UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

400 MARYLAND AVENUE, S.W.
WASHINGTON, DC 20202-1500

March 22, 2006

Control Number
ED-OIG/A05F0015

William McCabe
Acting Chief Financial Officer
U.S. Department of Education
Office of the Chief Financial Officer
400 Maryland Avenue, SW
Washington, DC 20202

Dear Mr. McCabe:

This **Final** Audit Report, entitled *The U.S. Department of Education's Monitoring of Adherence to Matching Requirements*, presents the results of our audit. The purpose of the audit was to determine if the U.S. Department of Education (ED) had adequate procedures in place for monitoring grantees' adherence to matching fund requirements of applicable ED programs. Our audit covered the period October 1, 2003, through September 30, 2004 (FY 2004).

BACKGROUND

The Office of the Chief Financial Officer (OCFO) has the primary responsibility for serving as the principal advisor to the U.S. Department of Education on all matters related to discretionary grant-making, cooperative agreements, and procurement, as well as financial management, financial control, and accounting. The OCFO's mission is to provide accurate, timely, and useful grant, contract and financial management information and services to all of ED's stakeholders. The OCFO supervises the Grants Policy and Oversight Staff (GPOS), which is divided into two components, the Grants Policy and Analysis Team and the Grants Management Improvement Team.

Match, which is also referred to as cost-share, is defined as the portion of program costs contributed by a grant applicant. It is either a statutorily specified percentage of program costs that must be contributed by a grant applicant in order to be eligible or where the applicant voluntarily shares in the costs of the program. Matching contributions must

- be comprised of cash or in-kind contributions
- be fully documented and accounted for in the grantee's expenditure records and reports, and

- meet the same standards for allowable costs as the federal share.

Matching contributions are a significant factor in the overall success of achieving program goals and objectives. In FY 2004, ED had at least 41 programs in 6 Principal Offices with matching requirements. ED awarded over $5.4 billion to grantees during FY 2004 for these 41 programs. Using FY 2004 appropriations and the minimum percentage of match required for each of the 41 programs, we concluded that these programs required at least $1.5 billion[1] in matching contributions. (See Attachment 1.)

AUDIT RESULTS

ED administers at least 41 discretionary and formula grants, in 6 Principal Offices, with specific requirements for matching contributions. Based on a survey of monitoring plans and further review at a number of program offices, we found that ED did not have adequate procedures in place for monitoring grantees' adherence to matching requirements for the majority of these programs. The program offices did not consistently monitor match in part because GPOS did not provide adequate guidance, training, and oversight of procedures and practices to monitor cost-sharing/match. The inadequate coverage of match represented a significant weakness in ED's internal controls over the grant monitoring process.

We received your response dated March 2, 2006, which provided corrective action for each of our recommendations in our draft report dated January 17, 2006. The response is summarized following the finding and recommendations and is included in its entirety as Attachment 3.

FINDING – GPOS Did Not Assure That Program Offices Adequately Monitored The Estimated $1.5 Billion In Grant Resources Provided By Matching Contributions

We determined that the guidance and training GPOS provided was not adequate in assisting Principal Offices to monitor grantees' compliance with matching requirements, which is a goal included in GPOS' responsibilities. In addition, the monitoring plans Principal Offices submitted to GPOS were not specifically reviewed for measures to monitor compliance with matching requirements, and only 6 of the 41 programs had program-specific monitoring plans that included specific measures to monitor match. Therefore, we could not rely on the monitoring plans to document the procedures in place to monitor match.

The absence of specific measures to monitor match in the monitoring plans was consistent with the observed procedures in place at the program office level. Our review of 13 judgmentally selected programs, summarized in Attachment 2, revealed that the programs were not monitoring match adequately. We determined that only three programs: Even Start – State Educational Agencies, Adult Education - State Grant Program, and Vocational Education – Basic Grants to

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[1] The stated amount is a conservative estimate using the smallest required match for all programs. Principal Office officials have stated that for a number of programs, the actual match required is much larger.

States, were able to document a thorough understanding of the match provisions in the following areas: Monitoring Plans, Monitoring Instruments, and Site Visit Reports. In these areas, the other 10 programs addressed their matching requirements either minimally or not at all. Our review also revealed that none of the programs adequately documented an in-depth monitoring of their matching requirements in the Program Grant Files. Without adequate monitoring of matching requirements, ED cannot ensure that program recipients are receiving full benefits and services.

According to its mission statement and the Handbook for the Discretionary Grant Process[2] (Handbook), GPOS is responsible for providing ED-wide oversight to ensure that policies relative to the grant award and administration process are effectively communicated to Principal Offices and to assist them in their efforts to adhere to the approved policies. GPOS' oversight includes several interrelated responsibilities and functions carried out in partnership with ED's Principal Offices' officials and their staff. These responsibilities include, but are not limited to, the following:

- Establishing clear policies that are based on statutes, regulations, and other requirements that enable consistent policy interpretation and implementation on grant administration issues.

- Providing training and technical assistance to Principal Offices. Principal Offices must have a working knowledge of grant policy and how it applies to different situations for effective grant administration.

- Collaborating with program officials responsible for grant programs to achieve effective monitoring of grant programs and to ensure that monitoring activities and processes are conducted consistently and comply with ED regulations and policies.

- Collaborating with program officials to conduct periodic reviews and evaluate the internal policies and procedures of ED's overall discretionary grant process.

- Maintaining and updating the Handbook.

The Principal Offices did not adequately monitor match requirements because GPOS did not (1) consider the requirements to be significant, (2) provide sufficient guidance on the requirements, (3) provide sufficient training on the requirement, or (4) require monitoring plans to include specific measures to monitor the requirements.

