

Innovative Approach to Audit Issues

The Cooperative Audit Resolution and Oversight Initiative

By Richard Rasa

New ideas are conceived by looking at things from a different and unconventional perspective. Such was the case when the U.S. Department of Education Office of Inspector General worked with ED to create the Cooperative Audit Resolution and Oversight Initiative. CAROI began with the realization that programs improve when federal, state, and local education officials work together across perspectives (audit, program, fiscal, legal, and information technology) to resolve issues identified through audits. It is a collaborative method that provides alternative and creative approaches to resolve audit findings and their underlying causes. It focuses on communication and on developing a sense of trust among government officials. CAROI helps to identify the underlying cause of findings and empowers the people who know programs best to chart a course for program improvement.

As evidenced by the Association of Government Accountants' recent sponsorship of a project and resulting guide on implementing the initiative, CAROI is a concrete tool that can be used by any government agency in its efforts to address programmatic and fiscal challenges, and improve operations. It is a resource for the auditing and IG community, as it helps ensure that oversight, whether it comes from audits, monitoring, or technical assistance activities, inform managers of critical issues that need to be corrected or improved to ensure program performance and accountability.

CAROI – A DIFFERENT APPROACH

In 1995, ED officials reviewed audit resolution practices. The review disclosed that audits with questioned costs were often subject to lengthy legal battles that in many instances produced insignificant monetary recoveries, but developed significant ill will. Additionally, the review identified numerous

instances in which the causes of the findings did not receive permanent corrective action and, consequently, subsequent audit reports identified the same findings and problems. With these recurring conditions, programs suffered and as such, so did the most important of our clients including students and taxpayers.

ED needed a new approach to audit resolution – one that moved away from an adversarial resolution process that was not helping people fix the problems, to a process where people worked together to find the right solutions. Through a collaborative effort by ED OIG, and state and local partners, CAROI was created.

The four original goals of CAROI were to: 1) create and maintain a dialogue with states; 2) resolve audits cooperatively; 3) improve the single audit; and 4) coordinate audit, monitoring, and technical assistance activities.

These goals led to the six CAROI principles: 1) improve audit resolution; 2) improve communication; 3) foster collaboration; 4) promote trust; 5) develop understanding; and 6) enhance performance.

CAROI was put to the test in Florida, Mississippi, Pennsylvania, and Washington. Meetings were held with relevant state officials to discuss strategies to improve audit resolution where they outlined specific target areas for resolution, the plan for resolution, and the responsibilities each federal and state partner would take on to reach those targets. The most ambitious CAROI project began in Pennsylvania in the summer of 1997. The state was facing a backlog of 119 single-audit findings – some dating back to 1990. As the traditional methods of reaching agreements and addressing problems were failing, the parties involved decided to give CAROI a try. An aggressive 6-month timetable was established to resolve all 119 findings by the target date of

February 27, 1998. All 119 findings were resolved within six months of the start date. CAROI was a success. “The CAROI process represents a giant step forward in audit resolution,” stated Harvey Eckert, deputy secretary for comptroller operations for the Commonwealth of Pennsylvania. “CAROI teams are now in position to address and resolve future issues as soon as they are discovered or reported.”

Nevertheless, ED’s CAROI process did not stop with audit resolution: it also tackled oversight, including coordinating audits, program monitoring, technical assistance, data collection, and review activities. CAROI team members were then actively involved in the department’s production of guidance related to specific programs authorized under the *Elementary and Secondary Education Act of 1965*, as amended, and the Office of Management and Budget’s A-133 compliance supplement.¹ This included incorporating all perspectives into the drafting of the compliance supplement and making the it more accessible to everyone. As a result of its success in audit resolution and program oversight, Congress authorized the expenditure of funds to implement the CAROI process when it reauthorized the ESEA in 2001.

