



*Guide to
Improving
Program
Performance and
Accountability
Through
Cooperative
Audit Resolution
and Oversight*

May 2010

Dedication



**This guide is dedicated to
Hugh M. Monaghan Jr.
1950 – 2010**

Hugh M. Monaghan was a mentor, friend and inspiration to many who worked on this guide. He began his federal career in 1971 and served as director of Non-Federal Audits at the U.S. Department of Education for 10 years. Hugh Monaghan approached his job and his relationships with an open, collaborative spirit that is the foundation of this guide.

HIGHLIGHTS

About this Report

The Cooperative Audit Resolution and Oversight Initiative (CAROI) provides today's government officials with a concrete tool to improve programs and to deal with fiscal and programmatic challenges. As an innovative process developed by U.S. Department of Education officials in the mid-1990s, CAROI plays a pivotal role in preventing and resolving audit findings and oversight issues. A special intergovernmental work group created by the Association of Government Accountants is pleased to release an updated CAROI guide that expands the process to make it applicable to all federal and state agencies and programs, and to incorporate information on monitoring, technical assistance and other oversight functions.

The CAROI Difference

CAROI differs from traditional resolution processes. It focuses on improving communication and on developing a sense of trust among government officials, rather than depending on an impersonal letter-writing process. It helps identify the underlying cause of findings and empowers the people who know programs best to chart a course for program improvement.

The CAROI process can be implemented during any phase of the grants cycle and can be initiated by officials at any level of government. It includes government officials from many disciplines, including program officials, financial managers, legal staff and other officials who are knowledgeable about a specific program. These officials develop a written agreement that serves as a blueprint for the resolution of compliance issues. In the CAROI process, the independent auditor will most often be asked to provide advice to management for the audit resolution process.

CAROI's Broad Applicability Today

CAROI has broad applicability and can address compliance issues identified by a variety of oversight and monitoring mechanisms, including internal and external monitoring processes, audits and management letters. The process is flexible enough to meet broad agency needs, as well as specific, programmatic needs and it is impartial and structured so that no level of government has an inherent advantage over other levels of government in reaching mutually agreeable solutions. Finally, CAROI can contribute to the success of today's most visible initiatives, including monitoring implementation of the American Recovery and Reinvestment Act of 2009 (ARRA), promoting "open government" and curbing improper payments.

See *Appendices 1–4* for tools that will assist in implementing CAROI. For information: Visit AGA's website at www.agacgfm.org or contact Helena Sims at hsims@agacgfm.org.

Introduction

The Cooperative Audit Resolution and Oversight Initiative (CAROI) provides today's government officials with a concrete tool to improve programs and address fiscal and programmatic challenges. As an innovative process, first developed by U.S. Department of Education (ED) officials in the mid-1990s, CAROI can play a pivotal role in preventing and resolving audit findings and oversight issues. It can also contribute to the success of some of government's most significant initiatives. For example, it can help monitor spending under the American Recovery and Reinvestment Act of 2009 (ARRA), promote "open government" and help reduce improper payments.

With traditional, paper-driven processes, audits with questioned costs are often subject to lengthy legal battles that can result in negative outcomes while yielding insignificant monetary recoveries. In addition, the causes of the audit findings are frequently not subject to corrective action. As a result, subsequent audit reports repeatedly identify the same issues. Programs suffer when findings are not resolved.

CAROI is a tool for achieving: 1) alternative and creative approaches to resolving oversight findings¹ and their underlying causes and 2) greater success in attaining program goals at all levels of government through the constructive use of monitoring and technical assistance (i.e., oversight activities).

As background for this guide, AGA staff conducted an interview in February 2010 with retired Pennsylvania Comptroller Harvey C. Eckert. He was Pennsylvania's Comptroller when the CAROI process was used in the late 1990s to resolve over 100 prior single audit findings. Eckert said that the CAROI process represented a giant step forward in audit resolution and that it was one of the most productive and satisfying experiences in his 25 years as a state government official.

"As the Comptroller for Pennsylvania, I was directly involved with establishing the CAROI process in the Commonwealth. It was one of the most productive and satisfying experiences in my 25 years as a state government official. The establishment of this process provided a solid foundation for effective and successful future collaboration among all levels of government." —Harvey C. Eckert, Retired Comptroller, Commonwealth of Pennsylvania, (Statement made on Feb. 1, 2010)

Purpose of This Guide

This guide is intended to assist all levels of government improve programs by collaborating on audit resolution and other oversight activities. It provides guidance for an innovative approach to resolving oversight findings, a mechanism for using CAROI to prevent recurring audit findings, and strategies for coordinating audit resolution, monitoring and the application of more effective technical assistance. In addition, tools for implementing the CAROI process appear in *Appendices 1–4*.

The “CAR” in CAROI

The CAROI process is built on the belief that government programs improve when officials from all levels of government work together to resolve issues identified through audits using coordinated, data-driven oversight practices. The Cooperative Audit Resolution (CAR) process was developed as a way to address long-standing audit issues relating to implementation of the Improving America’s Schools Act of 1994 (IASA), which reauthorized the Elementary and Secondary Education Act (ESEA). In the mid-1990s, key individuals responsible for various aspects of audit resolution convened to discuss an alternative to the traditional audit resolution process. Involved in these discussions were representatives from the U.S. Department of Education’s (ED’s) offices of the inspector general, the general counsel, the chief financial officer and program staff.

At the inception of CAROI, federal education officials identified several states with serious, recurring audit issues and conducted meetings with relevant state officials to discuss strategies to improve audit resolution. Planning meetings were conducted for each state before a “CAROI agreement” was established and signed by all participants. The agreement outlined specific target areas for resolution, the plan for resolution, and the responsibilities of each federal and state partner. CAROI produced a positive outcome for participating states, primarily due to the development and use of appropriate corrective actions. Through CAROI, long-standing and recurring problems were resolved.

As a result of CAROI’s prior success in resolving audits, Congress authorized the expenditure of funds to implement the process when it reauthorized the Elementary and Secondary Education Act (the No Child Left Behind Act of 2001).

Under Section 9201, Consolidation of State Administrative Funds for Elementary and Secondary Education Programs, a state educational agency may also use funds available under this section for administrative activities designed to enhance the effective and coordinated use of funds under programs included in the consolidation under subsection (a), such as ... (H) implementation of the Cooperative Audit Resolution and Oversight Initiative of the Department. —Elementary and Secondary Education Act of 2001

Although CAROI cannot be used in instances where audit findings stem from fraud, the process is a valuable tool for identifying the root causes of audit findings and appropriate corrective actions. If audit findings indicate that a criminal or civil violation of laws pertaining to fraud has occurred, the matter should be referred to the relevant federal, state or local legal office. For ARRA funds, such a referral is required by the OMB guidance issued on Dec. 18, 2009 (M-10-08). The guidance states that “If the non-compliance appears to be fraudulent, federal departments and agencies are to refer the matter to their office of inspector general.”

