



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

Making government work better

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2012 Annual Report — Quality Assurance

January 1, 2012 – December 31, 2012



Introduction

The purpose of this report is to document the Office of the State Auditor's ("OSA") quality assurance procedures and results for the 2012 calendar year, as well as focus areas for 2013. Government Auditing Standards (the "Yellow Book" or "GAGAS") require 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.*

2012 Year in Review

The OSA continues to make enormous progress towards achieving Auditor Suzanne Bump's overall vision of becoming a national leader in professional government auditing and an example of accountability, professionalism, efficiency and effectiveness, and transparency. An important component of this vision is to produce quality audits in accordance with Government Auditing Standards; audits that result in effective recommendations provided to state agencies in an effort to make government work better.

During 2011, Auditor Bump's first year in office, entirely new audit policies and procedures were designed and implemented, and one of the main focuses of 2012 was to provide further classroom and on-the-job training on these policies. As the year progressed, policies and forms were refined as necessary to account for challenges encountered by staff. An updated OSA Audit Policy Manual was released in October 2012 to include these new and revised policies. Overall, tremendous progress was made on behalf of the auditors in understanding and implementing the new policies established just over a year ago. Clear improvement was noted throughout the year in the audit workpapers and audit reports, which was a positive sign that the policies were working as intended.

In addition, Auditor Bump has significantly elevated the professional level of audit staff, and this has had a positive impact on the enhanced quality of work. This accomplishment was partly achieved by hiring new staff with specific credentials/degrees and providing adequate resources to support a robust audit training program. This increased commitment in professionalism is evidenced by the fact that there are currently a record number of OSA auditors actively participating in professional organizations. For example:

- In 2012, 18 Audit Operations staff joined the Association of Government Accountants (AGA). Along with the 42 staff that joined in 2011, total OSA membership in AGA was at an all-time high of 87 at the end of 2012. During the period of 2003-2010, new members would typically average between 2-3 per year, with a low of zero in 2003, and a high of 7 in 2010.
- In 2012, 3 OSA staff joined the Association of Certified Fraud Specialists (ACFS), bringing total OSA membership to 23. Prior to 2011, no OSA staff belonged to this organization.

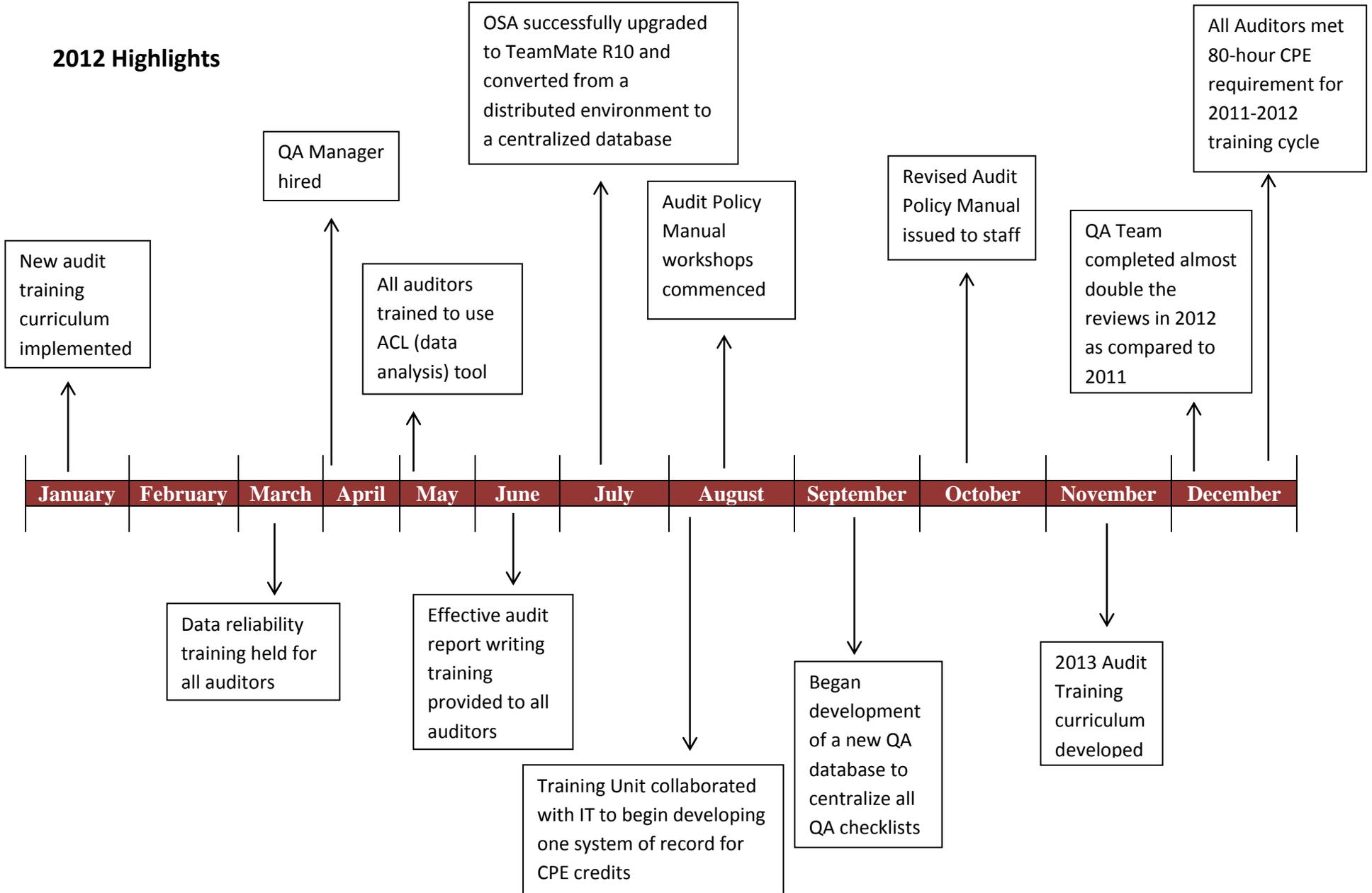
The OSA Quality Assurance Team, Training Unit, and TeamMate support group all play integral roles in helping to ensure audit quality. The above three teams worked collaboratively with OSA auditors in 2012 to raise the bar in audit quality. Following are highlights from the year:

Highlights of 2012:

- Significant increase in the volume of audits reviewed by the Quality Assurance group. Specifically, 20 audits were reviewed in 2012, which was almost double the 12 reviews completed in 2011. This increase can be attributed to additional staffing (QA Manager hired in April 2012) and more reviews completed, given fewer instances of GAGAS non-compliances noted as compared to 2011.
- An important milestone was achieved at the end of 2012, when all OSA auditors met the required 80-hour CPE requirement for the 2011-2012 cycle. To achieve this goal, specific, targeted trainings were offered throughout the year to directly respond to deficiencies noted on quality assurance reviews. For example, training was provided in the following subject areas: information systems/data reliability, audit report writing, audit sampling, internal controls, fraud, data analysis, and management/supervision training.
- As mentioned above, a revised Audit Policy Manual was released to incorporate updates from the December 2011 revision of Government Auditing Standards. In addition, new policies for audit sampling and information systems were added, as well as a new quality assurance checklist. Furthermore, “OSA Guidance” sections were updated throughout the Manual, to include new or revised OSA-specific policies.
- The OSA Training Unit implemented a successful new workshop series that focused on providing further guidance on the Exhibits from the Audit Policy Manual. The Exhibits are essentially the templates that guide auditors in completing the required steps of an audit (e.g. risk assessment, audit strategy, internal controls, etc.). In 2012, the following workshops were held: Internal Controls (Exhibit 13), Audit Sampling (Exhibit 20), and Quality Assurance Checklist (Exhibit 27). Examples of completed Exhibits were distributed at the workshops to provide auditors with a sample of a sufficiently documented form.
- In order to continue to enhance the technical capabilities of the audit electronic workprogram, the OSA successfully upgraded to TeamMate R10 and converted from a distributed environment to a centralized database. A TeamMate Committee composed of OSA Information Technology and Audit Operations personnel was formed to lead this project and ensure a seamless transition. While any major technology conversion is bound to have obstacles, the collaboration between the OSA IT and Audit Operations teams as well as their persistence in tackling issues and solving problems was commendable.
 - Also as part of this effort, a group of six auditors were appointed “TeamMate Advisors” and were tasked with assisting in training the staff and troubleshooting issues at each of the local OSA offices. In addition, an informative training was held for all Audit Operations staff to update everyone on the new TeamMate system.
- A new cutting-edge QA Module was designed to store QA checklists in a centralized database. This application allows us to have real-time information available about all of the various audits being reviewed; furthermore, compliance ratings and results will be easily quantified and comparable year over year. The purpose of computing compliance ratings is to track overall progress in enhancing audit quality, including assessing the effectiveness of OSA audit training courses.
- The development of a sophisticated CPE tracking database is underway. Previously, two systems were used to record training activity and duplication of efforts existed. Going forward, one system of record will be used, and information will be automatically accessed and reported in real time.