BEYOND EDUCATION PROGRAMS – CAROI HAS BROAD APPLICABILITY

When utilized, CAROI has led to better decisions about grant and program management and oversight, and more effective strategies for monitoring, corrective action and the identification of appropriate technical assistance at ED. CAROI is not limited to education programs and operations, as it is built on the belief that government programs improve when officials from all levels work together to resolve issues identified through audits using coordinated, data-driven oversight practices, thus it can be used by any government agency in its efforts to address programmatic and fiscal challenges.

Designed to avoid costly litigation, lengthy adversarial discussion and nonproductive impasses, as well as to make permanent corrective action the norm, the CAROI process maximizes dialogue among federal, state, and local levels; promotes creativity and innovation in identifying solutions to problems; fosters continuous improvement of the audit process; improves the efficiency and effectiveness of all oversight activities; and minimizes

stereotypical, traditional, and bureaucratic methods of audit resolution. For all government entities, CAROI offers:

- **Applicability:** CAROI can be used by federal, state, and local government agencies and can address compliance issues identified by a variety of oversight and monitoring mechanisms, including a wide range of internal and external monitoring processes, audits and management letters.
- **Flexibility:** CAROI can be tailored to address a variety of findings, regardless of whether the findings cover many agencies or just one program.
- **Saves Money, Time, and Resources:** CAROI helps to avoid costly, lengthy, and adversarial litigation by identifying and addressing the root causes of the audit findings. It can save audit and oversight costs by breaking the repeating cycles of unresolved audit findings. Investments in CAROI result in lower future costs and recurring benefits by identifying the root causes of findings and by developing mutually agreeable solutions.
- **Open Environment:** CAROI relies on impartiality by operating in a non-threatening, open environment of cooperation.
- **Accountability:** CAROI requires that all parties commit to a consensus solution with clearly understood roles and responsibilities. The CAROI agreement thereby establishes accountability for all parties through one common corrective action plan.

CAROI CAN HELP ADDRESS TODAY’S CHALLENGES

CAROI can contribute to the success of today’s most visible initiatives. This includes the identification of significant deficiencies and material weaknesses in internal controls in the expenditure of American Recovery and Reinvestment Act funds; the requirement to implement the principles of transparency, participation, and collaboration under the president’s open government directive; and the recent executive order to reduce erroneous payments. Given its consultative, collaborative nature, CAROI can be applied to a wide variety of management issues. As such, the CAROI concept is expanding and being applied to many different facets of government accountability:

¹) P.L. 89-10, 20 U.S.C. Ch 70

- In 2010, under the auspices of the AGA, the Intergovernmental Partnership Project on CAROI was formed to draw upon the success of ED's CAROI process. It took a fresh look at how the CAROI process should be considered and implemented across the federal as well as state and local government settings. Under the leadership of state and federal co-chairs, and volunteers from the federal, state and local governments, the project team looked to develop a guide that would expand and improve the audit resolution process, and demonstrate how oversight can add definite value in ensuring that Recovery Act and other programs are carried out in the most efficient and effective manner. This resulted in a CAROI guide, published by the AGA in May 2010, which sets forth clear and concise information designed to assist all levels of government in using the CAROI process. It contains information regarding the applicability of CAROI, the structure and content of CAROI agreements, CAROI tools and resources, and challenges to using CAROI. One of the most important additions to the CAROI process in the AGA guide is a section on the role of the independent auditor that addresses how auditors can and should participate in the CAROI process without sacrificing their independence. It explains that the CAROI process is applied to efficiently and effectively address compliance issues identified by oversight and monitoring mechanisms, especially independent audits. When the independent auditor is knowledgeable about the noncompliance issues and has significant insight into the causes and potential solutions for the issue, the auditor can be an especially valuable resource to management in the audit resolution process. However, when participating in a CAROI process, the AGA guide cautions that the auditor must not participate in making the decision, which is a management function. The guide has since been used by the National Science Foundation to rethink their audit resolution process.
- In 2011, as part of implementing the presidential memorandum on administrative flexibility for state, local, and tribal governments, CAROI was put forward as a recommendation to reduce the burden associated with administering federal programs. An intergovernmental workgroup

coordinated through OMB developed four recommendations under the CAROI concept. They include 1) use the CAROI principles to improve program performance; 2) issue a broad policy statement to federal agency heads and governors that implementing the CAROI principles can drive change and improve program performance; 3) improve the collection, analysis, and dissemination of audit and oversight findings; and 4) pilot test revisions to the Single audit compliance supplement to test only the requirements that are critical to program success and integrity.