The “OI” in CAROI

The “OI” component of CAROI encompasses all aspects of agency oversight of grant programs, including audits, program monitoring, technical assistance, data collection and review activities.

The most critical aspect of CAROI is the coordination of the review and analysis of data across audits, monitoring tools and performance reporting. The CAROI process brings together the relevant parties responsible for every facet of a grant, including program, fiscal, legal and audit staff. This coordination enables a comprehensive analysis and provides an opportunity to apply more thoughtful, reasoned solutions to compliance issues that address core, or root issues. Such collaboration will result in better decisions about grant management and oversight, and more effective strategies for monitoring, corrective action and the identification of appropriate technical assistance.

The success of a CAROI team’s efforts will largely be measured by improved program performance, “clean” audits and oversight reports, and minimal, if any, repeat oversight findings

AGA’s Work Group

After a period of relative dormancy in the early to mid-2000s, federal and state agency officials familiar with CAROI began advocating it as a tool equal to the challenges faced by today’s fiscal and program officials. In the summer of 2009, AGA convened a Cooperative Audit Resolution Work Group composed of federal and state officials with responsibility for audits, monitoring and overall compliance with ARRA implementation. The work group expanded the original CAROI guide developed by ED. The group worked to ensure that CAROI is applicable to all federal and state agencies and programs, and incorporated information on monitoring, technical assistance and other oversight functions into the guide. The group also developed tools to assist with the implementation of CAROI (see *Appendices 1-4*).

CAROI’s Relevancy to Current Projects

In the mid-1990s, CAROI employed the principles of communication and collaboration that are fundamental to the success of current major initiatives. Current initiatives that are most likely to benefit from the CAROI process include: the identification of significant deficiencies and material weaknesses in internal controls in the expenditure of ARRA 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.

Controls for ARRA Funds

The CAROI process can help address recommendations recently made in GAO reports on ARRA implementation. In reports issued in 2009, GAO recommended that OMB adjust the current Single Audit process to, among other things, provide for review of internal controls before significant expenditures occurred.² In response to GAO’s recommendation,

OMB has developed a Single Audit Internal Control Project. One of the project's goals is to encourage auditors to identify and communicate significant deficiencies and material weaknesses in internal control over compliance for selected major Recovery Act programs in six months, rather than the nine-month time frame currently allowed under statute. If effective, the project should allow auditee program management to expedite corrective action and mitigate the risk of improper Recovery Act expenditures. In the mid-1990s, the CAROI process was a forerunner to this type of communication by engaging individuals from a variety of government disciplines, including program management and auditors, to expedite corrective action and to mitigate future risks.

Open Government Directive

CAROI is a natural fit with the aims of the Open Government Directive issued by the director of the Office of Management and Budget on Dec. 8, 2009. The directive requires federal agencies to take specific actions to implement the principles of transparency, participation and collaboration set forth in the President's Memorandum on Transparency and Open Government, which was issued on Jan. 21, 2009.

The Open Government Directive and CAROI both stress the importance of using innovative methods to increase collaboration. In addition, they both call for the involvement of various disciplines to reach agreement among the various levels of government. The directive states, "Achieving a more open government will require the various professional disciplines within the government—such as policy, legal, procurement, finance and technology operations—to work together to define and to develop open government solutions. Integration of various disciplines facilitates organization-wide and lasting change in the way that government works."

"Agency Open Government Plans should explain in detail how your agency will improve collaboration, including steps the agency will take to revise its current practices to further cooperation with other federal and non-federal governmental agencies, the public, and non-profit and private entities in fulfilling the agency's core mission activities." —OMB's Open Government Directive, M-10-06, Dec. 8, 2009

OMB's Guidance on implementing the Open Government Directive requires agencies to identify previously unavailable data sets of greatest interest to the American public. Federal agencies are also required to develop internal control frameworks to guarantee the accuracy and consistency of data that they report. These initiatives are consistent with CAROI principles. As agencies make data available on the Internet, they are finding that the public wants greater detail and demands a higher degree of transparency than data published previously. Also, publicly posted data tends to cross many internal disciplines (programmatic, accounting, budgetary, performance, regional, etc.). The processes used by CAROI mirror the issues that federal agencies are encountering in implementing the Recovery Act and the Open Government Directive. Relevant CAROI processes

include: bringing together all key players from across entities and disciplines; addressing root causes; identifying best practices; and implementing follow-up monitoring.

Reducing Erroneous Payments

On Nov. 23, 2009 the president issued an Executive Order titled "Reducing Improper Payments and Eliminating Waste in Federal Programs." The objective of the Executive Order is to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud and abuse in the major programs administered by the federal government. Because erroneous payments are a frequent topic of audit findings, the Executive Order is relevant to CAROI. During an audio conference sponsored by AGA on January 28, 2010, Danny Werfel, controller of the Office of Management and Budget, said that program improvement is a fundamental reason to address erroneous payments. Error reduction is just one of the puzzle pieces for improving programs.

"In implementing the Executive Order, we are working to develop a partnership with program managers. We are working together to develop an understanding of the root causes of problems and eliminate them." —Danny Werfel, controller, Office of Management and Budget, During AGA's Jan. 28, 2010 Audio Conference

Emerging implementation guidance supporting the Executive Order further reinforces its synergy with CAROI. Chief financial officers within federal agencies, who are generally charged with identifying, reducing and recouping improper payments, are asked to hone their tools for reducing improper payments. Specific Executive Order requirements are to:

- Work more closely with state governments to reduce and report improper payments for federally funded, state-administered programs;
- Reach out to program officials to implement more pre-payment internal controls;
- Consider improper payment information from more sources including the general public; and
- Identify entities that are receiving large improper payments.

As with CAROI, the ability to bring together disparate players, address root causes, and coordinate corrective actions and monitoring are crucial.

Why Undertake CAROI?

CAROI was initially designed to help government officials develop alternative and creative approaches to resolving audit findings and their underlying causes. The process is expanded in this guide to help achieve greater success in attaining program goals at all levels of government—not just through audit—but also through better use of monitoring, technical assistance and other oversight activities.

Improving program results through appropriate cooperative audit resolution and oversight processes, as outlined in this guide, will result in:

- Maximizing dialogue and cooperation among federal, state and local officials;
- Addressing the root causes of audit findings;
- Fostering continuous improvement in program compliance, auditing, monitoring and technical assistance processes;
- Decreasing the need for lengthy litigation; and
- Increasing efficiency and cost savings.

The Advantages of CAROI

CAROI is a practical approach to problem-solving that can be used in many circumstances. The advantages of CAROI include:

Broad Applicability

The CAROI process 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.