The chart on the next page depicts the 2012 highlights described above.

2012 Highlights



Assessment of 2012 Goals

Listed below are goals established at the beginning of 2012 and documented in last year’s 2011 Quality Assurance Annual Report. Following is an assessment of each goal, including actions taken to achieve the task:

Goal	Assessment
Continue to educate auditors on new policies and procedures included in the Audit Policy Manual.	Implementation of OSA internal workshops provided further training on Audit Policy Manual forms.
Identify training and educational opportunities for audit staff regarding performance auditing and efficiency.	An excellent performance auditing training course has been identified and will be scheduled to take place in 2013.
Strengthen the use of information technology within audit work.	A vigorous 3-day training was conducted to gain office-wide proficiency in the use of ACL and embed this data analysis tool in all audit programs.
Increase volume of audits reviewed as part of the Quality Assurance process.	20 audits were reviewed in 2012, as compared to 12 in 2011.
Continue to establish the best means of collaboration possible between QA team and the audit teams.	Surveys are sent to audit teams who participate in QA reviews. Survey results indicate that most teams see the value of the process and appreciate the feedback and immediate learning opportunities.
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.	Draft reports are now carefully reviewed as part of the QA process, many times resulting in changes to the report.
Monitor completion of end-of-audit (“EOA”) evaluations to ensure each individual receives feedback after each audit.	End-of-Audit evaluations are now expected to be completed within 30 days of the end of the employee’s work on the engagement.
Enhance community outreach to obtain and share best practices regarding quality assurance, professional development, training courses, etc.	Several OSA personnel attended professional conferences and networking events offered by organizations such as AGA, NASACT, and MSCPA. In addition, three staff members participated in NSAA peer reviews of other states.
Expand OSA mentoring program to foster teamwork and collaboration.	Previously, all audit new hires were assigned a Mentor; the program has been expanded to include all OSA new hires.
Continue to enhance functionality of TeamMate audit software.	Electronic audit workpaper system has been upgraded to TeamMate R10, and the OSA has moved from a distributed environment to a centralized database.

2012 Quality Assurance Review Results

In 2012, the OSA Quality Assurance team reviewed 20 audits covering all OSA audit units (i.e., Authorities, Judiciary, State, Housing, Contract, and Medicaid). For each audit reviewed, the 96-question QA Checklist was completed after a detailed review of the TeamMate file and draft audit report was performed. Each question on the checklist was answered “Yes” or “No” based on an initial assessment of whether the task was completed in accordance with Government Auditing Standards. Upon completion of the checklist, a compliance rating was computed for the audit, based on the number of compliant and non-compliant items. The QA Specialist then worked with the audit team to resolve any non-compliant items, before the audit report was issued.

For the 20 audits reviewed in 2012, the overall compliance rating was 89%, meaning that on average, 11% of questions/tasks on the checklist resulted in further changes to the audit file and/or audit report in order to issue an audit report that complied with GAGAS. The most common deficiencies (defined as non-compliant checklist items appearing in 5 or more of the 20 audits) were as follows:

- 1) Signed independence form(s) were missing from the TeamMate file.
- 2) The audit plan (otherwise known as the Overall Audit Strategy – Exhibit 10) included audit objectives that differed from the objectives included in the audit report, with no explanation for the difference in the TeamMate file.
- 3) The audit team’s assessment of audit risk and significance did not reflect consideration of information systems (general and application controls) within the context of the audit objectives.
- 4) Elements of a finding were not appropriately developed.
- 5) Lack of evidence of supervisory review—before the audit report entered into the final stage of report processing—of the work performed that supported the findings, conclusions, and recommendations contained in the audit report.
- 6) Audit workpapers (e.g. spreadsheets, hard-copy documents) were not sufficiently cross-indexed to the Draft and Final Reports, as well as other supporting work papers.

For items 1, 5, and 6 above, auditors are now aware of these common deficiencies and improvement has already been noted in these areas in the 2013 reviews. For items 3 and 4 above, training was developed and presented to respond to these deficiencies. Specifically, information systems (data reliability) training was held for all auditors, as well as audit writing training, which specifically focused on documenting all elements of a finding. To address item 2 above, a new process for setting audit objectives is being rolled out in 2013. The Audit Director and his or her team will now develop audit objectives, scope, and methodology for each audit, which is expected to not only provide more accountability to the team, but also minimize the inconsistencies in documentation noted in 2012.

