

**DISCOVERING NEW SOLUTIONS
THROUGH COOPERATIVE
AUDIT RESOLUTION:
A GUIDE**

CAROI

**U.S. DEPARTMENT OF EDUCATION
COOPERATIVE AUDIT RESOLUTION
AND OVERSIGHT INITIATIVE**

Discovering New Solutions Through Cooperative Audit Resolution: A Guide

U.S. Department of Education

Richard W. Riley

Secretary

Cooperative Audit Resolution and Oversight Initiative

August 1999

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Foreword

**Dr. Milton D. Matthews, Former Director of Compensatory Education,
Mississippi Department of Education**

Upon seeing a new guide or publication it is, perhaps, not unusual for a conscious or subconscious reaction to be, "is this the same thing we've always done but stated differently?" Or "what's this guide telling us now?"

The Cooperative Audit Resolution and Oversight Initiative (CAROI) guide is not just another "government guide." It is not "business as usual." CAROI provides innovative approaches to solving state level audit issues found in federally supported education programs. The key word in the CAROI process is the first word of its title, "Cooperative." While CAROI deals with federal-state audits, its tenets can be adapted to state-local educational agency audits, as well as other federal agency audits.

This CAROI guide provides conceptually different approaches to audit resolution. The CAROI approaches focus on finding solutions in a middle ground where student achievement is a factor in the audit resolution process. CAROI recognizes that the mission of the United States Department of Education is to provide superior learning opportunities for students to enable them to reach the nation's educational goals. CAROI recognizes that the road to excellent learning opportunities is not one single road for all school districts and schools in all states. By putting students in the forefront of audit resolution, recipients of federal education program funds are given an open and level playing field to cooperatively focus on problem solving to ensure that students receive the maximum benefit of education programs.

CAROI is a change engine. Its concepts are straightforward and sound. CAROI provides practical approaches to solving longstanding audit issues. Ultimately, students are the beneficiaries of a process that is non-adversarial and cost effective. CAROI is a new way of doing old business.

What is the purpose of this Guide?

The Cooperative Audit Resolution and Oversight Initiative (CAROI) concentrates on two facets for program improvement:

- cooperative audit resolution
- oversight activities

The purpose of this guide is to provide direction on the first facet of cooperative audit resolution for program improvement. The guide provides guidance for resolving audit findings as well as guidance on how to use CAROI to prevent potential audit findings.

What is the origin of CAROI?

The concept of CAROI began with the realization that education programs improve when federal, state, and local education officials work together effectively to resolve issues identified through audits. From this genesis, U.S. Department of Education (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 corrective action and, consequently, subsequent audit reports identified the same findings and problems. With these recurring conditions, students suffered and ED determined the need for a new approach to audit resolution. Through a collaborative effort by ED and state and local partners, CAROI was created.

What are the elements of CAROI?

CAROI is a collaborative method to provide alternative and creative approaches to resolve audit findings as well as their underlying causes. The states and ED work together to help solve or avoid recurring problems identified through single audits¹ as well as audits from ED's Office of Inspector

¹OMB Circular A-133 and the accompanying Compliance Supplement provide the requirements and guidelines for audits completed under the Single Audit Act. Exhibit 1 provides an outline of ED's audit resolution process for Single Audits.

General (OIG). The goal of CAROI is to improve education programs and student performance at state and local levels through better use of audits, monitoring, and technical assistance.

CAROI is designed to avoid costly litigation, lengthy adversarial discussions, and non-productive impasses. CAROI often relies on creativity in resolving audit issues and may be customized to suit the individual needs of the agency or issue. Further, CAROI recognizes that without corrective action, problems continue with future audit reports identifying the same issues.

CAROI Design

CAROI is designed to:

- maximize dialogue among federal, state, and local levels;
- promote creativity and innovation in identifying solutions to problems;
- foster continuous improvement of the audit process;
- improve the efficiency and effectiveness of all oversight activities;
- minimize stereotypical, traditional, and bureaucratic methods;
- decrease the need for adversarial litigation; and
- save time, money, and resources.

