



# **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  
OPINION REPORT**



# 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. A system of quality control encompasses the Office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the Office. Our responsibility is to express an opinion on the design of the system, and the Office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for performance audit engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the Office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the Office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's performance audit engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, because of the deficiencies described below, the system of quality control for performance audits of the Massachusetts Office of the State Auditor in effect for the period July 1, 2009, through December 31, 2010, has not been suitably designed and was not complied with during the period to provide reasonable assurance of conforming with government auditing standards.

### ***Reasons for Adverse Opinion and Recommendations***

**Deficiencies:** Government auditing standards require each organization to establish a system of quality control that is designed to provide the organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. A comprehensive system of quality control is composed of many important aspects, ranging from the design and documentation of the system and its communication to staff in the form of appropriate policy and procedures, to the organization's human resource policy and training practices that ensure staff have the capabilities and knowledge needed to conduct the audits, to its efforts to monitor and report on compliance with the established procedures, both internally and externally through an independent peer review. Our review identified several critical deficiencies in these important aspects of the Office's system of quality control which caused the system to fail to prevent, identify or correct recurring deviations from several audit standards, including:

*Planning:* GAGAS requires auditors to adequately plan and document the planning necessary to achieve the audit objectives. The Office's policy and procedure manual is outdated and does not reflect current standards in many areas. Many of the audits we examined did not address important planning considerations including audit risk and significance, fraud considerations, evaluation of internal controls and controls over information systems.

*Competence:* GAGAS requires an audit organization to implement a process for the recruitment, hiring, continuous development and evaluation of staff to maintain a competent workforce. We found the Office has not established minimum educational requirements for staff, does not provide appropriate training to ensure staff have the knowledge and skills needed to perform the audits, and does not regularly evaluate staff performance to identify skill gaps or continuing education needs.

*Documentation:* GAGAS requires auditors to prepare and maintain audit documentation which should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain that the evidence supports the auditors' significant judgments and conclusions. In many of the audits reviewed, workpapers did not explain source, methodology, or judgments used; document conclusions; cross index supporting workpapers; and/or support the final report.

*Reporting:* GAGAS requires 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. For many of the audits reviewed, the audit objectives were either not specific or the methodology did not adequately describe the work performed to address those objectives. Also, some reports did not include significant information that was important to understanding the findings and none of the reports included an appropriate GAGAS statement.

**Recommendation:** The Massachusetts Office of the State Auditor should develop an appropriate system of quality control addressing the requirements of GAGAS. This should include parameters that ensure the adequacy of system design and documentation, as well as provisions to ensure

adequate communication to staff and effective monitoring of the system by managers and quality assurance personnel. The system of quality control should also address leadership and responsibility for adherence to GAGAS, independence and application of government auditing standards at all levels of the organization; the Office's recruitment, selection, training, and evaluation of its personnel; and its process of initiation, performance, documentation, and reporting of audits. The Office should have an external peer review at least once every three years. It should also ensure that it makes the results of its external peer review (the opinion) publicly available in accordance with GAO 3.61.

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

As is customary in a peer review, we have issued a letter under this date that sets forth comments on these and other issues identified in the review.



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



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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:

This letter serves as a response to the draft Opinion Report related to your recent peer review of the Massachusetts Office of the State Auditor ("OSA"). First, however, let me reiterate my deep appreciation for the professionalism you and the other members of the Peer Review Team demonstrated during your time here in Boston and throughout the entire peer review process.

As you know, I requested this outside review following my election last November, even before taking office in January 2011, to help determine the adequacy of the quality control policies and procedures used by the OSA to comply with Generally Accepted Government Auditing Standards ("GAGAS").

As a condition of your review, we sent in advance of your visit materials that defined OSA audit policies and procedures, staff education and training and responses to specific checklists requested by your team, as well as a list and description of all performance audits conducted during your review period from July 1, 2009 through December 31, 2010. Your team selected 15 audits upon which to base your review. Those audit reports and supportive work papers as well as the staff which conducted the audits were made available to you throughout the process.