Several enhancements were made to the Quality Assurance process in 2012 to make the reviews more efficient and the outcomes more effective. Specifically:

- 1) The OSA QA Checklist was realigned so that it is now more compatible to the evaluating criteria of the NSAA external peer review. In addition, the QA team is in the process of assigning weights to each of the questions on the QA checklist, as non-compliance with

some required tasks is perceived as more severe than non-compliance with others. For example, a missing independence form is seen as less of an issue as compared to not completing required work on internal controls. These weighting assignments will eventually result in more meaningful QA compliance ratings.

- 2) A new program was launched to provide opportunities for auditors to complete a short, 2-3 month rotation as a member of the QA group to assist with reviewing audits. The goals of this program are as follows: (a) further enhance auditors' knowledge with respect to Government Auditing Standards; (b) increase volume and speed of audits reviewed by the QA team; and (c) enhance auditors' understanding of the role of the OSA Quality Assurance unit.
- 3) In addition, the QA team has implemented a tracking system to record the time spent on each phase of each QA review. The entire QA review is broken down into five phases, as follows:
 - Phase I – QA Specialist receives assignment and speaks with Audit Manager and team regarding any nuances in the audit, followed by an initial review conducted by the QA Specialist and reviewed by QA Manager;
 - Phase II – QA team meets with Audit Manager and Auditor-in-Charge to discuss results of the review and determine a timeframe for the audit team to complete the necessary adjustments to the audit work;
 - Phase III – Audit team works on fixing any non-compliant areas;
 - Phase IV - QA Specialist verifies changes made by audit team; and
 - Phase V – QA Manager signs off and review is sent to audit team for incorporation into TeamMate.

This time tracking process is expected to help the QA team understand which phase takes the longest so that delays can be anticipated ahead of time, and measures implemented to speed up the process. Because this process began at the end of 2012, no results are reportable just yet. In addition to this tracking process, each QA review is now assigned a unique audit number, and the QA team allocates time among these audit numbers, as recorded on team members' timesheets.

Overall, the three changes highlighted above (in addition to the new QA centralized database described in the Highlights section above) are expected to further improve the efficiency and effectiveness of the QA process, as the OSA continues to strive to become a quality leader in government auditing.

Looking Forward – 2013 Goals

The OSA Quality Assurance team has set an ambitious goal to review every audit prior to release in 2013. This goal was set to help achieve the overarching objective Auditor Bump has set for the Audit Operations Unit: to produce audits that fully comply with GAGAS. These quality reviews of every audit will help ensure that GAGAS and OSA-specific policies have been successfully and consistently implemented across audits.

In addition, the following 2013 areas of focus have been identified by the Quality Assurance team, Training Unit, and TeamMate support group:

- Increase volume and speed of audits reviewed by the Quality Assurance team. In order to help achieve this, an additional QA Specialist will be hired.
- Successfully implement the robust 2013 training curriculum, which was designed to target specific focus areas noted in QA reviews, employee evaluations, and training ideas provided by staff.
- Design an OSA professional development policy to provide guidance to audit staff on ways to enhance career development, such as the attainment of relevant professional certifications and membership in various professional organizations.
- Utilize the new TeamMate 360 Reporting feature—a tool that creates custom reports based on TeamMate project data (e.g. audit findings)—to facilitate the report writing process.
- Continue to increase the use of data analytics on audits by (a) convening an internal team of proficient ACL users for the purpose of providing ACL support to audit staff, (b) developing an OSA ACL protocol document, and (c) preparing and recording “How-to” videos on specific ACL matters.
- Enhance Audit Policy Manual Exhibits to be more user-friendly and applicable to OSA auditees, as well as update OSA-specific policies as necessary.
- Continue the successful OSA Training Workshop series to train staff on audit areas noted for improvement in QA reviews.
- Design specific Yellow Book compliance questions to appear on end-of-audit evaluations for audit staff to formalize feedback from QA reviews.
- Implement the newly designed OSA Model Audit Report, which will provide a solid example of preferred language, formatting, style, etc. to use on OSA audit reports going forward.

Conclusion

In summary, the overall theme of “progress” was evident throughout 2012, as the OSA continues on a clear path towards emerging as a leader in audit quality. While there is still much work to do, it is evident that the enhancements made to the audit process are having a positive, meaningful impact on audit quality. It is an exciting time for the Massachusetts State Auditor’s Office, as we reflect on the impressive accomplishments of Auditor Bump’s first two years of office; set high standards for the present and future; and continue to produce quality, effective audits to make government work better.