CAROI Characteristics

The characteristics of CAROI include:

- flexibility;
- a non-threatening, open environment of cooperation;
- commitment from all parties at all levels;
- time and resources needed to resolve issues and meet established time lines;
- the willingness of participants at the state and federal levels to negotiate;
- commitment to non-adversarial discussion;
- the recognition that the ultimate customer in all educational efforts is the learner; and
- the right people involved in the process.

CAROI Principles

Six key CAROI Principles are applied throughout the audit resolution process.

CAROI PRINCIPLES

- 1. Communication**
- 2. Collaboration**
- 3. Trust**
- 4. Understanding**
- 5. Resolution**
- 6. Sharing**

Principle 1: Communication

CAROI takes full advantage of opportunities for open dialogue among all participants in resolving audit findings.

- While 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 serve to resolve simple, straightforward audit issues. However, more complex findings may require a continuing full and open dialogue among all participants.
- For more complex audit issues, teleconferencing or face-to-face meetings may serve as the best means to bring participants together to address these issues.

Principle 2: Collaboration

CAROI encourages collaboration among participants involved in the resolution of an audit from federal and state levels, including representatives from program, finance, legal, and audit organizations.

- Participants in audit resolution include persons responsible at the federal and state levels for administering programs, maintaining fiscal records, auditing, resolving audit findings, and identifying and addressing legal issues. Resolution of less complex audit findings may not require the involvement of all of these organizations.

CAROI serves as a vehicle for encouraging cross-program coordination, planning, and service delivery.

- Collaboration fostered by CAROI helps to overcome challenges at both the federal and state levels between and among the participants. Combined federal and state teams work together to resolve specific audit issues. These ongoing working relationships prove useful in resolving future audit issues and in addressing concerns before audit problems develop.
- States may form partnerships with local governments to apply CAROI principles.

Principle 3: Trust

CAROI fosters a sense of trust among the participants involved in resolving audit findings.

- CAROI calls for participants to use creativity when developing mutually beneficial resolutions. An environment of trust must exist or be created before participants willingly assume the perceived risks associated with "laying all cards on the table." Trust is built through open dialogue and collaboration as described in Principles 1 and 2, as well as by learning that the other parties want a fair resolution.
- Participants must make every effort to follow through on commitments or to keep all participants informed when commitments require modification.
- From the least complex to the most complex audits, trust must exist in all resolution activities. For example, if established time frames exist and an extension of time for submission of materials has been granted, all involved should honor the new time frames.

Principle 4: Understanding

CAROI creates an open environment for the participants to identify problems and mutually create solutions.

- CAROI participants work together through an environment that allows for effective discussion of issues and problems. Although participants bring different views to the table, mutual respect and understanding of each other's opinion and position is valued and supported.

- Participants should look for ways to discuss audit issues, problems, and solutions in the most useful way possible. Effective communication includes involving all the right people in dealing with audit issues and finding practical ways to hold timely discussions (e.g., telephone, teleconferences, face-to-face). This principle is critical to laying the proper foundation to ensure that the audit issues are understood, open dialogue has taken place and all involved parties are mutually creating effective solutions.

Principle 5: Resolution

CAROI encourages negotiating a resolution of audit issues that is responsive to the needs and interests of all of the participants and helps to prevent recurrence of the audit findings.

- Participants use the principles of "win/win" negotiation to reach agreement on the steps to be taken to resolve audit issues in a manner that is not overly prescriptive.
- The primary goal of the negotiated resolution is to ensure that the conditions that led to any violations are addressed in a way that ensures that the violations do not recur.

Principle 6: Sharing

CAROI encourages the sharing of solutions achieved through the process.

- Best practices and model agreements achieved through CAROI are widely disseminated in order to share applicable solutions from state to state. For example, if a better and improved method of maintaining time and effort records is identified in one state, ED and the state partners should take the lead in sharing these new and acceptable methods of time record keeping with other agencies and states.