Significance
In response to an interim exception report, the Director of GPOS stated that matching requirements are not a significant concern or risk because it only affects 20 percent of all programs. In addition, there has been no indication from grantee audits or other sources that improper or insufficient match contributions have been a significant problem. For those reasons, GPOS (1) rejected the notion that match is an inherent "risk" area; and (2) did not think it was necessary to single out match through its issuances or presentations. Further, GPOS believed that increasing the awareness of match would result in implying that there is a problem with

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[2] Handbook OCFO-04, dated 3/31/2003. (GPOS published a revised version of the Handbook on February 24, 2006. In reviewing the revised Handbook, we did not note any significant changes from the previous version relating to monitoring matching contributions.)

match when none exists. Lastly, GPOS believed that any risk associated with match falls within the responsibility of the grantee, not with the actual match cost category. Therefore, the associated risk would involve the grantee's own funds and not federal funds.

Given that matching requirements are contained in 20 percent of ED programs (at least 41 individual programs in 6 Principal Offices with an estimated $1.5 billion in matching contributions), we believe matching requirements are significant enough to merit specific monitoring efforts. Matching contributions symbolize services and benefits program recipients receive. Matching contributions are not just entity funds; they are a major part of the entire program. Without matching contributions, programs jeopardize successful accomplishment of their goals and objectives. Improper and insufficient match has been identified as an issue, as noted in OIG Audit Reports (e.g., A05-D0017 issued January 14, 2004, and A07-B0011 issued May 8, 2003). These two reports recommended a recovery amount of over $2.8 million, due to the matching contributions not meeting federal requirements. We agree that match does not need to be singled out for separate training; however, because of the dollars and benefits at risk, in addition to match being a specific requirement of the programs' statutes enacted by Congress, GPOS should ensure that match is adequately covered in existing training and guidance.

Guidance
GPOS provided limited information on match in its published guidance and individual program offices were on their own to determine how to monitor grantees' compliance with matching requirements. Our discussions with program staff revealed that some within the Principal Offices did not use or did not know that GPOS was available as an active resource for match-related issues because GPOS provided only limited guidance. Therefore, these program staff generally sought guidance from the Office of General Counsel.

The Handbook includes limited guidance on match.

- Section 5.7 Other Project Costs: Section 5.7.1-Grantee Cost Sharing or Matching (Non-Federal Share), defines the meaning of cost-sharing or matching. It covers basic information that a grantee's application must include on match. The second section, 5.7.2-Calculating Cost Share Amounts, presents examples on calculating the applicants' matching contributions. Although the Handbook references Education Department General Administrative Regulations (EDGAR) and states that the non-federal share of the project must be allowable, it does not provide information to program staff on valuing contributions, types of allowable contributions, or what constitutes adequate documentation to support a grantee's match.

- Section 6.4 Monitoring: The monitoring guidance in Section 6.4.3-Purposes, lists nine purposes that must be addressed in its monitoring procedures including Fiscal Accountability, which is defined as "Verifying that federal funds are being managed according to federal cash management requirements and expended for authorized purposes." Section 6.4.5-Monitoring Procedures and Requirements, outlines special requirements for fiscal monitoring. It states that program staff is required to pay particular attention to grantees' fiscal activities as part of the monitoring process, using GAPS as the primary tool for fiscal oversight. Although GAPS can capture grantees' proposed match contribution, it cannot capture grantees' actual matching contributions. The Handbook also makes no reference to fiscal responsibility other than drawdowns of

federal funds. Further, nowhere in the Handbook is monitoring a program's matching requirement clearly and specifically addressed.

- Section 6.4 Monitoring: The section also addresses the required monitoring plans and states that each Principal Office must design its monitoring procedures to address compliance and fiscal accountability. It further states that the monitoring plans must address several considerations, including Grantee or Program Risk Factors, and that the Director of GPOS shall review the plans and work with Principal Office staff to incorporate suggestions for improvement to the plan or resolve issues of concern.

The Handbook should be the primary resource for program staff and serve as the foundation for all grant-related activities. By compiling, highlighting, and summarizing information on match-related topics, such as valuing contributions, types of allowable contribution, and adequate documentation to support match contributions, program staff will have effective and efficient access to information to answer any match-related questions they have. In addition, the Handbook should direct program staff to resources that can provide clear and detailed answers to program or grantee-specific questions.

Training
The training GPOS provided was consistent with its guidance. We reviewed GPOS training and found the only training related to match covered the ED 524B form (an annual reporting form GPOS created for grantees to report fiscal and performance data simultaneously). In this training, match was only briefly addressed and attendance was not mandatory. GPOS did not provide any in-depth training on how to monitor matching requirements. The training that was offered did not provide coverage or examples on evaluating the value of match contributions, allowable in-kind contributions, or adequate documentation to support in-kind contributions. The ED 524B training slide for ED staff on Budget Expenditures relating to match consisted of one line, "Breakdown expenditures between Federal and Non-Federal funds," in the entire presentation. In addition, the ED 524B form does not include sufficient detail on match contribution sources.

Monitoring Plans
ED issued memoranda requiring some Principal Offices to submit a FY 2003 and FY 2004 program-specific monitoring plan for every formula and discretionary grant program. In FY 2004, Principal Offices were also required to submit office-wide monitoring coordination plans. As stated in the memoranda, the purpose of the monitoring plans was to emphasize the need for monitoring to focus on performance and results, compliance with the law, and protection against fraud, waste, and abuse. The monitoring plans were also to provide GPOS with an overview of the actual monitoring practices within ED. When creating the monitoring plans, program offices were to describe their respective monitoring activities, while addressing all considerations identified in the memoranda and related guidance, including "Grantee or Program Risk Factors." The plans were to also benefit the Principal Offices by articulating, in writing, the monitoring procedures each office follows. However, the instructions for developing program-specific monitoring plans did not sufficiently emphasize the importance of including high-risk areas, such as non-federal match, in the plans.