The draft report that you shared with me discloses several operational areas that must be strengthened. Your observations and recommendations correspond with and in some cases expand upon suggestions made by a transition committee of CPA's, public and private sector auditors and other industry leaders that I named to help advise me before taking office. The work of this committee, along with the findings of your Peer Review, are valuable tools I plan to use in reforming OSA and bringing our audits and reports in line with our new mission—to serve as a catalyst for real change throughout state government and produce better results for the taxpayers of the Commonwealth.

The measures we are taking in response to your recommendations will ensure the work of the OSA continues to make significant contributions to improving the efficiency and effectiveness of state programs and the financial outlook of the Commonwealth. Audits conducted during the review period, as well as prior reports, have led to hundreds of millions of dollars in cost recoveries and savings, not to mention vast reforms in revenue collection and internal controls throughout state government. Our corrective measures will enhance audit operations and bring OSA into full compliance with applicable Government Auditing Standards as well as raise the level of professionalism and quality in our audits so they can serve as tools to make government work better.

Your draft report outlined four main areas where you found issues and deficiencies within the OSA's quality control system for performance audits: planning, competence, documentation and reporting. The following are corrective measures which we have already taken or will implement in the immediate future, not only to address the comments in the peer review, but also to strengthen the office and equip it to meet the challenges that lie ahead:

- We created a new position, Assistant Deputy Auditor for Audit Operations to oversee Audit Policy and Quality Assurance and ensure all corrective measures are implemented. We recruited a professional from outside state government who is a certified public accountant, certified fraud examiner and is certified in financial forensics. She has ten years of experience with a "big four" accounting firm.
- We are developing a new Audit Manual to include all current policies and procedures required by government auditing standards. We have reviewed audit manuals from other states and are confident our new manual will not only comply with GAGAS, but will be a useful tool in producing the highest quality audit reports possible.
- We are enhancing our technical capabilities, improving the functionality of our TeamMate audit software to track GAGAS and our new audit manual. It will detail audit steps and documentation requirements to ensure auditors comply with government auditing standards. This technical enhancement, along with the new audit manual, address the specific concerns you outlined in our planning, documentation and reporting processes.
- We are strengthening the existing Quality Assurance review function so we will immediately be able to assess progress in implementing our corrective action plan. This will enable us to regularly and uniformly review the quality of audit work and focus on developing audit training based on the results of these reviews.
- We have already initiated steps to raise the professional level of audit staff that began with a formal assessment of their capabilities. We have also revised position descriptions that will include specific educational and professional job requirements. These descriptions form the basis of a new recruitment and hiring process for audit staff and are

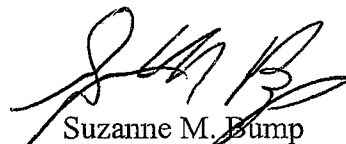
being put into place immediately. These steps will provide us with a broader and more diverse pool of highly competent auditors and ensure OSA is in full compliance with GAGAS.

- Additionally, we are designing a performance evaluation system to regularly evaluate staff performance throughout the entire office.
- We are reviewing the adequacy of our internal training and how we administer continuing professional education requirements. Despite significant budgetary challenges, I have made it a priority to allocate whatever resources we need to provide good, targeted training to all audit staff.
- We are initiating an intensive training program that focuses on government auditing standards in order to address the specific deficiencies you identified in your report.
- And finally, I have requested that Marcia Buchanan from the U.S. Government Accountability Office assist us in implementing our corrective action plan, and she has agreed to work with us.

I concur with your overall observations, and I believe that implementation of the steps that I have outlined above, together with an enhanced focus on compliance with government auditing standards at all levels throughout the office, will address the deficiencies that were raised in your draft report and strengthen the overall audit operation. I will provide a response to some of the specific comments in your Letter of Comment in a separate letter.

Thank you for your thorough and frank assessment of the Office of the Massachusetts State Auditor. Your recommendations have provided us with a roadmap to ensure that, going forward, our audit operation is not only fully compliant with Government Auditing Standards, but also reflects the high level of professionalism and accountability that I have set as a standard for the Office. 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,

A handwritten signature in black ink, appearing to read 'SMB', is written over the printed name.

Suzanne M. Bump  
Massachusetts State Auditor