How does CAROI work? Responsive and Proactive

CAROI functions as a responsive as well as a proactive process. It can respond to findings presented in an audit report to help resolve those findings. It also can function proactively to provide preventive measures to avoid circumstances leading to an audit finding. CAROI may be implemented at any point in the audit or program implementation process. Because of the creativity built into CAROI, it may be customized to resolve any issue that may arise in any part of the grant cycle. The user does not have to wait until an issue is identified through an audit report to apply CAROI principles.

CAROI as a Responsive Process

CAROI serves as a responsive process in that it "responds" to problems arising from audit findings. ED and state officials consider how CAROI can help to resolve the audit findings. It is important to note that some audit findings involving the intentional misuse of federal funds cannot be resolved through CAROI.

CAROI Models

CAROI promotes creative problem solving. It can be tailored to the appropriate level of implementation depending on the scope of the issue(s) and the stage in the grant cycle.

CAROI, as a responsive process, uses three basic applications: Operational CAROI (Model A), Strategic CAROI (Model B), and Comprehensive CAROI (Model C).

(1) Operational CAROI (Model A)

Application of CAROI principles in the audit resolution process to all audit findings except those specifically selected for Model B or Model C projects.

This model is considered the most standard application in resolving single audits. Using Operational CAROI, ED audit resolution specialists independently or in self-directed teams employ CAROI principles to resolve audit findings.

OPERATIONAL CAROI (Model A)

During the resolution process for Model A audit findings, ED should try again to obtain all relevant information from all appropriate sources in order to make the most informed judgments about resolution. As called for in the CAROI principles, ED should use conference calls, as necessary, with relevant staff within ED and outside ED (e.g., State Educational Agency program staff and state auditors) to seek appropriate information and documentation bearing on findings.

The following example illustrates how the Operational CAROI (Model A) may be applied.

An audit resolution specialist in one of ED's office has the lead responsibility for resolving an audit from a State. Only one other office has findings in the audit. The specialist calls his/her counterpart in the other office and together they develop a strategy for resolving their findings. They call the State to discuss how the audit should be resolved, emphasizing the CAROI principles such as open communication and collaboration.

One of the main goals is to develop solutions that solve the root causes that led to the audit findings. The federal audit resolution specialists work as a team with their State counterparts from multiple offices, as necessary, to obtain the information that is needed to resolve the various findings. As a result, all parties reach agreement that certain corrective actions will be taken. A joint letter is sent out from the two offices involved to the State to close out the audit.

(2) Strategic CAROI (Model B)

Application of CAROI principles in a limited scope CAROI Project managed by the federal level CAROI Team and an appointed working team from the federal, state, and/or local levels.

In this model, the teams will address one or two audit issue areas that involve complex or recurring audit findings. The project may involve a complex cross-cutting finding.

Model B is used if the audit results contain one or more of the following criteria:

1. Audit results contain multiple findings; however, the findings selected for CAROI are in one principal office area.
2. Audit results contain multiple findings involving a number of programs; however, only one or two findings are highly complex and will require focused attention.
3. Audit results contain multiple findings; however, the finding selected for CAROI is one cross-cutting issue with Department-wide policy implications.
4. Audit results include one finding in one program that is highly complex with major policy implications for that program.

STRATEGIC CAROI (Model B)

1. Identification of Issues to be Resolved

Because of the limited scope of Strategic CAROI (Model B), only one or two major issues are undertaken. If there are other pending audit issues that can be easily and quickly resolved, these issues are dealt with as expeditiously as possible so that the major issues can be addressed by the federal and state CAROI teams.

2. Federal Invitation to State Officials

Under Model B, generally, only one state agency is involved. Therefore, the Governor's Office may be informed of the process, but there may be no need for a representative from the Governor's Office to coordinate across state agencies. Therefore, the invitation to state officials to participate in CAROI normally involves a single point of contact.

Aside from the issue of a single state agency involved with federal partners, the process for resolution given in Comprehensive CAROI (Model C) is followed throughout Strategic CAROI (Model B). There may be minor points of adjustment that are made as the process is implemented.

The following example illustrates how Model B may be applied.