GPOS officials informed us that the Grants Management Improvement Team was delegated the responsibility of collecting, reviewing, analyzing, and reporting on the program-specific

monitoring plans and office-wide monitoring coordination plans. The Team reviewed the monitoring plans to determine if Principal Offices complied with the memoranda and the policy in the Handbook for (1) procedures to identify risky programs and monitor the different levels of performance; and (2) best practices applied strategically for frequency of monitoring, monitoring techniques, and training for staff. Specific measures to monitor match were included in the monitoring plans for only 6 of the 41 programs. None of the office-wide plans contained such measures. Nevertheless, the Team did not consider the plans to be incomplete.

Matching contributions represent a significant portion of the funding for each program. Without adequate monitoring of match, ED does not know if grantees are providing their required match contribution, which is essential to achieving program goals and objectives. In addition, non-compliance with match requirements results in program recipients not receiving the full benefits of a program's services. Furthermore, if grantees are non-compliant with match and then draw down federal funds, those funds may be classified as unallowable (see 34 C.F.R. §§ 80.43 and 80.44 and Title 20 U.S.C. Chapter 31, Subchapter IV §§ 1234-1234i).

Finally, GPOS' inattention to match requirements within ED resulted in the lack of procedures to monitor match at the program level as identified in the extended review of the 13 programs reported above and in Attachment 2. Discussions with program staff for the 13 programs also revealed that many do not review grantees' Single Audit reports as part of their monitoring process. In addition, program staff told us that many of the programs do not place match as a high priority when monitoring grantees. This represents a significant weakness in ED's internal controls over the grant monitoring process. By not providing adequate oversight to Principal Offices, GPOS missed an opportunity to compile and publish best practices from program offices that understood and monitored match well. In Attachment 2, we have documented the better practices observed at the 13 program offices we reviewed.

Recommendations:
We recommend that the Office of the Chief Financial Officer require the Grants Policy and Oversight Staff to

1.1   Revise the Handbook to include specifics on monitoring match, such as how to value a matching contribution, examples of allowable in-kind contributions, and acceptable documentation to support matches involving cash and/or in-kind contributions. Also, ensure that the Handbook incorporates descriptions of various matching requirements. This information could be included in the Monitoring Plan section of the Handbook.

1.2   Ensure that staff with oversight responsibilities for grant programs with a matching component receive training on monitoring match. Ensure that the training includes any noted best practices and issues identified in audits and/or program reviews.

1.3   Require Principal Offices to update their monitoring plans to include specific measures for monitoring grantees' adherence to program matching requirements.

1.4   Review all monitoring plans to ensure that specific measures for monitoring match are included.

1.5   Conduct program reviews to ensure program staff are monitoring match as prescribed in their respective monitoring plans.

1.6   Advise program staff to review grantees' Single Audit reports for applicable findings as part of the match monitoring process.

1.7   Establish a mechanism for publishing best practices regarding monitoring match for Principal Offices to reference. The best practices may include examples of monitoring tools and forms.

Auditee Comments

The OCFO stated that it recognized that policy and training related to monitoring grantees' matching requirements could be strengthened and improved.

The OCFO also commented on the audit sample. It stated that a majority of the programs and dollars examined were formula programs, and that a larger sample of discretionary grant programs would have given the OCFO a better understanding of any deficiencies related to monitoring matching requirements. The OCFO also stated that the "OCFO only has oversight responsibility regarding discretionary grantmaking."

OIG Response

The majority of the programs and dollars examined in the audit sample were discretionary programs. Of the 13 programs sampled, only 3 (23%) were formula programs representing only $277 million (37%) of the $744 million minimum match for the 13 programs. Thus, the results of our review should provide GPOS with a better understanding of the deficiencies related to monitoring matching requirements. We acknowledge that for the 41 ED grants with a matching requirement, the total minimum match for the 6 formula grants exceeded the dollar amount for discretionary grants.

We also note that the OCFO's oversight is not limited to discretionary programs as evidenced by the ED memoranda requiring both discretionary and formula grant programs to submit their monitoring plans for OCFO's review and analysis.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if ED has adequate procedures in place for monitoring grantees' adherence to matching fund requirements of applicable ED programs. The audit covered the period October 1, 2003, through September 30, 2004 (FY 2004).

To achieve the audit objective, we
   • Conducted interviews with ED officials and program staff of selected programs from the Office of Postsecondary Education (OPE), Office of Elementary and Secondary

Education (OESE), Office of Vocational and Adult Education (OVAE), Office of Special Education and Rehabilitative Services (OSERS), Office of English Language Acquisition (OELA), and Office of Innovation and Improvement (OII).

- Conducted interviews with the Director of GPOS, along with staff from the Grants Policy and Analysis Team and the Grants Management Improvement Team.
- Identified 41 discretionary/formula grant programs within 6 Principal Offices that have specific requirements for matching contributions.
- Reviewed legislation and regulations governing each of the 41 programs.
- Reviewed policies and procedures GPOS developed for monitoring ED programs.
- Reviewed policies and procedures from each Principal Office and all 41 program offices related to monitoring grantees' adherence to matching requirements.
- Obtained and reviewed all program-specific and office-wide monitoring plans submitted to GPOS for FY 2003 and FY 2004. We reviewed a total of 77 (40[3] FY 2003 plans and 37[4] FY 2004 plans)[5] program-specific monitoring plans and 5 office-wide monitoring plans.
- Performed a risk assessment to determine which of the 41 programs had adequate procedures in place to monitor their grantees' adherence to matching fund requirements of applicable programs.
- Classified 13 of the 41 programs as high-risk.

For our review of 12 of the 13 programs identified as high-risk, we judgmentally selected from available program grant files and site-visit reports that covered FY 2003 and FY 2004. For one program, grant files were not made available during our site visit. We reviewed between 1[6] and 5 program grant files for each program. The file review was conducted only for the purpose of confirming reported controls and procedures over the process for monitoring match requirements. We are not projecting the results of our file review to each program's universe of grantees. For site-visit reports, program staff informed us which grantees received site-visits, and we judgmentally selected reports for review.

