controls are needed to obtain sufficient, appropriate evidence to support the audit work. (GAO 7.23-.24, 7.27) The Office's policies and procedures manual does not contain policies and procedures related to the consideration of information system controls in assessing risk and planning the audit objectives. The manual also does not contain policies and procedures related to audit procedures specific to the understanding, design or effectiveness of information system controls. Finally, it contains no policies and procedures related to evaluating information system controls when these systems are significant to the audit objectives. In 11 of the 15 audits examined (73%), there was no documentation of the auditors' understanding of information system controls, the level of information system controls in audit risk, or which audit procedures were related to information system controls that would impact their ability to obtain sufficient, appropriate evidence. In 3 of the 15 audits examined (20%), auditors relied heavily on information systems that were not tested. In some cases, auditors relied on the work of others, which evaluated unrelated information systems or considered only a portion of the information systems related to the audit objectives.
- *Laws, Regulations, Contracts, Grant Agreements:* GAGAS requires auditors to develop an understanding of the program being audited including the laws, regulations, and provisions of contracts or grant agreements that are significant to the audit objectives. Understanding the laws and legislative history establishing a program and the provisions of any contracts or grant agreements can be essential to understanding the program itself. GAGAS requires auditors to determine which laws, regulations, and provisions of contracts or grant agreements are significant within the context of the audit objectives and assess the risk that violations of these could occur. Based on that risk, the auditors should design and perform procedures to provide reasonable assurance of detecting instances of violations that are significant within the context of the audit objectives. (GAO 7.15, 7.28-.29) Section VII of the Office's policies and procedures includes a brief discussion of identifying relevant laws, regulations, contracts and grant agreements, but does not include policies and procedures on how to document the assessments and their impact on the audit design. In 5 of the 15 audits examined (33%), auditors did not document their understanding of legal and regulatory requirements significant to the audit objectives, their assessment of the potential for violations of laws, regulations, etc. that are significant to the audit objectives, their efforts to design procedures to address these areas and/or the resulting tests of significant laws, regulations etc.
- *Fraud:* GAGAS compliance provides reasonable assurance that evidence is sufficient and appropriate to support findings and conclusions. A key component of GAGAS is assessing the risk of fraud occurring that is significant within the context of the objectives and, when risks are noted, designing procedures that provide reasonable assurance of detecting such fraud. When information comes to the auditors' attention indicating that fraud that is significant within the context of the objectives, auditors should extend the audit steps to determine if fraud has occurred and, if it has, what its impact is on the audit findings.

GAGAS also requires auditors to consider the risk of abuse and design appropriate procedures based on audit risk. (GAO 7.03, 7.30-.33). The Office's policies and procedures manual does not contain specific directions related to fraud risks for performance audits. In 12 of the 15 audits examined (80%), the following omissions were noted: fraud risk assessments were inadequate, not documented, or not performed; and procedures to detect fraud were not developed when risks were noted, even in cases where the risk was documented as high.

**Recommendation:** The Massachusetts Office of the State Auditor should update its policies and procedures related to planning to contain key provisions related to developing clear objectives, addressing significance and audit risk, evaluating internal and information system controls, addressing laws, regulations, contracts and grant agreements during planning in accordance with GAGAS, and ensuring the risk of fraud and abuse is considered and, when the risk is high and significant to audit objectives, ensuring audit procedures are extended to provide reasonable assurance of detecting fraud and abuse.

In addition, the Office should seek to provide clear direction in its procedures on how auditors should document these assessments, as well as the application of risk and significance in audit documentation.

### **Audit Evidence**

**Comment:** GAGAS standards require that auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. In addition, the standards specifically require auditors to assess the sufficiency and appropriateness of computer-processed information (GAO 7.55-.57, 7.65-.66, 7.68).

The Office's policy manual states that "working papers could contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments." Furthermore, the policy states that "when computer-processed data are used as evidence, its reliability must be established if it is an important or integral part of the audit. Determining reliability may involve conducting reviews of the automated system's general and application controls as well as other tests." For the policy and procedures manual and several engagements reviewed, we found the following:

- The Office's policies do not address appropriateness of evidence or audit risk. Further, the policies do not require an overall assessment of the collective evidence in an audit.
- The Office had not documented an overall assessment of evidence in any of the audits reviewed. In assessing evidence, auditors should evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions.
- For several of the audits reviewed, the Office had not documented an assessment made of the sufficiency of evidence. Sufficiency is a measure of the quantity of evidence used for addressing the audit objectives and supporting findings and conclusions. In determining the sufficiency of evidence, auditors should determine whether enough evidence exists to address the audit objectives and support the findings and conclusions.