Cost Savings

By avoiding costly and time-consuming litigation, by identifying and addressing the root causes of audit findings and by determining how programs can improve, CAROI is ultimately more cost effective than a traditional paper-driven, letter-writing resolution process. Agencies weighing whether to initiate CAROI should consider that, even if the agency has to “front load” its initial involvement, CAROI will result in a cost savings once the needed structure is in place. Since the ultimate goal of CAROI is the resolution of persistent (repeat) compliance issues, the need for costly and time-consuming recoveries of grant funds will be dramatically reduced. Further, CAROI’s collaborative approach will lead to lasting solutions, and productive working relationships, thereby avoiding prolonged disputes over proposed actions and sanctions and costly legal engagements.

The CAROI process was undertaken between ED and the commonwealth of Pennsylvania in 1997 and completed in 1998. From the standpoint of the commonwealth, the process, “...saved an enormous amount of legal costs for issues that were already in litigation.”³

Flexibility

CAROI can be tailored to address a variety of findings, whether the findings span many agencies or are localized in one program. As described in detail below, it can be used throughout the life cycle of a federal grant. CAROI can also be applied across various grantee relationships. Each organization can customize CAROI to meet broad agency needs, as well as specific, programmatic needs. Finally, the process may be initiated by anyone involved in the grants process. For example, a subrecipient may make a request of a state agency, a state agency may make a request of the federal (granting) agency, or the federal agency may recommend

CAROI to address issues identified in audits, monitoring reports, etc.

Impartiality

CAROI operates in a non-threatening environment in which all levels of government can negotiate in a neutral setting. The process is structured so that no level of government has an inherent advantage when negotiating agreements.

Efficiency

CAROI principles and disciplines ensure that audit and oversight resources are used to efficiently address complex problems. In the long run, it can save audit and oversight costs by breaking 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.

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.

Advantages of CAROI:

- **Broad Applicability**
- **Cost Savings**
- **Flexibility**
- **Impartiality**
- **Efficiency**
- **Accountability**

CAROI Principles

CAROI is based on six fundamental principles. CAROI strives to facilitate the resolution of oversight findings; improve communication; foster collaboration; promote trust; develop understanding and enhance performance. Adoption of these principles helps ensure optimal success.

Principle 1: Facilitate the Resolution of Oversight Findings

CAROI’s foundational principle is to facilitate the resolution of oversight findings, including audit findings and the findings stemming from monitoring and technical assistance.

The goals of this foundational principle are achieved by adopting a philosophy of engagement, which is supported by the next five principles. By employing these principles, users can make CAROI their own and facilitate the resolution of oversight findings.

Principle 2: Improve Communication

CAROI takes full advantage of opportunities for open dialogue among all participants in resolving audit findings and using oversight activities to identify and resolve potential issues.

Although written communication proves useful in resolving audit findings, oral communication is more helpful in gaining a mutual understanding of issues and in reaching agreement. In some instances, a single telephone call may resolve simple, straightforward audit issues. However, more complex findings may require a continuing dialogue among multiple participants. Improved communication also involves alerting those in the field to issues and resolutions identified through oversight activities.

Principle 3: Foster Collaboration

Most audit and oversight processes involve extensive communication. However, communication alone does not ensure collaboration or harmonious working relationships. CAROI encourages collaboration among all levels of government and various disciplines, including representatives from program, accounting, legal and audit organizations.

CAROI team members engage in “win/win” negotiation to reach agreement on the steps to resolve audit issues in a manner that is ultimately beneficial to all parties and that is not solely dependent on regulation. This collaborative process demonstrates a willingness to accept alternative documentation, to support questioned costs while ensuring no harm to the federal or state government interests, and to insist that root causes are identified, understood by all parties and corrected.

“Collaboration improves the effectiveness of government by encouraging partnerships and cooperation within the federal government, across levels of government, and between the government and private institutions.” —OMB’s Open Government Directive, M-10-06, Dec. 8, 2009

Principle 4: Promote Trust

CAROI fosters a sense of trust among the participants involved in the resolution and oversight process.

CAROI participants should be creative when developing mutually beneficial solutions and program-strengthening procedures. An environment of trust must exist or be created before participants are willing to risk “laying all their cards on the table.” Trust is built through open dialogue and collaboration as described in Principles 2 and 3, as well as by striving to reach a fair and equitable resolution.

Participants must make every effort to follow through on commitments and to keep all participants informed when commitments require modification. For example, if one party is granted more time to submit materials, all parties should be aware of and honor the new time frames.

Principle 5: Develop Understanding

CAROI creates an open environment so that participants develop an understanding of other participants’ issues.

CAROI participants work together in an environment that promotes the effective discussion of issues and problems. Participants should look for ways to discuss audit and program issues, problems and solutions in the most useful and mutually beneficial ways possible. Understanding is

achieved by involving the right people to deal with audit issues, to identify program weaknesses and to find ways of holding timely discussions during the process (for example, telephone, teleconferences, face-to-face discussions). Understanding is critical to resolve audit issues and program weaknesses and to ensure that audits, monitoring and technical assistance are coordinated.

Principle 6: Enhance Performance

The primary goal of negotiated resolution is to ensure that the conditions that led to any violations are addressed in a way that decreases the risk of the violations recurring.

The ultimate goal of CAROI is to improve program performance. When an effective solution to an audit or other compliance issue is reached through the CAROI process, it helps prevent recurring problems in subsequent audits and other oversight activities. The presumption is that when all aspects of an issue (program, fiscal, legal) are reviewed and a coordinated solution is reached, the solution addresses the root causes of the problem, thereby promoting a lasting positive result. When a grantee has received appropriate technical assistance and direction in correcting identified noncompliance, a likely result will be improved performance and the achievement of program goals. Including program staff in the CAROI process increases the likelihood that grantees will have “clean” audits and oversight reports.

“The CAROI process helps everyone better understand the importance of audits as a management tool. Decisions made during the resolution can now be used by federal and state agencies to improve the program effectiveness, avoid repeat findings and avoid the high cost of litigation. CAROI teams are now in a position to address and resolve future issues as soon as they are discovered or reported.” —Harvey C. Eckert, former Comptroller of Pennsylvania, in letter to the Secretary of the U.S. Department of Education Richard Riley, March 27, 1998

CAROI’s Role across the Grants Life Cycle

The CAROI process can be initiated and used throughout the life cycle of a grant. It is important for users to understand that the CAROI process is not limited to the post-award process. Given its consultative, collaborative nature, CAROI can be applied during the pre-award process or at any point during the life cycle of the grant process, as described below:

Pre-Grant Award

- The CAROI team should review grant requirements and consider potential risk factors associated with the grant. These factors may include:
 - Size of the grant award;
 - Grant requirements (program, fiscal and the role of grantee and grant making institution);
 - History (or lack) of implementation; and
 - Prior audit/oversight activity associated with the grant and/or grantee.