To achieve our audit objective, we relied, in part, on data from the General Services Administration's Catalog of Federal Domestic Assistance to determine the number of grant programs with matching requirements. We verified the accuracy of the list of programs with officials from each Principal Office. We also obtained FY 2004 appropriations from each Principal Office's homepage as shown on ED's website (**www.ed.gov**) and obtained FY 2004 funding from the U.S. Department of Education's Grant Award Database.

Fieldwork was performed at OPE, OESE, OVAE, OSERS, OELA, OII, and GPOS offices in Washington, D.C. during the periods of April 18-22, May 16-20, and July 25-29, 2005. We conducted an exit conference with GPOS on October 27, 2005. Our audit was conducted in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

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[3] The State Charter School Facilities Incentives Grant Program, CFDA 84.282D, first received funding in FY 2004, so an FY 2003 program-specific monitoring plan was not required.
[4] OSERS did not submit four program-specific FY 2004 monitoring plans.
[5] In FY 2004, Principal Offices were required to only submit updates to the FY 2003 program-specific monitoring plans. Therefore, we reviewed both the FY 2003 and FY 2004 plans to achieve our audit objective.
[6] We reviewed fewer than three files only when there were no other files available to review.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials. An electronic copy has been provided to your Audit Liaison Officer.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). ED policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the finding and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you have any questions, please call Richard J. Dowd, Regional Inspector General for Audit, at (312) 886-6503.

Sincerely,

Helen Lew /s/
Assistant Inspector General for Audit Services

Attachments

Attachment 1

Program Office	Program/Grant	CFDA#	Minimum Percentage[7] Match Required[8]	Total Appropriations for FY 04	Estimated Minimum Match Contribution Required
U.S. Department of Education Programs With Matching Requirements					
Office of Special Education and Rehabilitative Services (OSERS)	Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	21.30% of PC	$2,553,362,000	$691,062,396
	Rehabilitation Services-Service Projects: Migrant and Seasonal Farm Workers	84.128G	10% of PC	$2,321,223	$257,914
	Rehabilitation Services-Service Projects: Special Recreation Programs for Individuals with Disabilities	84.128J	25% of PC	$2,563,784	$854,595
	Rehabilitation Long-Term Training	84.129	10% of TPC	$18,882,472	$2,098,052
	Independent Living-State Grants	84.169	10% of PC	$22,020,309	$2,446,701
	Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	84.177	10% of PC	$31,811,200	$3,534,578
	Assistive Technology: Alternative Financing Program*	84.224C	50% of PC	$0	$0
	Projects With Industry	84.234	20% of PC	$21,798,625	$5,449,656
	Rehabilitation Short-Term Training	84.246	10% of PC	$449,992	$49,999
	Rehabilitation Services-American Indians with Disabilities	84.250	10% of TPC	$30,800,000	$3,422,222
	Rehabilitation Training-Experimental and Innovative Training	84.263	10% of PC	$297,710	$33,079
	Rehabilitation Training-Continuing Education	84.264	10% of PC	$10,388,010	$1,154,223
	Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	10% of PC	$5,873,934	$652,659
	Special Education Research and Innovation to Improve Services and Results for Children with Disabilities/Model Demonstration Projects for Children with Disabilities *	84.324M	10% of PC	$0	$0

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[7] For those programs that have a progressive match requirement during the grant cycle, we used the minimum percentage of match required during the entire grant cycle to provide a conservative estimate of the total funds required from matching contributions in FY 2004.

[8] For those programs that have a match requirement as a percentage of federal funds, we used the acronym "FF." For those programs that have a match requirement as a percentage of total project costs or project costs, we used the acronym "TPC" or "PC," respectively.

Program Office	Program/Grant	CFDA #	Minimum Percentage Match Required	Total Appropriations for FY 04	Estimated Minimum Match Contribution Required
OSERS	Special Education Research and Innovation to Improve Services and Results for Children with Disabilities/Outreach Projects*	84.324R	10% of PC	$0	$0
Office of Innovation and Improvement (OII)	Star Schools	84.203	25% of PC	$20,362,150	$6,787,383
	State Charter School Facilities Incentives Grant Programs	84.282D	10% of PC	$18,700,000	$2,077,778
	Ready To Teach **	84.286B	100% of FF	$2,091,228	$2,091,228
	Parent Information and Resource Center ***	84.310	No minimum	$41,974,878	
Office of English Language Acquisition (OELA)	Foreign Language Assistance	84.293	100% of FF	$16,545,800	$16,545,800
Office of Vocational and Adult Education (OVAE)	Adult Education - State Grant Program*******	84.002	25% of TPC	$564,220,084	$188,073,361
	Vocational Education - Basic Grants to States****	84.048	5% of PC	$1,195,007,610	$62,895,137
	Community Technology Centers	84.341	50% of TPC	$9,941,000	$9,941,000
Office of Elementary and Secondary Education (OESE)	Even Start - State Educational Agencies********	84.213	10% of TPC	$246,909,587	$25,788,335
	Even Start - Migrant Education	84.214	10% of TPC	$4,600,000	$511,111
	Even Start - Indian Tribes and Tribal Organizations	84.258	10% of TPC	$4,938,192	$548,688
	Eisenhower Regional Mathematics and Science Education Consortia	84.319	20% of PC	$14,814,078	$3,703,520
	Comprehensive School Reform-Quality Initiatives Technology Assistance	84.332B	10% of FF	$5,670,000	$567,000
	Early Childhood Educator Professional Development	84.349A	50% of TPC	$14,814,000	$14,814,000
Office of Postsecondary Education (OPE)	Undergraduate International Studies and Foreign Language Program	84.016	50% of TPC	$4,490,000	$4,490,000