- For several of the audits reviewed there was no evidence that auditors had performed an assessment of computer-processed information. While this assessment may take place in some instances, it should be formally documented. The nature, timing, and extent of audit procedures to assess sufficiency and appropriateness is affected by the effectiveness of the entity's internal controls over the information, including information systems controls.

**Recommendation:** We recommend the Office create a policy requiring an assessment of evidence and implement controls to ensure this assessment occurs, and is documented, on every audit. Furthermore, the Office should update its policies and procedures and ensure auditors conduct a documented assessment of computer-processed data where appropriate.

### **Audit Documentation**

**Comment:** GAGAS standards require auditors to prepare and maintain audit documentation. GAGAS requires that audit documentation should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditor's significant judgments and conclusions (GAO 7.77, 7.80).

The Office's audit policy manual requires that workpapers should contain sufficient information so that supplementary oral explanations are not required. Anyone using the workpapers should be able to readily determine their purpose, the nature and scope of the work performed, and the auditor's conclusions (Section XII). For 9 of the 15 engagements we reviewed, the workpapers did not comply with either GAGAS standards or the Office's audit policy manual. We noted the following exceptions on engagements we reviewed:

- Workpapers did not explain the purpose, source, assumptions, judgments, and/or methodology used in the analysis or the conclusions reached. This information is critical to allow supervisors to conduct an effective review of the work papers.
- Conclusions reached were not adequately documented in the workpapers (i.e., what the analysis concluded, what exceptions were found, etc.)
- Workpapers (e.g., spreadsheets) were not cross-indexed to supporting workpapers. Consequently, the reviewer cannot readily ascertain where the information is coming from, how it was collected, etc. In one case, there was no referenced draft until asked for by the peer review team.
- The final report was not supported by the audit documentation (such as certain testing was not included in workpapers; edits made to the report were not carried back to the workpapers; and the report's recommendations were modified but the changes, and need for the changes, were not documented in the supporting workpapers).

**Recommendation:** We recommend that the Massachusetts Office of the State Auditor ensure that workpapers adequately document the purpose, source, methodology, and conclusions of work performed to allow a supervisor and other reviewers to be able to understand the work performed and determine whether it adequately supports the auditors' judgments and conclusions.

## Report Contents

**Comment:** GAGAS standards require auditors to prepare audit reports that contain the objectives, scope, and methodology of the audit; the audit results, including findings, conclusions, and recommendations, as appropriate; and a statement about the auditor's compliance with GAGAS. Government auditing standards also require auditors to include in the audit report the scope of their work on internal control and to modify their GAGAS statements when all standards are not followed (GAO 8.08, 8.19, and 8.31). We found there were key elements of GAGAS report contents standard that were not discussed in the Office's policies and procedure manual and instances of non-compliance with the policies.

- *Reporting Internal Control Deficiencies and Instances of Fraud and Illegal Acts:* The Office's policy and procedure manual does not include a discussion on how to report deficiencies in internal control; as well as all instances of fraud, illegal acts, and violation of contract agreements in performance audits, including how and when to report issues directly to outside parties.
- *Evaluating and Considering Auditee Comments:* The Office's policy and procedure manual does not include a discussion on how to deal with oral comments provided by the auditee and what to do if an audited entity refuses or is unable to provide comments within a reasonable amount of time.
- *Omission of Certain Information:* The Office's policy and procedures manual does not include a discussion of what to do when circumstances call for omission of certain information, including addressing limited report distribution due to confidential or sensitive information and whether public records laws could impact availability of classified or limited use reports.
- *Reporting Inconsequential Deficiencies:* The Office's policy and procedures manual does not include a discussion of how to report deficiencies that are inconsequential within the context of the audit objectives.
- *Reporting Audit Objectives and Methodology:* The Office's policy manual requires that the statement of objectives explain why the audit was made and state precisely what the report is to accomplish. It also requires that the report include a statement on methodology that clearly explains to the reader how the audit team went about accomplishing the audit objectives. However, for at least 10 of the 15 reports we reviewed the audit objectives were either not specific or the methodology did not adequately describe the work performed to address those objectives.
- *Reporting Scope of Work on Internal Control:* The Office's policy manual requires that the scope section of the report identify the boundaries of the examination and the applicable internal controls reviewed when necessary to satisfy the audit objectives. For 6 of the 15 engagements reviewed, there was little discussion of the work performed on internal controls. Typically, these reports either did not state the work performed on internal controls or only indicated a brief statement that the auditors determined that controls were being maintained.