- When potential risks have been identified, the CAROI team should develop strategies to proactively address the issues. The intensity of the approach can range from general awareness of potential issues to the implementation of safeguards to ensure that compliance issues do not occur in the first place.
- Identify technical assistance activities to address potential challenges.
- Identify a process for monitoring the implementation of the grant and the role of relevant staff involved in executing the grants.

During the Grant Award

- Implement the schedule and methods of monitoring/auditing the grantee(s) and a mechanism for communicating among all parties (federal/state/local, as appropriate).
- Meet to discuss identified compliance issues (audit/monitoring), review history, identify root causes, and develop a consensus for resolution.
- Identify and provide appropriate technical assistance to the grantee.
- Monitor implementation of the solution to ensure a successful outcome.

Post Grant

- Review the results and effectiveness of audit/oversight activities.
- Determine whether identified risks were resolved, mitigated, reduced, etc.
- Evaluate the effectiveness of technical assistance provided to the grantee.
- Determine whether issues or processes can be generalized and applied across grantees (that is, are compliance and/or internal control issues grantee-specific, or inherent problems associated with the grant program).

Typical Issues for CAROI Resolution

A financial management information report issued in July 2009 by the ED Inspector General¹ provides insight into the type of fiscal issues that can be addressed using the CAROI process. In its report, the inspector general's office stressed the relevancy of the findings to ARRA.

“As part of the American Recovery and Reinvestment Act of 2009, Congress dramatically increased SEA [state educational agencies] and local educational agencies [LEA] funding and expectations for transparency and accountability in how that funding is used. Therefore, it is important that SEAs and LEAs have adequate oversight of grants and account for how funding is used.” —Report Issued by U.S. Department of Education Inspector General, July 2009

The following findings in the department's report could be effectively resolved using CAROI. While this is not an exhaustive list of relevant findings, it should help provide some insight into the appropriate use of CAROI.

Internal Control Weaknesses and Fiscal Non-compliance

Issues include:

- Inadequate policies and procedures, including inadequate monitoring;
- Limited comprehension of existing regulations and guidance;
- Lack of appropriate policies and procedures; and
- Policies and procedures established but not followed.

Unallowable Personnel Costs

Issue: Allowable costs must be allocable to federal awards and a definition for “allocable” should be established.

Unallowable Nonpersonnel Costs

Issue: Allowable costs must be necessary, reasonable and allocable to federal awards.

Inadequately Documented Personnel Costs

Issue: Employees working solely on a single federal award or cost objective should complete periodic certifications at least semiannually, and employees working on multiple activities or cost objectives should prepare and complete personnel activity reports at least monthly.

Inadequately Documented Nonpersonnel Costs

Issue: To be allowable, costs must be appropriately documented.

Improper Inventory Control Systems

Issue: Recipient must comply with minimum requirements for managing equipment, including taking a physical inventory.

Program Requirements

Issue: Each federal program has requirements that must be met.

Program Eligibility

Issue: Recipients must ensure appropriate program eligibility requirements have been met.

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 first steps in this process are to review the Implementation Checklist and Frequently Asked Questions, *Appendices 1 and 2*, respectively. These exhibits are useful in determining the feasibility of establishing the CAROI process and will guide the approach to CAROI. 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 to 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.

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. *Figure 1* lists elements that can be included in each type of agreement, regardless of the complexity or the number of issues. *Appendix 3* features sample agreements.

The Role of the Independent Auditor in the CAROI Process

Because the resolution of audits and oversight over programs is the responsibility of management, some would ask why the independent auditor should participate in the CAROI process, and whether such participation impairs auditor independence.

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 being considered, the auditor can be an especially valuable resource to management in the audit resolution process, as management seeks to understand the issues, and understand options to remediate non-compliances. Also, in the grant award process, management may seek the independent auditor’s advice to help better understand the nature and significance of audit findings of non-compliance, and significant deficiencies and material weaknesses in internal control, which could have a bearing on the grant award decision or the terms of a grant award.

Government Auditing Standards (GAS) specifically address kinds of nonaudit services that do not impair auditor independence:

Nonaudit services in which auditors provide technical advice based on their technical knowledge and expertise do not impair auditor independence with respect to entities they audit and do not require the audit organization to apply the supplemental safeguards. However, auditor independence would be impaired if the extent or nature

Figure 1: Elements of CAROI Agreements

Scope Agreement

- 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. See *Figure 4*.
- 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

Resolution Agreement

- 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 process⁵
- 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

of the advice resulted in the auditors' making management decisions or performing management functions. [2007 GAS, §3.26]

GAS includes examples of nonaudit services that do not impair auditor independence:

Examples of the types of services considered as providing technical advice include the following:

- a. participating in activities such as commissions, committees, task forces, panels and focus groups as an expert in a purely advisory, nonvoting capacity to:
 1. advise entity management on issues based on the auditors' knowledge or
 2. address urgent problems;
- b. providing tools and methodologies, such as guidance and good business practices, benchmarking studies, and internal control assessment methodologies that can be used by management; and
- c. providing targeted and limited technical advice to the audited entity and management to assist them in activities such as (1) answering technical questions or providing training, (2) implementing audit recommendations, (3) implementing internal controls, and (4) providing information on good business practices. [2007 GAS, §3.27]

Therefore, in line with these GAS provisions, the auditor may participate actively in a CAROI process to provide advice to management, including:

- Explanations of conditions at an entity and their effect, based on audit work;
- Causes;
- Recommendations to address the conditions; and
- Responding to questions by management about the conditions, causes and auditor recommendations.

In the CAROI process, the independent auditor will most often be asked to provide advice to management for the audit resolution process. However, management may also seek advice from the auditor related to the grant award process. Specifically, when questions about the suitability of an entity to be a grantee arise from audit findings, the independent auditor may be called upon to explain the findings.

However, when participating in a CAROI process, the auditor must not make management decisions or perform management functions. Consequently, when an independent auditor participates in a CAROI process, the auditor must not participate in making the decision, which is a management function.

When auditors participate in a CAROI process, agendas should be planned for auditors to participate in "fact-finding" discussions (for example, explaining the non-compliances, their causes, effects and the auditor's recommendations), but not when management personnel have discussions to decide on the action they will require or take (for example, the actual audit resolution or grant award decision). If records of CAROI meetings are created, they should clearly describe the auditor's role.

What are the Challenges to Using CAROI?

A primary challenge to implementing CAROI is resistance and reluctance on the part of many organizations. Some organizations may find it difficult to believe that a potentially contentious audit resolution process can be transformed into one that stresses cooperation, partnership, dialogue and program improvement. CAROI emphasizes the importance of "seeing defects as gems," whereby obstacles become opportunities for future success.