Program Office	Program/Grant	CFDA #	Minimum Percentage Match Required	Total Appropriations for FY 04	Estimated Minimum Match Contribution Required
OPE	Higher Education - Institutional Aid- Historically Black Graduate Institutions*****	84.031B	100% of FF	$53,100,000	$35,100,000
	Higher Education - Institutional Aid- Historically Black Colleges and Universities******	84.031B	100% of FF	$82,941,697	$82,941,697
	Business and International Education Projects	84.153	50% of PC	$4,490,000	$4,490,000
	Graduate Assistance in Areas of National Need	84.200	25% of TPC	$30,616,000	$10,205,333
	Centers for International Business Education	84.220	10% of PC	$10,700,000	$1,188,889
	Institute for International Public Policy	84.269	50% of PC	$1,639,330	$1,639,330
	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	100% of FF	$298,230,000	$298,230,000
	Teacher Quality Enhancement Grants	84.336	25% of FF	$88,887,451	$22,221,863
	International Education - Technological Innovation and Cooperation for Foreign Information Access	84.337	33.33% of TPC	$1,700,000	$849,873
	Preparing Tomorrow's Teachers to Use Technology*	84.342	50% of TPC	$0	$0
	Underground Railroad Educational and Cultural Program	84.345	80% of FF	$2,222,000	$1,777,600
				$5,440,174,344	**$1,508,495,001**

Notes:
* Program has active non-competing continuation grants, but no new appropriations in FY 2004.
** The match requirement was only for a subprogram: 84.286B. Because the appropriation was for the total program, we used the award funding for the subprogram instead of total appropriations.
*** This program has no minimum match requirement. Therefore, we assumed zero funds at risk from match.
**** This program has a match only for administrative costs. Because administrative costs cannot exceed 5%, we calculated the match as 5% of the appropriations.
***** The match requirement is for funds above $1,000,000 per grantee. Because there are 18 grantees, we subtracted $18,000,000 from the total appropriations to get the amount of funds grantees must match.
****** The match requirement is only for grantees that participate in the endowment challenge. Therefore, we used the FY 2004 funding for those grantees participating in the endowment challenge.
******* The stated match requirement is the requirement for the States. Outlying areas such as Guam and American Samoa are required to provide a match of 12%.
******** Because grantees are allowed to reserve up to 6% of its allocation for State-level activities for which no match is required, we reduced the appropriations 6% before calculating the minimum match contribution required.

The rows highlighted in yellow represent the 13 programs we selected for review. (See Attachment 2.)

Attachment 2

OVERALL RANKING OF 13 PROGRAMS						
Program	**CFDA**	**Overall Under-standing of Match/Grantees**	**Monitoring Plans**	**Monitoring Instruments**	**Program Grant Files**	**Site Visits**
Star Schools	84.203	Sufficient	Red	Yellow	Red	Red
State Charter School Facilities Incentives Grant Program	84.282D	Sufficient	Red **	Yellow	N/A**	N/A**
Ready To Teach	84.286	Sufficient	Red	Yellow	Red	Red
Adult Education - State Grant Program	84.002	Sufficient	Green	Green	Yellow	Green
Vocational Education - Basic Grants to States	84.048	Sufficient	Green	Green	Yellow	Green
Even Start – State Educational Agencies	84.213	Sufficient	Green	Green	Red	Green
Early Childhood Educator Professional Development	84.349A	Sufficient	Red	Yellow	Yellow	Red
Higher Education - Institutional Aid - Historically Black Colleges and Universities	84.031B	Limited	Red	Red	Red	Red
Higher Education - Institutional Aid - Historically Black Graduate Institutions	84.031B	Sufficient	Red	Red	Yellow	Red
International Institute for Public Policy	84.269	Sufficient	Red	Yellow	Yellow	Yellow
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Sufficient	Green	Yellow	Red	Green
Teacher Quality Enhancement Grants	84.336	Sufficient	Green	Yellow	Red	Yellow
Underground Railroad Educational and Cultural Program	84.345	Limited	Red	Red	Red	Red

Overall Understanding of Match/Grantees: Whether the program staff clearly understood the match requirements and which grantees had match requirements.
Monitoring Plans: Whether the program-specific plans from FY 2003 and FY 2004 contain specific language regarding monitoring match.
Monitoring Instruments: Whether the instruments program staff use to monitor grantees include specific language regarding monitoring match.
Program Grant Files: Whether the program grant files we reviewed contained documentation of match reviewed.
Site Visits: Whether the FY 2003 and FY 2004 site visit reports we reviewed covered match.

Red: Contains no indicators/language and/or documentation specifically related to match.
Yellow: Contains minimal/vague language and/or documentation specifically related to match.
Green: Contains specific indicators/language and/or documentation specifically related to match.

** This grant first received funding in FY 2004, and, for that reason, a FY 2003 program-specific monitoring plan was not required. Because the grant did not exist in FY 2003, and first received funding in FY 2004, no site visits were conducted in either fiscal year.

Based on our review, we have noted below the better practices observed at the 13 program offices.

Monitoring Plans:
We reviewed the program-specific monitoring plans for specific language indicating that monitoring for match is incorporated as a step in the monitoring process for the programs. We found 5 of the 13 programs have program-specific monitoring plans that contain such language: Even Start – State Educational Agencies, Adult Education – State Grant Program, Vocational Education – Basic Grants to States, Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP), and Teacher Quality Enhancement Grants (TQE).

The Even Start monitoring plan defined monitoring and had an appendix that included monitoring indicators. The indicators required the monitoring team to determine if the State Educational Agency ensured that sub-grantees comply with statutory and regulatory requirements on use of funds and matching. It provided the applicable regulations, acceptable supporting documentation, and information to obtain during interviews with grantee staff.

The Adult Education monitoring plan included a technical review instrument that required program staff to determine if the grantee met the match requirement. In addition, the instrument also stated what evidence the program staff should review to determine compliance.