MAKING CAROI YOUR OWN

One of the major strengths of the CAROI process is its flexibility. CAROI will “look” different from organization to organization, and sometimes from one activity to another within the same organization, depending on the need and the circumstances of the issues involved. The common elements are commitment to the process and a willingness to explore alternative, yet collaborative solutions to persistent problems.

Once an organization has embraced the concept of CAROI, the organization – whether a federal, state or local agency, can craft a format and a process that works within the confines of their organizational structure and meets their unique needs. The OIG website and the AGA guide include information to help organizations get started with the process along with tools and guidance for implementation. The AGA guide also includes answers to frequently asked questions regarding initiating and participating in the process, an implementation checklist that provides general guidance on when it might be appropriate to use CAROI, and information on creating CAROI agreements. Below is a summary of that information.

FREQUENTLY ASKED QUESTIONS

How is the CAROI process initiated?

Answer: Anyone who wants to initiate the CAROI process should contact those who are likely to be instrumental in reaching a resolution on a specific issue. If federal funds are involved, it is important to involve the federal grantor agency, even if the matter(s) to be resolved is between a state and a local government.

Who should lead the CAROI team?

Answer: The CAROI team determines the scope of the CAROI project and develops the resolution agreement. The person initiating the process may assume the role of the CAROI team lead, or someone else may assume the lead. Leadership will vary with each team and is subject to the issues under review, the personalities involved, and the organizational climate and structure of the participating organizations.

What are some specific steps involved in implementing the CAROI process?

Answer:

1. Establish the CAROI team – identify who will be on the CAROI team, what their roles and responsibilities will be, and who will sign the CAROI resolution agreement.
2. Hold regularly scheduled meetings or conference calls.
3. Conduct analyses of audit and monitoring issues – clarify which issues the CAROI team will address.
4. Develop a means of staying in contact with team members.
5. Formalize CAROI scope agreements including the scope of the project; who is involved; statement as to why CAROI would be useful; identification of documentation that will be reviewed; ground rules for negotiation among CAROI team members;

potential for recovery of funds (questioned costs); identification of the need for work groups that may examine specific findings or issues, and if so, parameters of work group meetings; timelines for reporting negotiated results; and signatures of CAROI team members.

IMPLEMENTATION CHECKLIST

- Is someone willing to initiate the CAROI process and stay actively engaged with the process through its conclusion?
- Does the “climate” or “atmosphere” in the organization lend itself to the use of CAROI?
- Is it possible to get the support and involvement of the appropriate offices within your agency (program, legal, fiscal, audit, etc.)?

CAROI team members should then be identified and the team should convene to discuss its vision of how CAROI would work, identify the organizational goals, and begin to structure the framework for future activities.

When all of the essential elements of a CAROI process have been identified, the process can be easily adapted to any oversight function that the organization employs to manage its grants process. It is crucial to define and agree on the roles of those on the CAROI team. Although certain components of a CAROI agreement may be standard, as described below, each agreement will be unique to the organization and issue(s) involved.