Another challenge can be a lack of trust. For many years, oversight systems were based on a traditional approach to audits, monitoring and technical assistance that did not promote dialogue and effective listening among all participants. Consequently, obstacles to creative problem-solving were created and sustained. Although these obstacles may appear somewhat formidable at the start of CAROI, they can be reduced and/or eliminated by focusing on correcting problems in ways that enhance program performance. CAROI recognizes that no one level or part of government can effectively address every issue presented through an audit or monitoring report. Constructing a clear resolution plan that includes all of the parties involved with a program can result in lasting solutions.

A third challenge is scarce resources, both human and financial. At the outset of the CAROI process, all levels must strive to determine the resources required to ensure that CAROI is effective. Without the commitment of adequate resources, CAROI may not reach its anticipated goals.

Summary

CAROI is a successful tool in cooperatively resolving audit findings. Its fundamental principles lay the foundation for program improvement. The CAROI process has been used successfully by ED in resolving long-term audit issues in Pennsylvania, Washington, California and Florida, as well the resolution of local government issues in Alabama. By applying the CAROI process to ARRA, as well as to ongoing programs, federal, state and local government agencies can effectively manage risk and cooperatively address weaknesses identified through audits and other oversight activities.

Government officials will know that CAROI has succeeded when its principles are routinely incorporated into the resolution process. When "business as usual" involves cooperation and collaboration and when teams are assembled to develop scope and resolution agreements as a foundation for trust, CAROI can be deemed a success.

CAROI Tools and Resources

To begin the CAROI process, organizations need a "catalyst"—an individual or group of individuals who understand and embrace the concepts of CAROI. These "catalysts" ignite interest and enthusiasm across programs and affected offices. To assist in the implementation process, AGA has established a website featuring a number of implementation tools, including Appendices 1–4, which are attached to this guide. The tools can be accessed at: www.agacgfm.org/intergovernmental/projects.aspx.

Information on this website includes:

- A “Questions and Answers” document to help determine when the CAROI process will be useful.
- A checklist that can be used in conjunction with the “Questions and Answers” document.
- A template for a CAROI agreement that can be used to outline the scope of a project.
- An example of a matrix used for tracking statewide single audit findings through the resolution process.
- Actual agreements reached by a number of states in the late 1990s, which list how their audit findings were resolved.

For CAROI assistance, please contact Helena Sims, Director of Intergovernmental Relations for AGA at hsims@agacgfm.org or 703.684.6931.

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The Partnership for Intergovernmental Management and Accountability (Partnership) was established by the Association of Government Accountants (AGA) in September 2007 to open the lines of communication among governments. The mission of the Cooperative Audit Resolution Work Group is to review the Cooperative Audit Resolution and Oversight Initiative process, which was developed by the U.S. Department of Education, and to develop a best practices tool for resolving audit findings associated with government grants and with funds disbursed under the American Recovery and Reinvestment Act of 2009.

AGA is the premier Association in advancing government accountability. AGA supports the careers and professional development of government financial professionals working in federal, state and local governments, as well as the private sector and academia. Founded in 1950, AGA has a long history as a thought leader for the government accountability profession. Through education, research, publications, certification and conferences, AGA promotes transparency and accountability in government.

APPENDIX 1

Appendix 1: Questions and Answers for Assessing and Implementing the CAROI Process

This document is intended to help determine whether the Cooperative Audit Resolution and Oversight Initiative (CAROI) process is right for specific situations. This document is intended to be used in conjunction with the “Checklist for Implementing CAROI” (Appendix 2).

There are three parts to this document:

- **Part I** is designed to help determine whether CAROI is the right process for a given situation.
- **Part II** assists with implementation of the CAROI process.
- **Part III** explains steps that can be taken to conclude the CAROI process.

In considering whether to use the CAROI process, it is important to remember that CAROI is not a static process, but one that is extremely flexible, that it can be adapted to work within any organizational structure, and that it can address a wide range of potential oversight findings.

Part I: Deciding If CAROI Is the Right Process for a Particular Situation

Part I of this document is designed to help determine whether CAROI is the right process for a given situation. The following questions and answers are designed to help each organization assess whether CAROI is appropriate and how it might be tailored to specific situations.

- **Can CAROI be used in cases where the audit or oversight finding relates to fraud?**

Answer: CAROI cannot be used in cases of fraud. If findings indicate that a criminal or civil violation of laws has occurred, the matter should be referred to the relevant federal, state or local legal office.

- **What type of oversight findings are most suited to the CAROI process?**

Answer: The CAROI process may not be needed to address a single, one-time finding. In these situations, it may be better to use a traditional oversight resolution process. Because CAROI requires up-front planning and ongoing coordination, the return on investment may not justify using the CAROI process for non-recurring, non-pervasive findings. CAROI is most appropriate and cost effective in addressing more complex findings.

When Is CAROI Most Useful?

- **Recurring findings.**
- **Findings found in multiple agencies or levels of government.**
- **Where there are pervasive oversight findings with program performance.**
- **Where negotiation has been protracted or where litigation has been initiated.**

- **The original CAROI model was established to address persistent audit findings. Can the CAROI concept be expanded to include monitoring, grants management and other types of oversight activities?**

Answer: Yes. 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.

- **Does the “climate” or “atmosphere” in your agency lend itself to CAROI?**

Answer: In deciding whether to use CAROI, it is important to assess your organization’s “climate” or “attitude” toward CAROI’s principles. Does your organization emphasize communication, collaboration, trust, understanding and performance? CAROI is well-suited for results-oriented organizations that stress cooperation. Consider whether your organization seeks to resolve problems through open communication and collaboration, or whether the resolution process is typically paper driven.

In assessing your organization’s “climate” or “atmosphere,” it may be useful to:

- **Examine The Tone at the Top.** Determine whether high-level officials foster collaboration and cooperation within your organization and with outside organizations. One indicator might be the existence of a regular, organized forum designed to bring together disparate functions. It is helpful for high-level officials to convene periodic meetings to identify potential audit and oversight issues. This type of forum provides an early-warning system about potential problems and may help mitigate problems before they become serious. Such meetings offer management a kind of pre-CAROI training ground.

The deputy secretary of one large federal agency convenes weekly meetings with program, audit, legal and accounting staff to share information that may help detect, prevent or otherwise address oversight issues. Participants in these meetings are not the team that implements the CAROI process. Instead, they comprise an ongoing, high-level, early detection forum. If your organization does not have such an established forum, it may be a good idea to put one in place.

- **Assess the Organization’s Attitude Toward Working Across Agencies and Programs.**

Assess whether your organization strives to work across programs and organizational structures to gain information and solve problems. CAROI is most likely to be successful in an environment where employees are already reaching across organizational barriers and overcoming barriers between organizations and programs.

