

The Ins and Outs of Federal Audits

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The Ins and Outs of Audits

What are they?

Agenda

- ◆ How to Prepare for an Audit
- ◆ Working with the Auditors
- ◆ What Happens When They Leave?
- ◆ What is the Cooperative Audit Resolution and Oversight Initiative (CAROI)?
- ◆ What to do about Fraud?

Tools to Help You Get There

Formula for Success	Tools for Success
<ul style="list-style-type: none">◆ Preparing Early for an Audit◆ Working Cooperatively with the Auditors◆ Taking Prompt Corrective Action◆ Knowing Your Audit Resolution Tools◆ Preventing and Detecting Fraud	<ul style="list-style-type: none">◆ Risk Assessment Monitoring Tool◆ Financial and Administrative Monitoring Tool◆ Guide to CAROI◆ Fraud Prevention Toolkit

Keys to Federal Grant Success

- ◆ Knowledge of program and financial goals and requirements
- ◆ A plan to accomplish goals and meet requirements
- ◆ A plan for monitoring and oversight
 - ◆ Risk Assessment
 - ◆ Internal Controls
- ◆ A system to document grant activities

Keys to Preparing for a Successful Audit

- ◆ Executing the plan and ensuring it's working as intended
 - ◆ Knowledge of program and financial goals and requirements
 - ◆ Accomplishing goals and meet requirements
 - ◆ Conducting monitoring and oversight
 - ◆ Risk Assessment
 - ◆ Internal Controls
 - ◆ Documenting grant activities
- ◆ Accomplishing these things before the auditors show up

Working with the Auditors

- ◆ Initiate an open dialogue
 - ◆ Understand what the auditors need – they are trying to answer specific objectives
 - ◆ Help them answer those objectives at your organization
- ◆ Avoid surprising anyone at the end (both auditors and management)
- ◆ Be open to discussing your organizational challenges

What Happens When They Leave?

- ◆ Use the information gathered through your open dialogue
- ◆ Start working internally to address any challenges after the Exit Conference, don't wait for the Draft Report
- ◆ Respond to findings in the Draft Report with steps taken and planned to address those challenges



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

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What is CAROI?

- ◆ A process developed at ED in the 1990's to address audit findings and improve program performance
- ◆ Used successfully to address longstanding audit findings that are requiring a lot of time, effort, and money
- ◆ Helps organizations invest in the solution to problems rather than investing in debating whether or not there is a problem
- ◆ OMB/AGA Intergovernmental Partnership Guide to Cooperative Audit Resolution
- ◆ CAROI principles incorporated into OMB's Draft Uniform Guidance for Federal Awards

What is CAROI?

- ◆ Four Goals of CAROI

- ◆ Create and maintain a dialogue (sound familiar?)
- ◆ Resolve audits/oversight findings cooperatively
- ◆ Improve audits
- ◆ Coordinate audits, monitoring, and technical assistance activities

- ◆ Six CAROI Principles

- ◆ Facilitate the resolution of oversight findings
- ◆ Improve communications
- ◆ Foster collaboration
- ◆ Promote trust
- ◆ Develop understanding
- ◆ Enhance performance

OMB Defines CAROI

- ◆ ***Cooperative Audit Resolution*** means the use of audit follow-up techniques which promote prompt corrective action by improving communication, fostering collaboration, promoting trust, and developing an understanding between the Federal agency and the non-Federal entity. This approach is based upon:
 - a) A strong commitment by Federal agency and non-Federal entity leadership to program integrity;
 - b) Federal agencies strengthening partnerships and working cooperatively with non-Federal entities and their auditors; and non-Federal entities and their auditors working cooperatively with Federal agencies
 - c) A focus on current conditions and corrective action going forward;
 - d) Federal agencies offering appropriate amnesty for past noncompliance when audits show prompt corrective action has occurred; and
 - e) Federal agency leadership sending a clear message that continued failure to correct conditions identified by audits which are likely to cause improper payments, fraud, waste, or abuse is unacceptable and will result in sanctions.

What Others are Saying

“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

“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, Feb. 1, 2010

Who's Using CAROI Right Now?

- ◆ Tribal Government Initiative
- ◆ Equal Employment Opportunity Commission
- ◆ National Science Foundation

The Journal of Public Inquiry



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INTEGRITY AND EFFICIENCY

Innovative Approach to Audit Issues The Cooperative Audit Resolution and Oversight Initiative

By Richard Rasa

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

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

CAROI – A DIFFERENT APPROACH

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

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

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

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

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

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

What About Fraud?

- ◆ Recognize it
- ◆ Report it
- ◆ CAROI is not applicable
- ◆ Rosslyn School District
 - ◆ <http://www.osc.state.ny.us/press/releases/mar05/030205.htm>

Partnership Products that can Help

- ◆ **Partnership Products** – <http://www.agacgfm.org/Tools---Resources/Intergovernmental-Partnership/Partnership-Projects.aspx>
 - ◆ CAROI Guide
 - ◆ Risk Assessment Monitoring Tool
 - ◆ Financial and Administrative Monitoring Tool
 - ◆ Fraud Prevention Toolkit
 - ◆ AGA/NGMA Candidate Assessment Toolkit (COMING SOON!)
 - ◆ Leveraging Resources in Tough Financial Times (COMING SOON!)
- ◆ **Proposed OMB Uniform Guidance** – http://www.whitehouse.gov/omb/grants_docs



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