ELEMENTS OF CAROI AGREEMENTS

SCOPE AGREEMENT	RESOLUTION AGREEMENT
<ul style="list-style-type: none"> • Issues to be resolved. A matrix can help the reader understand the issues and timing when there is more than one issue to resolve, and can also serve as the working document for future discussion or negotiation. • Parties to be involved and their roles/responsibilities during the process. • Identification of documentation for review. • Ground rules for negotiation. • Potential for recovery of funds (questioned costs). • Identification of the need for work groups, and if so, parameters of work group meetings. • Timelines for reporting negotiated results. • Statement as to why CAROI would be useful. 	<ul style="list-style-type: none"> • Approval of corrective action plans. • Recovery of funds and repayment options/methods. • Consequences of noncompliance with the agreement. • Option to revise agreement upon mutual agreement. • Personnel to be involved in the resolution process. • Signatures/dates of each party to the agreement. • Identify measurements for accountability, including timelines for the implementation of corrective actions. • Post-agreement follow up and a plan for evaluating the CAROI process. Determination of a process for monitoring grantee for specific issues, and provision for targeted technical assistance, as appropriate.

CAROI AGREEMENTS

CAROI agreements are essential. There are two types of CAROI agreements. The first type, known as the “scope” agreement, is a blueprint for the resolution of compliance issues, and a commitment on the part of all participants. It establishes the issues to be resolved, the timeline, the ground rules for negotiation, the parties involved and their roles throughout the process. Without a scope agreement, CAROI teams will lack firm direction and purpose, can take longer than necessary with no definable and lasting results, and risk that the process will not produce its intended objectives.

The second type of agreement is the “resolution” agreement, which addresses how oversight findings will be resolved. Resolution agreements are likely to list specific corrective actions that will be implemented, state whether funds will be recovered, state how follow up will occur, detail how accountability is going to be measured, and list which personnel are going to be involved in the process.

The CAROI resolution agreement can be developed to address one or more issues in an audit, monitoring report, or other oversight report. Like the scope agreement, it is a commitment on the part of all parties to implement the resolution plan in good faith. CAROI agreements are developed to be specific to the situation(s) presented by the participating parties. Depending on the complexity of the issue(s), each type of agreement can be one to several pages in length. The table on page 23 lists elements that can be included in each type of agreement, regardless of the complexity or the number of issues:

More details about CAROI agreements as well as templates for both Scope and Resolution Agreements can be found in the AGA guide, now available on the AGA website at: www.agacgfm.org/intergovernmental/downloads/CAROI.pdf 

TO LEARN MORE ABOUT CAROI

A distinct alternative to the traditional audit resolution processes, CAROI is an example of a highly effective and successful collaboration among the federal, state, and local participants who set about to improve the audit resolution process with innovation and successful implementation. To find out more about how your agency can incorporate CAROI into your audit resolution and oversight activities, visit the OIG or AGA websites today.

OIG – www.ed.gov/office/oig

AGA – www.agacgfm.org



Richard Rasa

Rich Rasa has been with ED OIG for more than 29 years, starting as an auditor and becoming the director of the ED OIG State and local advisory and assistance staff since 1991. Mr. Rasa led the effort to create CAROI, and he and his staff have participated in the initiative since its inception in 1994. Prior to coming to ED, Mr. Rasa was an auditor and an inspector for the U.S. Department of Agriculture, Office of Inspector General, foreign operations staff and conducted audits and inspections of U.S. Agriculture programs primarily overseas. Prior to his tenure at USDA, he was an accountant for the Bechtel Power Corporation.

Mr. Rasa is a certified government financial manager. He is the past president of the Institute of Internal Auditors, District of Columbia Chapter and held various positions in the chapter, including vice president for professional development and membership. Mr. Rasa was awarded the National Association of Federal Education Program Administrators Distinguished Service Award in 2006 for his work with state and local education programs. Previous award recipients have been Members of Congress, a secretary of education, and title I directors. Mr. Rasa has participated as a member of the steering committee for the Association of Government Accountant's Partnership for Intergovernmental Management and Accountability since its inception in 2007. In 2010, Mr. Rasa was awarded the President's Award from the Association of Government Accountants for his work on the intergovernmental partnership.