- **Determine whether your agency has experience with a multi-year, multi-program oversight resolution process.**

If an agency has not already worked on resolving a multi-year and/or multi-program issue, undertaking CAROI may be a significant challenge. This inexperience does not mean that the agency should not implement CAROI. It

simply may be necessary to overcome a number of obstacles to achieve success. For agencies that have not engaged in this type of activity in the past, resistance from staff is likely. It is important that staff come into the CAROI process with an open mind and a commitment to achieve resolution. Further, it will be important for the agency's CAROI team to methodically map out its objectives and identify potential obstacles to success. The team should develop strategies for addressing these potential obstacles. The agency may learn from states and organizations that have engaged in the CAROI process and mimic previous strategies. However, agencies must be aware that each situation is slightly different. What worked for one organization, may not work in the current situation.

- **Who has decision-making authority in the CAROI process?**

Answer: While the resolution process is a collaborative effort, all team members must have, or be delegated, decision-making authority. The active involvement of legal counsel for all parties is needed to ensure the resolution does not violate local, state or federal laws or rules. The ultimate authority to agree to the final terms and conditions of the resolution process will often reside with an agency head, deputy secretary, or other senior official authorized to make multi-year, inter-organizational commitments.

- **Is your agency willing and capable of devoting the resources necessary for this activity?**

Answer: As an agency undertakes the challenge of establishing a team and implementing the CAROI process, it will likely have to “front load” its efforts. It will take time and effort to initiate CAROI, regardless of an organization's readiness to do so. In time, the agency will reap the benefits of these early efforts. At the “heart” of CAROI is the concept of building and sustaining good working relationships within and between different offices in an agency and across agencies at all levels of the resolution process. In many instances, individuals will have little or no experience working with those who comprise the CAROI team. Consequently, it may be necessary to overcome issues of trust and commitment. Once these barriers are overcome and CAROI becomes the “new order” in an organization, these new relationships and concepts will facilitate a smoother and more efficient approach to resolving audit and oversight findings. As CAROI principles mature, establishing effective monitoring programs based on appropriate technical assistance should become easier.

Part II: Organizing the CAROI Process

Part II of this document assists with implementation of the CAROI process.

- **Who should be involved in the CAROI process?**

Answer: In exploring the use of CAROI, it is important for states and local governments to ensure that the federal grantor agency is willing to use the CAROI process in instances involving federal funds. While states are accustomed to working with federal grantor agencies on matters affecting the state, they should remember to work with federal grantor agencies when federal funds are involved with local government entities. Up-front due diligence in getting buy-in is key to the long-term success of the CAROI process.

In addition, the CAROI process is most likely to succeed if it has the support of high-level officials within an organization. Depending upon the nature of the issues to be resolved, these high-level officials may include the agency head, senior program staff, general counsel, auditor/inspector general and/or chief financial officer or other staff as appropriate. These officials may include federal, state and/or local government officials. While these high-level officials may not be direct participants in the CAROI team, which is tasked with developing and implementing the CAROI process, they should support the process and are likely to designate officials to serve on the CAROI team.

Direct participants on the CAROI team should understand the program(s) in question. Team members may include program officials who are involved in the day-to-day operation of the program, audit staff, legal staff and accounting staff who understand the programs in question. The CAROI team must include individuals who are able to offer solutions and who are empowered to make binding decisions in their area of responsibility, which—depending upon the nature of issues to be resolved—may include the ability to adjust or forgive the recovery of funds.

- **Who can initiate the CAROI process?**

Answer: The CAROI process can be initiated by the grantor or grantee at the federal, state or local level of government. The CAROI process is likely to be most successful if the person initiating the process is willing to reach out to agency heads and prospective participants until the CAROI team is operational. Depending on the responsibilities and personalities of the people on the team, the person initiating the process may be instrumental in providing administrative, technical or moral support to the process throughout its duration.

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Examples: Initiating the CAROI Process

CAROI can be initiated by officials at any level of government. Some examples for initiating the process are provided below, but they should not be construed as limiting the wide scope of possible uses:

- **A state community development department might want to work with a rural community to resolve findings identified by a Management Control Review (MCR). If the MCR findings involved rural development funds provided by the U.S. Department of Agriculture (USDA), it would be important to determine that USDA supports the use of CAROI.**
- **A local government transportation official could contact a state transportation official if he or she wanted assistance in resolving recurring audit or oversight findings. If federal funds are involved, it would also be important to make sure that the U.S. Department of Transportation supports use the CAROI process.**
- **A state Medicaid official could contact a state auditor if he or she sought additional information on audit findings in an attempt to initiate the CAROI process, which might also involve the governor's legal counsel and the state comptrollers' office.**
- **A state workers compensation official might contact someone in the U.S. Department of Labor to initiate the CAROI process on questioned costs.**
- **A state could ask high-level officials in the U.S. Department Education to use the CAROI process to resolve audit findings.**

• 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. The person initiating the process should make sure to invite those in the relevant disciplines (program, audit, legal or accounting) to participate in an organizational call or meeting. The person initiating the process should seek to define the scope of the issue(s) to be resolved and develop a scope agreement. Scope agreements are discussed in more detail in the body of the CAROI Guide.⁶

• 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. It is critical that the team leader be capable of making decisions and moving the team forward. The leader's ability to keep the team on track and on task is more important than the individual's actual position.

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

Answer:

- *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. It is important to ensure that participants from relevant disciplines are included, including senior program staff, the office of the general counsel, the office of the auditor/inspector general and/or the office of the chief financial officer. Involving representatives from these offices will help prevent the resolution process from being derailed because the appropriate people were not included.
- *Hold regularly scheduled meetings or conference calls.* Initially, it may be helpful to schedule meetings or conference calls every week or two at a specific time. An in-person meeting is generally helpful to begin the process and continuing face-to-face meetings help enhance trust and collaboration, but conference calls may be more practical over time. Regularly scheduled calls or meetings help keep team members motivated and encourage members to complete tasks on time. As the process develops, the frequency of calls or meetings may be reduced.
- *Conduct analyses of audit and monitoring issues.* In order to understand the issues that need to be resolved, it is important to clarify which issues the CAROI team will address. This clarification is accomplished by analyzing audit findings and issues raised through monitoring and oversight processes. For example, after analyzing Single Audits covering a number of years, one auditor detected serious, recurring problems in programs administered by a grantee. The grantee brought in knowledgeable people from its audit, legal and accounting disciplines, as well as a new program manager, to work with the grantor's risk management office in addressing the findings. Individuals from the auditor's office were also made available to answer questions. The process was successful in identifying the root causes of the findings and future experience will reveal whether the grantee is successful in reducing findings.
- *Develop a means of staying in contact with team members.* Staying in touch with team members is likely to involve e-mail distribution lists and compilation of a roster that includes contact information, including phone numbers.
- *Formalize CAROI scope agreements.* The scope agreement identifies the scope of the project, who is involved and the associated timeframes. The scope agreement is discussed in more detail in the body of the CAROI Guide.⁷ Provisions of the scope agreement may include:
 - 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/negotiation. See Appendix 4.