A Department CAROI team and a State team work on a set of identical time distribution record keeping findings that arose in several years of audits of the State. One of the findings is the subject of an administrative appeal; one is about to be in a program determination letter; and one appears in the subsequent year's audit. The Federal and State teams work over several months and meet several times conducting most of their discussions by telephone. They work hard to develop a time distribution record keeping system that is tailored to the State Department of Education's staffing patterns. The system not only corrects the problem in the finding but also is adopted in State offices that were not the subject of the audit finding. Eventually, the State encourages the use of the record keeping system in all of its local educational agencies.

(3) Comprehensive CAROI (Model C)

Application of CAROI principles in a broad based CAROI project managed by a federal and state level CAROI Team.

In this model, the teams will address a number of complex and recurring audit findings and audit issue areas.

Specific criteria are applied to determine which CAROI model best suits the audit findings. If the audit results contain one or more of the following criteria, Model C is used:

1. Audit results contain multiple findings that have recurred over several audit periods.
2. Audit results contain multiple findings that involved significant dollars (over \$1,000,000).
3. Audit results contain multiple findings that are cross-cutting and involve precedent setting policy.

COMPREHENSIVE CAROI (Model C)

Federal Invitation to State Officials

The Secretary of Education, Deputy Secretary, or other ED senior officer invites the state to participate in the resolution of audits through CAROI. The invitation stresses the importance of open dialogue, bringing all issues to the table, and a "leveling of the playing field." ED typically invites the Governor, Chief State School Officer and other state agencies with open audit findings. The State Auditor and Comptroller may also be invited. Alternatively, state officials may approach federal officials requesting participation in CAROI at any stage in the grant cycle.

Preliminary Meeting with State/Local Officials

An initial meeting with state officials begins the partnership phase of CAROI. Members of the Federal and State Steering Committees and/or ED and State CAROI Teams who represent each affected education program should attend the meeting. These participants include program staff, persons responsible for financial concerns, auditors, and legal counsel. Upon formation of this group, a "face-to-face" meeting is arranged. When such a meeting is not possible or is impractical, video conferencing or other options may be considered.

COMPREHENSIVE CAROI (Model C) continued

The agenda for the initial meeting includes an explanation of the key strategies of CAROI.

These main strategies are:

1. Create and maintain frequent dialogues with states;
2. Work to resolve open audits or audits under appeal;
3. Improve the single audit process; and
4. Coordinate audits, monitoring, and technical assistance.

Ground rules for negotiation, time lines for reporting negotiation results, and parameters of work group meetings are also set.

ED officials also may present a matrix of findings (Exhibit 4). The matrix shows all open audit findings according to the year the findings occurred, the office/agency responsible for the audit, and the nature and status of the findings. The matrix serves as the working document for discussion and negotiation at subsequent meetings with state partners. It also becomes the format for subsequent preliminary determination letters and the final closing of the audit findings.

CAROI intends to close all outstanding audit findings and/or appealed audit determinations. State officials will be advised that while some of the findings may eventually carry no repayment penalties, as long as sufficient explanatory information is provided, other findings may result in a return of funds to the federal government.

Setting Timelines and Priorities

At the initial meeting with the state partners, the team presents previously identified open audits and establishes an accurate audit inventory. Such identification will allow the parties to agree on the status of findings, cross-cutting issues, repeat findings, and the status of corrective action already implemented. Some open audit findings may in fact be closed at the initial meeting through updated files and the issuance of a program determination letter. The teams mutually agree which of the remaining audit resolution issues will be addressed first in the process. They establish small work groups of key personnel and assign them to specific identified audit findings. As with all audit findings, the following questions guide the resolution process:

- How were funds expended?
- At the classroom level, did the expenditures, albeit questioned by the auditors, benefit students?
- What is the calculated or proportional harm to the federal interest?
- What is needed to correct the problem or deficiency?
- How do the corrective actions improve education?