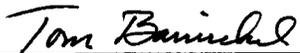
- *Reporting Compliance with GAGAS:* The Office's policy manual requires that the report state the examination was made in accordance with generally accepted government auditing standards. However, the policies and procedures did not contain guidance regarding modifying the GAGAS statement when all standards were not followed and they did not include the correct GAGAS statement language as detailed in section 8.30 of the standards. Because the Massachusetts Office of the State Auditor had not had an outside peer review in more than 15 years, each report should have included a modified GAGAS statement identifying this departure from standards and the potential impact on the report. Our review found that none of the reports included an appropriate GAGAS statement and only 1 had the language required by the 2007 revisions to government auditing standards.
- *Reporting Data Limitations:* The Massachusetts Office of the State Auditor's audit policy manual requires that the Scope section not only describe the focus of the audit but also disclose any limitations, restrictions, or impairments on the audit examination. For 2 of the 15 examinations reviewed, the auditors did not disclose significant limitations in the evidence used in the final report, which could have impacted an outside user's interpretation of the report's findings.
- *Reporting Audit Results and Recommendations:* The Office's policy manual requires that audit reports present audit issues developed in response to the audit objectives. It also states that conclusions should be specified and not left to be inferred by readers and that recommendations should be directed to those who have responsibility and authority to act on them. For 5 of the 15 engagements reviewed, the reports did not include significant information that was important to understanding the findings presented. This included failing to report conclusions, exceptions identified, altered documents found, and failing to place the findings in proper perspective. Also, for 1 of the 15 engagements reviewed, the report did not include recommendations for all deficiencies identified and the recommendations were not directed towards those who could take appropriate action.

**Recommendations:** We recommend that the Massachusetts Office of the State Auditor revise its current policy and procedures so that they reflect current GAGAS requirements for report contents and institute a monitoring program to ensure compliance.

In the attached correspondence dated April 15, 2011, the Massachusetts Office of the State Auditor provided its response to the Letter of Comments recommendations.

Respectfully submitted,

  
\_\_\_\_\_  
Deborah Loveless, Team Leader  
National State Auditors Association  
External Peer Review Team

  
\_\_\_\_\_  
Tom Barnickel, Concurring Reviewer  
National State Auditors Association  
External Peer Review Team



# The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819  
BOSTON, MASSACHUSETTS 02108

SUZANNE M. BUMP, ESQ.  
AUDITOR

TEL: 617-727-6200  
FAX: 617-727-5891

April 15, 2011

Deborah Loveless, Team Leader  
National State Auditors Association  
External Peer Review Team  
Suite 1500, James K. Polk Building  
505 Deadrick Street  
Nashville, Tennessee 37243-1402

Dear Ms. Loveless:

As you know, in a separate document, I responded to the draft Opinion Report that you shared with me at the conclusion of your peer review of the Office of the Massachusetts State Auditor ("OSA"), in March, 2011. I want to thank you for the detailed comments and recommendations that were contained in your separate draft Letter of Comment. The observations and recommendations contained in your detailed Letter are invaluable and will help guide my effort to retool the office and introduce 21<sup>st</sup> Century technology and ideas so we can accomplish the goals and mission I have set for the office.

While the corrective measures we are taking are essential and will significantly enhance the overall quality across the audit operation, it must be pointed out that the historic work of the office has been invaluable to the agencies and departments of the Commonwealth, the Massachusetts Legislature, individual vendors, and the taxpayers and residents of Massachusetts.