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- Statement as to why CAROI would be useful.
- Identification of documentation that will be reviewed as part of the CAROI process.
- 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.
- Signatures of CAROI Team members.

Part III. Concluding the CAROI process

Part III of this document explains steps that can be taken to conclude the CAROI process.

- **How will the CAROI Team know that its work is complete?**

Answer: A specific team completes its work by signing a resolution agreement, which is addressed more fully in the CAROI Guide.⁸ As part of the resolution process, the team should also have a plan for evaluating CAROI outcomes. One evaluation criterion might be the extent to which subsequent audits are clean.

- **What provisions are likely to be included in a resolution agreement?**

Answer:

Provisions of the resolution agreement may include:

- Approval of corrective action plan.
- Recovery of funds and repayment options/methods.
- Consequences of noncompliance with the agreement.
- Option to revise agreement upon mutual agreement.⁹
- Signatures/dates of each party to agreement.
- Identification of measurements for accountability.
- Post-agreement follow-up and a plan for evaluating the CAROI process.
- Determination of a process for monitoring the grantee for specific issues and provision for targeted technical assistance, as appropriate.

APPENDIX 2

Appendix 2: Checklist for Implementing CAROI

The Checklist is intended to provide general guidance on when it might be appropriate to use CAROI. This document is intended to be used in conjunction with the “Questions and Answers for Assessing and Implementing the CAROI Process” (Figure 1).

Part A. Threshold Question:

Do the audit or oversight findings relate to fraud?

- If yes, the CAROI process cannot be used.
 If no, CAROI may be used. Proceed to Part B.

CAROI cannot be used in cases of fraud. If findings indicate that a criminal or civil violation of laws pertaining to fraud has occurred, the matter should be referred to the relevant federal, state or local legal office.

Part B. Additional Questions:

The more “yes” responses to the following questions, the more likely it is that CAROI is appropriate.

Are oversight findings:

- Recurring Yes No
Pervasive Yes No
Found in multiple levels of government Yes No
Found in multiple programs Yes No
The subject of protracted negotiations or litigation? Yes No

Is someone willing to initiate the CAROI process and stay actively engaged with the process through its conclusion? Yes No

Does the “climate” or “atmosphere” in the organization lend itself to the use of CAROI?

Is the tone at the top supportive of open discussion, cooperation and collaboration? Yes No

Is there an existing forum of high-level officials dedicated to monitoring, preventing and correcting oversight findings? Yes No

Is there an emphasis on breaking down barriers between other organizations and programs? Yes No

Is there experience with resolving multi-year, multi-program oversight findings? Yes No

Is the head of your agency likely to delegate decision-making authority to CAROI Team members?¹⁰ Yes No

Is your agency willing and capable of committing resources to initiatives that:

Help prevent oversight findings or their reoccurrence? Yes No

Improve program performance? Yes No

Is it possible to get the support and involvement of the following offices within your agency?

Program officials Yes No

Legal counsel Yes No

Officials representing the chief financial officer or the other accounting professionals Yes No

Officials representing the auditor or inspector general¹¹ Yes No

Is one of the participating organizations willing to allow one of its employees to lead the CAROI team? Yes No

Is one of the participating organizations willing to allow one of its employees to handle the administrative functions associated with the CAROI team (this person might also be the CAROI team leader)?¹² Yes No

APPENDIX 3

Appendix 3: Sample CAROI Agreement

Participants in the CAROI process will sign two agreements. The first type of agreement, 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 who will be 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. Historically, this is the only type of agreement used in the CAROI process. This revised guide adds the scope agreement to the process and retains the resolution agreement as a tool to define the resolution process, including: what corrective action going to involve; whether funds will be recovered; how follow-up is going to occur and how accountability is going to be measured; and what personnel are going to be involved in the process.

While these sample CAROI agreements involves a school district, a state and the federal government, it is critical to note that:

1. The CAROI process need not involve all levels of government and may even be used within a single level of government. To make this sample helpful in a wide range of circumstances, it was intentionally designed to address a complicated situation, but CAROI is equally useful in more simple situations.

2. The CAROI process may be used by any program, not just education programs.

Scope Agreement

Statement of Issues

This agreement is entered into by the XYZ School District, XYZ State Department of Education, U.S. Department of Education (ED), and U.S. Department of Health and Human Services (HHS) as part of the Cooperative Audit Resolution and Oversight Initiative (CAROI), to resolve issues relating to XYZ School District’s compliance with federal requirements. This agreement resolves the audit issues contained in the agency’s FY09 A-133 Single Audit, as identified in the Matrix contained in attachment A.

Background/Rational for CAROI

The XYZ School District has received findings regarding time and effort (as identified in Attachment A) for its past two audit periods resulting in significant questioned costs. In the first year, the district appealed the program determinations by all parties, which resulted in costly legal battles and sustaining of the finding resulting in full recovery of the questioned costs contained in the FY08 Single Audit. Because they appealed and implemented no corrective action for the subsequent period, they are now receiving another finding regarding the same issue and additional recoveries.

The ED initiated a conversation with the state agency and HHS about utilizing the CAROI process to resolve this issue and reduce the likelihood that audit issues will be repeated. XYZ School District was approached and agreed they would join in a partnership with all parties to discuss alternatives to lengthy legal battles and traditional resolution processes.

Parties to be Involved and Roles/Responsibilities, with each office listed, followed by the role/responsibilities:

- *School District Assistant Superintendent over Business*

To act as superintendent’s designee for all matters pertaining to this Agreement.

- *School District Program Directors for Affected Programs*

To have open communication regarding their understanding of the requirements and an explanation of the reporting system used to comply. To participate in resolution ideas and agreements as to feasibility and reasonableness of corrective action.

- *State Agency Resolution Official*

To act as resolution authority for the state concerning the terms of the agreement.

- *U.S. Department of Education Resolution Official/OIG*

To act as facilitator of the process. Serving as facilitator involves convening meetings, establishing a schedule and overseeing the “mechanics of the CAROI process.” To approve/sign the terms of the agreement. To have open communication and dialogue with a focus on future prevention of further compliance issues.

- *U.S. Department of Health and Human Services Resolution Official/OIG*

Same as above (for example, to approve/sign the terms of the agreement. To have open communication and dialogue with a focus on future prevention of further compliance issues).

- *Auditors*

To understand the resolution process and the terms of any post audit requirements contained in the agreement.

- *Legal Advisors*

To review final agreement prior to parties signing to provide legal risk management.