Cross-Cutting Issues

Certain cross-cutting issues may be found across multiple programs. Such issues have to be resolved in each of the programs. However, a more efficient resolution of those problems is the grouping of the cross-cutting issues into a single task assigned to one work group. Among such cross-cutting issues are those audit findings associated with indirect costs. Additionally, many Department programs serve similar target populations, although each program has a different focus and purpose. Therefore, CAROI promotes the seamless integration of federal education programs to improve teaching and learning.

COMPREHENSIVE CAROI (Model C) continued

Negotiating Acceptable Solutions

The work groups draft a plan of action which includes pertinent information needed, appropriate linkages with other agencies, strategies, timetables, and persons responsible. The information needed may include audit work papers, records of time spent on federal education programs, approved local applications, financial records, and other information that assesses the impact of the federal funds at the classroom level.

In keeping with established time lines and reporting periods, work groups communicate progress and continue negotiation. When the state asks questions, federal partners review information and respond quickly. The work group seeks clarification of certain issues and states the need for additional information. Each work group continues their dialogue until agreement is reached on the audit issues. When all parties agree on the solution to questioned findings, the team indicates agreement in the matrix or through other documentation. If necessary, the team determines the method(s) of repayment. As part of the solution, the work groups devise a plan of improvement. The plan includes changes to be implemented and the necessary reporting procedures to assure on-going program improvement.

Reporting/Signing Acceptable Agreements

The team notes the resolved issues on an updated matrix or other documents and, in keeping with established time lines, letters of agreement are signed by officials at both the federal and state levels. These actions may follow the accepted resolution of each issue. However, the partners may prefer one specific date to issue all letters with joint signatures of federal and state partners.

The following example illustrates how Model C may be applied.

One particularly difficult finding for resolution concerns a State's compliance with the maintenance of effort (MOE) requirement. The MOE requirement is intended to ensure that states receiving federal grants maintain their expenditures from state funds at a level at least equal to the amounts spent in previous years.

For several years, the Auditor General has documented the State's failure to include a specific program in its MOE calculation. ED and the State disagree on the fiscal treatment of the program. This long-running disagreement resulted in millions of dollars in grant funds being disputed and the accumulation of hundreds of hours of litigation costs by both ED and the State.

Using CAROI, the federal and state CAROI working groups take a new look at the statutory definition. The State provides additional documentation without fear of its use in future legal proceedings. Using CAROI, both ED and the State agree on a proper classification for the program in the MOE calculation.

COMPREHENSIVE CAROI (Model C) concluded

When all parties agree on the solution to questioned findings, the team indicates agreement in the matrix or through other documentation. If necessary, the team determines the method(s) of repayment. As part of the solution, the work groups devise a plan of improvement. The plan includes changes to be implemented and the necessary reporting procedures to assure on-going program improvement.

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To help the user determine which CAROI model to apply, the CAROI federal team developed a decision chart, shown in Exhibit 3.

CAROI as a Proactive Process

Prevention of Potential Audit Findings

The use of CAROI principles may occur before audits identify questioned costs or improper practices. At any time, states or ED may suggest using the CAROI process to review certain state or local procedures. In this way, states may implement a system of best practices to improve services before a problem occurs and is identified in an audit. *Improvement forestalls potential findings to better serve education customers.*

Sharing Information

CAROI also works proactively through the sharing of information. Letters of agreement and progress reports are shared with federal, state, and local entities and are posted on the ED web site (www.ed.gov/inits/CAROI/).

ED and state partners also provide information on how states or local entities may avail themselves of CAROI. Professional organizations and national and state conferences serve as information distribution sites. As in all dissemination procedures, the wider the dissemination the better the coverage and hence the establishment of a new network of partners. Over time, more and more entities, having become aware of the new audit resolution process developed through CAROI, are availing themselves of this new approach to audit resolution and program improvement.

Can CAROI be applied to other government agencies?

CAROI is a common-sense approach to problem solving that can be used in many situations. It can be applied to:

- State and local government agencies; and
- Other federal agencies.

CAROI is designed with flexibility to allow the user to customize it to best suit the needs of an individual situation and an agency's needs and specific issues.