The Vocational Education monitoring plan stated that program officers are to use the ledgers of federal and non-federal expenditures for State Administration for the monitored year and the year previous to the monitored year to determine whether the grantee was in compliance with the matching requirement. The program officers then write yes or no on the checklist. This checklist required program officers to determine whether the grantee was in compliance with the match and also provided guidance as to the supporting documentation the program officer should use to make such a determination.

The GEAR UP monitoring plan stated that matching requirements is an area where many grantees have trouble. To resolve this high-risk performance area, the plan stated that the program office would provide technical assistance on match to grantees. The program office would also work with a national association to assist grantees in attracting new partners and matching contributions. Also, the program would reduce awards for grantees that did not meet matching requirements.

The TQE plan stated that the program office flagged grantees that it noted were having trouble meeting the match requirement. The program office flagged the grantees for monitoring to aid them in becoming compliant with the fiscal issues. Monitoring would consist of phone contact on a scheduled basis and site visits.

Monitoring Instruments:
Monitoring instruments consist of specific tools program staff use to monitor grantees on an ongoing basis. These tools should include specific steps the staff must perform to indicate that match is reviewed. We found 3 of the 13 programs have monitoring instruments that require program staff to review match: Even Start – State Educational Agencies, Adult Education – State Grant Program, and Vocational Education – Basic Grants to States.

For Even Start, the program staff was required to determine if the State Educational Agency ensured that sub-grantees comply with statutory and regulatory requirements on uses of funds and matching. It provided the applicable regulations, acceptable supporting documentation, and information to obtain during interviews with grantee staff.

For Adult Education, program staff created spreadsheets that indicate the total amount of federal funds allocated and the total amount of non-federal funds expended per state per federal fiscal year. This

allowed staff to monitor whether the state met its matching requirements and to determine trends in non-compliance with the matching requirement. Adult Education staff also used the State Program and Technical Assistance Review Instrument to guide them in conducting site visits and as a tool for monitoring program performance. Module 7 of the Review Instrument focused on the review of financial considerations. It called for program staff to determine whether the state met the matching provisions for the previous year. Program staff should also determine compliance to matching requirements in preparation for site visits. The Review Instrument indicated that the program officers should use the prior year's fiscal report to determine whether the grantee met the matching requirements.

For Vocational Education, program staff used a Pre-Monitoring Checksheet for fiscal review. One section required a review of the matching requirement to State Administration expenses (the program's matching requirement only applies to State Administration expenses). The Checksheet required program staff to use ledgers of federal and non-federal expenditures for State Administration for the monitored year and the year previous to the monitored year for secondary and postsecondary institutions as evidence to determine whether the grantee complied with matching requirements. The final Financial Status Report also has a checklist, which required program staff to review State administration expenditures.

Program Grant Files:
Program grant files include all grant-related information for individual grantees. The program grant files should include evidence of in-depth monitoring of grantees' match requirements, including, but not limited to: grant award notifications with the correct match requirement, correspondence between grantees and program officers, partial or complete source documentation of the match contributions, calculations on the values of match contributions, and/or comments about the allowability and reasonableness of the match contributions. We found that none of the 13 programs had program grant files with evidence of in-depth monitoring of match.

Site Visit Reports:
Site visit reports summarize the results of program staff visits to grantees. These reports should include evidence that match was reviewed to determine compliance with the requirements. In addition, the site visit reports may include information related to grantees' specific match questions. We found 4 of the 13 programs have site visit reports containing evidence of match reviewed: Even Start – State Educational Agencies, Adult Education – State Grant Program, Vocational Education – Basic Grants to States, and GEAR UP.

The site visit reports we reviewed for Even Start showed that the monitoring teams reviewed match and discovered related findings. These findings included unallowable expenditures, such as indirect costs, as part of the budget for the matching requirement for the program. Another finding indicated one grantee's grant application included budget forms allowing the use of funds for capital outlay for buildings, land, and improvements, which also are not allowable under the Even Start program. The grantee was informed that it must ensure that project staff do not charge indirect costs to the Even Start program and should remove reference in the budget forms to the use of funds for capital outlay for sites, building, or site improvements.

While there were no findings from Adult Education site visits, we did note that program staff did discuss specific match-related questions with grantees. For example, the appendix of one site visit report listed the grantee's specific questions and the corresponding answers. One question was regarding a waiver of the first $200,000 of non-federal share of outlays and how that would impact the reporting of non-federal share of outlays on its Financial Status Report. The second question was regarding allowable matching funds.

Our review of Vocational Education site visit reports revealed one finding related to match. The finding stated that the grantee had not documented its non-federal administration match to ensure that it met the

requirements of the program's legislation. The monitoring team recommended that the grantee develop policies and procedures to clearly delineate the various line-item expenditures that were merged together to form the basis for the non-federal administrative match and explain how the expenditures were calculated. Also, the grantee needed to report the amount of non-federal expenditures for administration for previous fiscal years.

Our review of GEAR UP site visit reports indicated staff reviewed match and had related findings. One grantee provided an itemized list of matching contributions to cover the five-year performance period. However, during the site review, the grantee was unable to supply any documentation of the matching contributions provided by the project. As corrective action, the monitoring team indicated that the project staff needed to submit documentation of matching contributions for the 2001 budget period and develop procedures to ensure that future matching contributions were documented adequately. Another site visit report we reviewed noted a finding related to large adjustments in the annual performance report for the match contributions during the first grant year. The monitoring team noted that the match reported in the first year annual performance report was $12,158.65. However, in the second grant year's annual performance report, the match for the first grant year was adjusted to $203,940.95. This was a significant change in the match reported. Because of the significant change in match reported for the first grant year, the monitoring team requested the grantee to breakdown the match to: the specific GEAR UP activity and date associated with the cost; who provided the in-kind match; and which line item is associated with the in-kind match (salary, travel, etc.). The monitoring team also emphasized the importance of the match component of the grant and the need for clear, complete, and concise records to document the match. The monitoring team also stated that in the event of an audit, undocumented match would not be considered in meeting the match commitment.