These roles and responsibilities shall be assumed by the offices above, even if the employees in the office(s) change.

Ground Rules for Negotiation

XYZ School District agrees to submit alternative documentation to support the majority of the salaries and benefits charged to the applicable federal programs. All other parties agree to review and consider (with the option of asking for additional documentation) this documentation in an attempt to mitigate recoveries. An important factor to consider is what harm the finding has caused to the federal government, if possible. All parties agree to be professional and reasonable with open communication and dialogue at all times.

Potential for Recovery of Funds

The audit questioned costs of \$416,000 regarding eight employees who did not complete the required personnel

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activity reports and one employee who did not complete semi-annual certification. The program determination letters sustained the finding and asked for full recovery.

Identification of the Need for Work Groups

There is a need for a workgroup to analyze and summarize the documentation offering to be submitted by the XYZ School District. This work group should comprise a district staff familiar with their reporting systems, a state official familiar with the federal requirements and district documentation, and a federal OIG official to round out the review group. This work group would be responsible for determining the actual recovery as well as the basis for any reduction in recovery.

Timelines for Reporting Negotiated Results

This agreement will be negotiated within three months time of the charter signature date.

Agreement Charter signed by:

Date

Date

Date

Resolution Agreement

The U.S. Department of Education, U.S. Department of Health and Human Services (HHS), State Department of Education, and XYZ School District agree to the following terms and conditions in full resolution of the above-referenced issues pertaining to XYZ Agency’s compliance with federal requirements regarding supporting documentation of salaries and benefits charged to federal programs.

Both parties agree to reduce the questioned costs from \$416,000 to \$85,000. This reduction was made possible by reviewing alternative documentation submitted by XYZ School District (teacher classroom schedules, administrator’s calendars, case load reports), certifications submitted by those employees originally questioned in the audit finding, and determination of harm to the federal interest.

All parties agree that XYZ School District will repay the remaining questioned costs of \$85,000 over a two-year period, payable annually by June 30, 2010, and June 30, 2011. Of this amount, \$58,000 will be paid to ED and \$23,000, plus interest, will be paid to HHS in two equal annual installments.

XYZ School District will implement the following corrective action procedures:

1. Develop policies and procedures on time and effort reporting to ensure compliance with federal requirements.
2. Develop and implement a training program for all staff

required to complete federal time and effort documentation.

3. Ensure staff responsible for collecting and reporting time and effort understand the federal requirements.
4. Submit new policies and procedures and training program plan to the U.S. Department of Education for review and approval.
5. Receive no audit findings on time and effort reporting for the two subsequent audits following the finalization of this agreement.

In the event that XYZ School District fails to comply in the first two years with the terms of this agreement, the agreement is null and void and the other parties may pursue the original questioned costs of \$416,000.

If future audits or other oversight initiatives reveal that issues identified as part of this CAROI process persist, then ...

This agreement does not constitute either an admission of liability on the part of XYZ School District or an admission of error on the part of any other party to this agreement with respect to any audit claim or finding.

Agreement Resolution Terms and Conditions signed by:

Date

Date

APPENDIX 4

Appendix 4: Example of CAROI Matrix to Use for Statewide Single Audit Findings

Year Finding #	Auditee	Program	Finding	Description	Comments
2009 – ACN 431-0100-09					
XXX12	SOM	MDHS	Internal Controls	SOM's internal control did not ensure that unit rates used to calculate payments made to child care placement agencies were in compliance with state laws and regulations.	
13	SOM	MDHS	Allowable Costs/ Costs Principles	SOM did not adjust the amount of predetermined payroll cost distributions to reflect actual payroll costs for one employee charged to multiple federal programs in violation of OMB Circular A-87.	
2008 – ACN 431-0100-09					
15	SOM	MDHS	Subrecipient Monitoring	SOM did not monitor 17 of 33 contracts reviewed. OMB Circular A-133 Section 400 (d) requires SOM to monitor the activities of its subrecipients to ensure that they used federal awards in compliance with federal laws and regulations.	
19	SOM	MDHS	Allowable Activities	SOM's internal control over the TANF program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed per 45 CFR 260.	
2007 – ACN 001191					
17	SOM	MDHS	Allowable Costs/ Costs Principles	SOM did not adjust the amount of predetermined payroll cost distributions to reflect actual payroll costs for one employee charged to multiple federal programs in violation of OMB Circular A-87.	

ACN=Audit Control number

SOM=State of Michigan

MDHS=Michigan Department of Human Services

TANF=Temporary Assistance to Needy Families

End Notes

1. For purposes of this paper, “oversight findings” include audit findings, monitoring issues and issues identified through other oversight activities.

2. U.S. Government Accountability Office (GAO) Report to the Congress, *Recovery Act: Status of States’ and Localities’ Use of Funds and Efforts to Ensure Accountability*, December 2009, GAO-10-231, p. 111.

3. Letter from Harvey C. Eckert, Deputy Secretary for Comptroller Operations, Office of the Budget, Governor’s Office, to Richard W. Riley, Secretary of the U.S. Department of Education, March 27, 1998.

4. See Management Information Report: *Fiscal Issues Reported in ED-OIG Work Related to LEAs and SEAs*. Control Number ED-OIG/X05J0005. www2.ed.gov/about/offices/list/oig/auditreports/fy2009/x05j0005.pdf.

5. An agreement might be revised for a number of reasons, including experience revealing that a specific approach to resolution is simply not feasible or repeat findings revealing that a given resolution is not working.

6. See “A Guide to Improving Program Performance and Accountability Through Cooperative Audit Resolution and Oversight,” section titled “CAROI Agreements,” which discusses the nature and content of both “Scope Agreements” and “Resolution Agreements.”

7. See “A Guide to Improving Program Performance and Accountability Through Cooperative Audit Resolution and Oversight,” section titled “CAROI Agreements,” which discusses the nature and content of both “Scope Agreements” and “Resolution Agreements.”

8. See “A Guide to Improving Program Performance and Accountability Through Cooperative Audit Resolution and Oversight,” section titled “CAROI Agreements,” which discusses the nature and content of both “Scope Agreements” and “Resolution Agreements.”

9. An agreement might be revised for a number of reasons, including experience revealing that a specific approach to resolution was simply not feasible or repeat findings revealing that a given resolution was not working.

10. The CAROI team determines the scope of the CAROI project and develops the resolution agreement. It is important to recognize that the ultimate authority to agree to the final terms and conditions of the resolution agreement may reside with an agency head.

11. Provided that the officials meet the auditor independence guidelines contained in the CAROI Guide.

12. Administrative functions include maintaining an e-mail list of CAROI team members, scheduling meetings, assisting with the development of the scope agreement, compiling the matrix that identifies and tracks oversight findings and assisting with the development of the resolution agreement.



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