What are the challenges to using CAROI?

A primary challenge to CAROI is the natural resistance to change and seeing new opportunities for making a once adversarial process into one that is built on cooperation, partnership, dialogue, and improvement of services. CAROI emphasizes the importance of "seeing defects as gems," where obstacles become opportunities for success.

A second challenge can be a lack of trust. For many years, oversight systems based on an adversarial approach did not promote dialogue and effective listening. Consequently, barriers resulted. While the barriers may appear somewhat formidable at the start of CAROI, focusing on correcting problems helps to reduce the barriers resulting in increased trust. CAROI recognizes that no one level or part of government has all the right answers. Working through a partnership of various offices and levels of government can lead to discovering lasting answers.

A third challenge is scarce resources, both human and fiscal. Both within federal and state agencies, a determination of the amount of staff time needed to complete the process is essential. Without the commitment of adequate time and resources, CAROI may not reach its stated goals.

The CAROI process has consistently saved resources when compared to a more traditional type of resolution. For example, from the beginning, CAROI has produced positive results for ED and its state and local partners. A recommendation from the first CAROI focus group meeting was to eliminate outdated procedures from the audit program to be used to audit the last year of programs under the old Elementary and Secondary Education Act of 1988. One of the states estimated that at least four audit work hours would be saved in each of its school districts resulting from these changes. With over 17,000 school districts nationwide, the estimated savings exceeded a million dollars.

How can the CAROI teams help to get others started in the process?

CAROI teams of state and federal partners will make presentations at national and regional conferences and professional organizations when requested by conference organizers. Team presentations will encourage and apprise future partners of the benefits of using CAROI.

The teams will also provide training at state and regional workshops or upon request by state and local level school district consortia. Since CAROI serves as a departure from "business as usual," presenters may best explain the CAROI principles in small group settings, particularly to those entities who choose to apply the process to resolving outstanding audit findings. Users may also access the CAROI web site at www.ed.gov/inits/CAROI for additional information.

Please contact any of the following representatives for initial assistance with potential CAROI projects.

CAROI Contact Information		
Name	Phone Number	Principal Office
Barbara Bauman	202-205-8474	Office of Special Education and Rehabilitative Services (OSERS)
Richard DiCola	202-205-9441	Office of Vocational and Adult Education (OVAE)
Mary Jean LeTendre	202-260-0826	Office of Elementary and Secondary Education (OESE)
Phil Maestri	202-205-3511	Office of the Chief Financial Officer (OCFO)
Chuck Miller	202-401-1773	Office of the Chief Financial Officer (OCFO)
Rich Rasa	202-205-9640	Office of Inspector General (OIG)
Phil Rosenfelt	202-401-6084	Office of the General Counsel (OGC)

Exhibit 1

Outline of Audit Resolution Process and use of CAROI Principles

The following information is an outline of the audit resolution process for Single Audits that involve findings for programs other than those in the Higher Education Act and examples of how CAROI principles may be used during the steps in those procedures (CAROI steps are in bold). It is just one example of how CAROI principles may be used. There are many other creative ways to use these principles.

1. The Single Audits are submitted through the Single Audit Clearinghouse to the Department for resolution.
2. Audit findings are assigned to appropriate Department offices depending on the program in which each audit finding arose. Some findings may involve more than one program and more than one office.
3. **The assigned office reviews the report to determine a resolution approach that is commensurate with the seriousness of each assigned finding.** This step ensures that the resources devoted to resolving the audit finding reflects the significance of the finding.

To determine the seriousness of the finding, the office may seek additional information from the auditee, and/or the auditor, through a "35-day letter" inviting information from the auditee (see example of letter at Exhibit 2). If the office assigned can tell what types of information would be most helpful to resolve a finding, it may request specific information.

In addition to audit resolution staff, the office will involve, as appropriate, staff from other offices (e.g., Office of Inspector General (OIG), Office of the Chief Financial Officer (OCFO), Office of the General Counsel (OGC), and program offices) to select a resolution approach and to determine what information may be needed. As the assigned office receives audit reports, meetings are convened with staff from these offices to select the resolution approach.