Attachment 3

Auditee Response

March 2, 2006

Memorandum

To: Helen Lew
             Assistant Inspector General for Audit Services

From: Danny A. Harris, PhD /s/
             Deputy Chief Financial Officer

Subject: Draft Audit Report "The US Department of Education's Monitoring of
             Adherence to Matching Requirements" ED-OIG/A05F0015

Thank you for the opportunity to comment on the Draft Audit Report, entitled *The U.S.
Department of Education's Monitoring of Adherence to Matching Requirements* (Control
Number ED-OIG/A05F0015).

We share OIG's concern that program offices monitor their grants properly, not only for cost-
sharing/matching requirements, but for grantees' conformity to all other legal and administrative
requirements as well. Since the decentralization of the discretionary grantmaking functions to
the program offices in 1996, the Grants Policy and Oversight Staff (GPOS) within the Office of
the Chief Financial Officer (OCFO) has continually worked to ensure that better policy,
guidance, and training are made available to program offices on a wide array of grants
administration issues. The current *Handbook for the Discretionary Grant Process* (Handbook),
the product of a collaborative effort between OCFO and the cross-Department Grants Policy
Advisory Team, is the most comprehensive grants policy document on discretionary
grantmaking ever available to Department grant staff to support their work.

OCFO recognizes that policy and training related to monitoring of grantees' adherence to
matching requirements can be strengthened and improved. However, while we understand your
reasoning leading to your finding that "GPOS did not assure that Program Offices adequately
monitored the estimated $1.3 billion in grant resources provided by matching contributions," we
need to clarify the functional responsibilities of GPOS in the development of the Department's
grants policy and training.

Discretionary Grants Policy Development

As noted above, the Handbook was a result of a joint effort between OCFO and the Grants
Policy Advisory Team, which was chartered in 2001 to ensure that all Department offices
involved in the discretionary grant process participate in the development of policy to improve
that process. All Department program offices and the Office of the General Counsel, Office of
Inspector General, Budget Service, and the Office of Planning, Evaluation and Policy
Development have team representatives.
During monthly team meetings, these offices bring the full Department perspective to the
discretionary grant process and highlight issues or concerns related to this process based on their

unique roles within the Department. Because program staff were involved in the development of a fundamental grants monitoring course described in the Training section to follow, we are assured of the commitment of team members to more rigorous monitoring and improved performance in all Department programs.

Grants Policy Training

OCFO's role in providing training in Department grants management also requires clarification. Since the devolution of discretionary grants management in 1996, training in this field has been provided not only by GPOS, but also by the Department's Training and Development Center, the program offices themselves, and even other parts of OCFO on matters such as indirect cost. For example, as we just mentioned, a Department-wide team recently worked with a contractor to develop a fundamental monitoring course for discretionary and formula program staff. Development of the course was a 2004 Discretionary Grant Improvement Team initiative, and OCFO staff and senior program managers contributed significantly to the course's content and organization.

OCFO will continue to collaborate with all offices involved with discretionary grant training to ensure that cross-cutting issues such as cost-sharing/matching are addressed where appropriate and that any policy changes or clarifications are included in those training sessions. OCFO will play a leading role in the development and/or enhancement of supplemental courses that cover specific aspects of grant monitoring, as well as providing instruction on coursework covering adherence to existing policies and regulations.

Further, OCFO will recommend to senior Department officials that they require attendance by program staff at all grants training provided by the Department. Mandatory training will ensure that staff are kept current on grants management policies, procedures and practices and are knowledgeable about the landscape of issues related to important topics that cut across the grants process such as cost-sharing and matching.

Audit Sample

We note that a majority of the programs and dollars examined in the audit are formula programs. Numerous formula programs have specialized cost-sharing/matching requirements, often ones indirectly implied through maintenance-of-effort or supplement-not-supplant requirements contained in legislation. Since OCFO only has oversight responsibility regarding discretionary grantmaking, our influence to effect changes in formula programs is limited. Except in specific cases, the policies and procedures in the Handbook are not applicable to these formula programs. Such programs evolve their own monitoring systems and procedures that meet their specific requirements, often in conjunction with guidance from their OGC program attorneys.

In order to gain a better understanding of any deficiencies related to monitoring the matching requirements of discretionary grants that might be occurring across the Department, a larger sample of discretionary grant programs would have given OCFO a more complete picture of the scope and nature of the issues and problems and help it better determine both policy and training needs.

Responses to Recommendations

OCFO's responses and corrective actions to the audit's recommendations and corrective actions are as follows:

Recommendation 1.1 – Revise the Handbook to include specifics on monitoring match, such as how to value a matching contribution, examples of allowable in-kind contributions, and acceptable documentation to support matches involving cash and/or in-kind contributions. Also, ensure that the Handbook incorporates descriptions of various matching requirements. This information could be included in the Monitoring Plan section of the Handbook.

CORRECTIVE ACTION:

OCFO will review the Handbook and identify which applicable sections can be modified to call program staff's attention to the issue of cost-sharing/matching, where that is appropriate. An effective way to focus program staff's attention to this issue is to "front-load" the process by providing them more comprehensive information from grantees so as to keep cost-sharing/matching at a high level of awareness. To accomplish this, OCFO will:

- Develop standard language, based on text in Section 4.3.2.2 of the revised *Handbook*, which OCFO would direct program staff to include in their application packages, so that applicants would understand the kinds of information related to cost-sharing/matching that must be included when developing application budgets; and

- Working with the Grants Policy Advisory Team, propose amendments to the ED 524B performance report 1) to ask whether a grantee has deviated significantly from the originally approved cost-sharing/matching portion of the budget—e.g., having made changes that would have required prior approval; 2) to require that grantees update the ED 524B soon after the previous budget period ends, with their final information on non-Federal contributions provided for the period; and 3) to amend the instructions for reporting cost-sharing/matching information to remind grantees of the requirements for acceptable documentation that they are required to maintain to support the dollar figures reported on the form for both Federal and non-Federal items. If changes to the ED 524B are approved by OMB, OCFO will recommend to program offices that they modify their program-specific reporting forms and instructions to include similar content when these documents next come up for OMB review and clearance.