As a partner in the Commonwealth's Single Audit, the work of the OSA has received favorable reviews from KPMG and the U.S. Department of Health and Human Services, Office of the Inspector General. The State Comptroller has recognized for many years the knowledge, expertise, experience and participation of the OSA in the Single Audit. Law enforcement agencies, including the U.S. Attorney, the Commonwealth's Attorney General and District Attorneys' offices have used OSA audit findings to successfully prosecute the theft of public funds, resulting in convictions and the recovery of millions of dollars in public funds. Further, state agencies have concurred with most audit findings and taken corrective actions to improve program performance throughout state government, and the State Legislature has utilized audit

reports as the basis for providing necessary funding for important programs as well as to inform policy deliberations.

The following information addresses some of the specific comments contained in your Letter of Comment:

- With regard to organizational impairments, you correctly noted in your report that state law, MGL Chapter 11, Section 12 requires audits every two years of all state governmental agencies and restricts the consideration of materiality and risks in audit planning. I have already initiated discussions with state lawmakers to seek statutory changes that will allow me to be more flexible in assessing significant risks throughout state government and develop an audit plan to address vulnerable areas.
- Your recommendations regarding staff training are consistent with my own priorities and will be incorporated in the robust performance management and professional development system that we are already incorporating into office operations. Upon my election, I had a transitional planning committee of experts focus on staffing and professional development and subsequently made this area a chief concern. I am confident our new system will not only meet, but exceed the minimum standards that GAGAS requires.

Upon receipt of your draft report, I directed staff to review the specific CPE courses you had reviewed, and I believe that several of these courses do in fact meet the standard that they “directly enhance the auditor’s professional proficiency to perform audits and/or attestation engagements.” For example, some of the training is related to proficiency in computer software, such as Office 2007, Windows 7, and VPN and therefore seems to be CPE credit worthy. On the other hand, I concur with the review team that training relative to sexual harassment and Time Sheet/Travel does not meet the criteria and will not be attributed to required CPE hours going forward.

- Your comments on audit planning are invaluable. I believe the changes we are making to our audit policy manual, along with technological enhancements in TeamMate, will ensure we consistently take appropriate planning steps that are properly documented, as is required by the standards. I did ask my audit operations staff to review the audits that you questioned in connection with GAGAS’ planning requirements, and they found many instances in which documentation of audit planning was contained in audit work papers to support the initial audit objectives and was consistent with the objectives contained in reports, that the evaluation and consideration of internal controls had been completed, that laws and regulations pertaining to programs audited had been reviewed, and an analysis of risk of fraud had been completed. At the same time, I concur with your recommendation that audit policies in the planning phase of audits should be updated and that all steps be appropriately documented, and I have initiated that corrective measure, as outlined in my separate response to your draft Opinion Report.

- I appreciate your comments concerning audit evidence, particularly that in some of the audits that were reviewed, the OSA has not documented in the work papers an overall assessment of the evidence in the audit. A specific audit procedure will be designed to ensure this step is taken and documented in every audit, as required. I do want to emphasize that the office has, in the past, and will continue to require supervisory and managerial reviews of all audit findings to evaluate evidence and determine when it is sufficient, appropriate and provides a reasonable basis for OSA audit findings and conclusions contained in the report. The updates to the audit policy manual and increased training in this area, along with the specific audit procedure, will bolster this review and ensure compliance with the requirements of GAGAS.
- Likewise, your comments regarding audit documentation are helpful. I asked my audit operations management to review the sufficiency of audit documentation in audits that you reviewed and, while on the whole, they agreed that the Office can and should do a better job maintaining documentation, with few exceptions, they were able to find work papers to support all significant findings and conclusions. I believe that corrective measures outlined in my separate response to your draft Opinion Report will provide the framework to help ensure that work papers adequately document the purpose, source, methodology and conclusions, and are maintained in a manner that would enable an experienced auditor having no previous connection with the audit to ascertain that they support the auditor's judgments and conclusions.

Again, I want to thank you for your thorough and candid assesment of the Office of the Massachusetts State Auditor. I look forward to working with you and your colleagues in Auditors' offices across the country as part of the National State Auditors Association.

Sincerely,



Suzanne M. Bump,  
Massachusetts State Auditor