4. **At this point, the assigned office identifies audit reports or specific findings in an audit report as potential candidates for Model B/Strategic CAROI projects or Model C/Comprehensive CAROI projects and will refer them to the CAROI Committee. All findings not recommended for Model B or Model C projects are resolved as Model A projects unless the finding involves intentional fraud or otherwise cannot be resolved through CAROI. Some findings are resolved in an abbreviated manner, some are resolved by providing technical assistance and some are resolved through a more detailed program determination letter. CAROI principles are used whenever appropriate.**
5. On a monthly basis representatives of all Department offices involved in audit resolution meet to

review proposed resolution approaches for consistency across offices.

6. Within six months of issuance of the audit report, the responsible office makes every effort to resolve assigned findings and give appropriate notification to the auditee.
7. The responsible office in the Department will monitor the completion of any corrective actions that the auditee promises to take in response to the Department's determination.
8. The appropriate offices will link audit resolution with program monitoring and technical assistance efforts (and vice versa) so that monitoring teams know how audit findings were resolved. During on-site monitoring visits, these teams review implementation of any corrective actions and audit resolution staff are made aware of past and upcoming monitoring and technical assistance and actions taken.

Exhibit 2
Example of 35-Day Letter for Audits of State Entities

Re: Audit Control Number:
Auditee:
Audit Period:
Audit Issue Date:

Dear :

The U.S. Department of Education (Department) has received the audit report cited above which contains one or more audit findings regarding programs or activities administered by your organization. The Department is responsible for resolving these audit findings, and we welcome your input.

Before we proceed with resolution of the findings for which this Department is responsible, we are interested in receiving and considering any additional information you may want to submit regarding the following finding(s): **(list findings)**

To make your response as helpful as possible, it should include:

- (1) Comments on the auditors' findings,
- (2) Corrective actions planned or taken including target completion dates or actual completion dates,
- (3) Other information which may have a bearing on the resolution of the findings,
- (4) Contact person, phone number, and address for each finding, and
- (5) Audit control number referenced at the top of this letter.

Given the time that has lapsed since your audit report was prepared, your response will provide us with a status update on the information you provided in the audit report and/or in your corrective action plan in response to the findings. To ensure full consideration of your comments, please submit them within 35 days of the date of this letter. Your response should be mailed to me at the following address:

Name of Audit Liaison Officer (ALO)
Office of _____
Mailing address

We look forward to working with you to resolve the findings in this audit report. If you have any questions or concerns, please contact me at (202)_____. For your information, U.S. Department of Education officials and representatives (program, financial, legal, and audit staff) of a few States have been working in partnership as part of the Cooperative Audit Resolution and Oversight Initiative. This Initiative is aimed at conducting the audit resolution process for the Department's findings in a more flexible, useful and cooperative fashion with State and local agencies to resolve audit findings more effectively and to promote better program performance.

During this 35 day period we want to begin a partnership process with you. As initial steps, we encourage you to meet with your State auditors, financial officers, and attorneys to develop your response and to assist us in resolving your audit most effectively. Complete and accurate information will help us to make a timely determination in cooperation with you.*

Sincerely,

Name of Audit Liaison Officer
Audit Liaison Officer
Office of _____

cc:

*** This paragraph should be modified if the auditee is not a state entity.**

**Exhibit 3
CAROI Decision Chart**

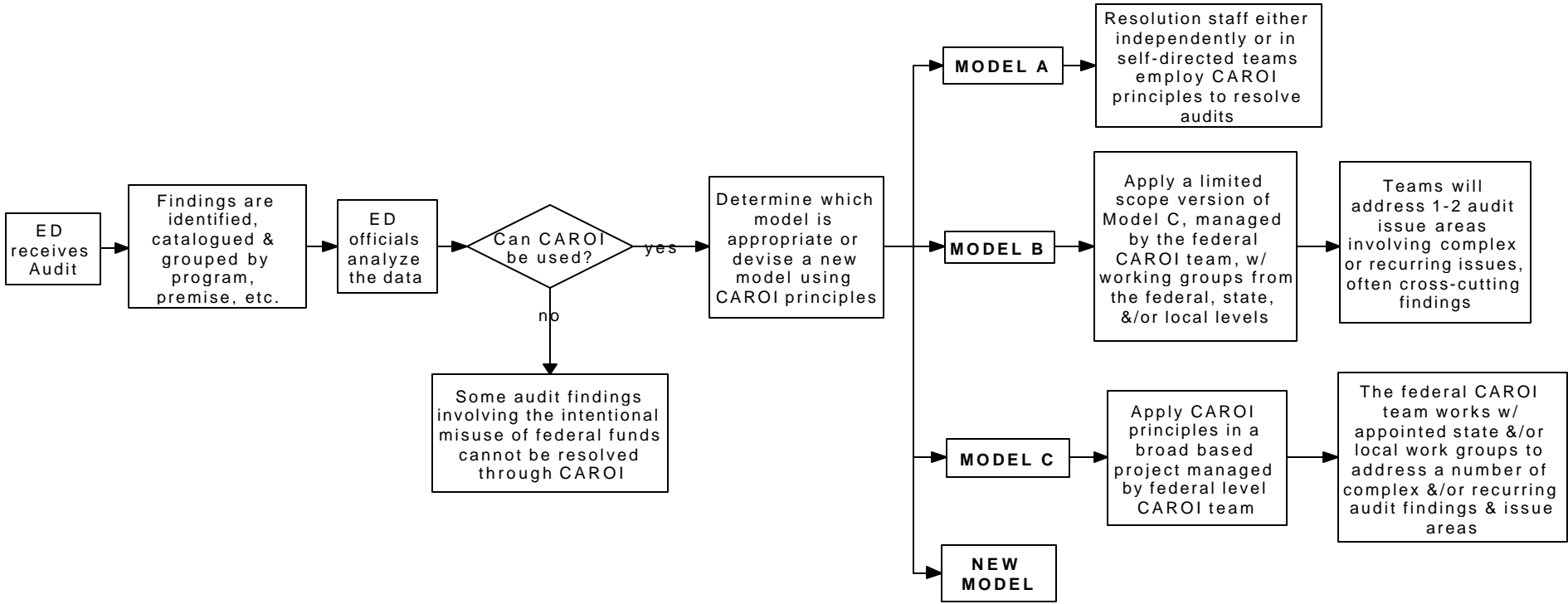


Exhibit 4
Example of CAROI Matrix Used for Statewide Single Audit Findings

Year/Finding#	Auditee	PO	Finding	Description	Comments
1996 –ACN 0988					
278 P. 2-177	SEA	OVAE	Standards and Assessments	In a recurring finding, SEA’s basic standards and measures did not include measures of student learning and competency achievement for secondary and postsecondary vocational education programs.	
279-283 P. 2-178	SEA	OVAE	Maintenance of Effort	In a recurring finding, auditors said SEA has not clearly established a level of non-federal expenditures for state administration that could be used to determine whether maintenance of effort requirements for FY 93 and subsequent fiscal years had been met.	
288 P. 2-183	SEA	OSERS	Time and Attendance	SEA did not maintain the required certifications to support that only approved employees worked on the Services Program during the applicable periods.	
1995 - ACN 08777					
235b P. 2-137	SEA	OVAE	Subrecipient Audit	SEA did not ensure corrective actions were taken by 2 subrecipients within 6 months of receiving their audit reports.	
1994 - ACN 06555					
278 P. 2-167	SEA	OVAE	Maintenance of Effort	In a recurring finding, auditors said SEA has not clearly established a level of non-federal expenditures for state administration that could be used to determine whether maintenance of effort requirements for FY 93 and subsequent fiscal years had been met.	

PO: ED’s Principal Office

ACN: Audit Control Number

SEA: State Education Agency

OVAE: Office of Vocational and Adult Education

OSERS: Office of Special Education and Rehabilitative Services

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