Please note that non-Federal cost-sharing/matching contributions are part of the grantees' total project costs and must meet the same tests of allowability as Federal grant funds. Both Federal and non-Federal funds are therefore treated similarly in terms of reporting and financial monitoring by the Department. On both the ED 524B and the SF-269 Financial Status Report, which is used widely across Federal grant-making agencies, both Federal and non-Federal funds expended for the reported period are reported as a cumulative total only -- neither Federal nor non-Federal expenditures are broken down by budget cost category. Just as the Department does not routinely require grantees to provide detailed expenditure reports or documentation to justify the allowability of Federal expenditures, likewise source documentation and other expenditure information is not normally required of grantees to justify non-Federal matching contributions.

Nonetheless, these efforts and accompanying training will ensure that matching requirements are more carefully scrutinized during monitoring activities.

Recommendation 1.2 -- Ensure that staff with oversight responsibilities for programs with a matching component receive training on monitoring match. Ensure that the training includes any noted best practices and issues identified in audits and/or program reviews.

OCFO will update all relevant courses that include the issue of cost-sharing/matching to ensure that program staff understand their responsibilities regarding monitoring for match. Specifically, OCFO will ensure that the newly developed Department-wide monitoring training is modified to include discussion of the aspect of cost-sharing/matching as an item on the list of topics for monitoring review. The modifications could take into account such aspects as the EDGAR guidance on valuing contributions and note best practices and issues identified in audits and /or program reviews. OCFO will also review, and modify as necessary, the content for the current "Cost Analysis and Budget Review" course to ensure that the issue of reviewing an applicant's proposed cost-sharing/matching contributions is adequately addressed. Future training sessions on the ED 524B, Grant Performance Report, will also stress the importance of monitoring for adherence to matching requirements when reviewing performance reports prior to making non-competing continuation awards.

Furthermore, the OCFO all-Department briefing on the revised Handbook conducted on February 28, 2006, highlighted sections in the Handbook that discuss cost-sharing/matching and reminded program staff of their responsibility to monitor for match.

OCFO will coordinate with other offices that conduct training on this topic to ensure that their training content reflects current policy.

As stated earlier, OCFO will strongly encourage senior Department officials to require that program staff with responsibility for discretionary grants attend all grant training sessions offered by the Department. OCFO will also recommend that line managers and supervisors use the new Learning Management System to monitor the course-taking activity of program staff and ensure that they are attending all grants training opportunities.

Recommendation 1.3 -- Require Principal Offices to update monitoring plans to include specific measures for monitoring grantees' adherence to program matching requirements.

CORRECTIVE ACTION:

As you have mentioned in your draft report, OCFO annually collects information on the discretionary grant monitoring plans of program offices via its Monitoring Information System database. We will add a question to the current CFDA program monitoring questions in the database in FY 2006 that requests a measure(s) for monitoring matching requirements.

Recommendation 1.4 -- Review all monitoring plans to ensure specific measures for monitoring match are included.

CORRECTIVE ACTION:

OCFO annually collects reports on each program office's monitoring activity with respect to discretionary grants, which you also pointed out in the draft report. Based on the review of the FY 2004-2005 office-wide monitoring reports, which will be completed this spring, we will advise appropriate principal offices about the inclusion of measures for monitoring the matching requirement for their specific CFDA programs in FY 2006.

Recommendation 1.5 -- Conduct program reviews to ensure program staff are monitoring match as prescribed in their respective monitoring plans.

CORRECTIVE ACTION:

OCFO will develop a representative sample of programs with matching requirements in selected principal offices and review those programs for compliance during FY 2007.

Recommendation 1.6 -- Advise program staff to review grantees' Single Audit Reports for applicable findings as part of the match monitoring process.

CURRENT ACTION

Please note that the Handbook (at section 5.4.8) already advises program staff to use applicable audit history to guide their work and inform their decisions.

As part of the CFDA program profile in the Monitoring Information System (MIS) database, program offices are required to indicate whether they used Single Audit reports as a monitoring tool, including the frequency and purpose of use. As part of the FY 2005 review of this information that will be completed this spring, OCFO requested the completion of this item for all discretionary grant programs, including those with matching requirements, if this information was missing in the original program profile.

Recommendation 1.7 -- Establish a mechanism for publishing best practices regarding monitoring match for Principal Offices to reference. The best practices may include examples of monitoring tools and forms.

CORRECTIVE ACTION:

As noted in our response to Recommendation 1.3, in FY 2006 Principal Offices will be required to include measures for monitoring matching requirements in the MIS database. Principal Offices will be required to report on these measures in the FY 2006 annual office-wide monitoring reports and will be asked to provide any monitoring tools that they used to monitor for adherence to matching requirements. OCFO will develop an instrument and canvass agencies in the grantmaking community to gather additional monitoring best practices. In FY 2007, GPOS will post information on the identified best practices and monitoring tools related to monitoring match on the GPOS web page on connectED.

Additionally, we have attached technical clarifications for your consideration in the final audit report.

OCFO appreciates this opportunity to comment on the Draft Audit Report. Please contact Blanca Rodriguez, GPOS Director, if you have any questions about our comments or the Corrective Action Plan.

Thank you.

Attachment

 cc: Linda Stracke
         Charles Miller
         Gail Cornish
         Dick Dowd