What OIG Audited
Federal agencies can require applicants for Federal assistance awards to cover a share of the costs for implementing the award. The non-Federal share of costs, frequently called “cost share” or “matching costs,” refers to that portion of the project or program costs that is not borne by the Federal Government. During FY 2019 and FY 2020, the Department of State (Department) awarded 2,995 grants and cooperative agreements, of which, 296 included cost-sharing requirements totaling $60.8 million.

The Office of Inspector General (OIG) conducted this audit to determine whether recipients of selected Department grants and cooperative agreements complied with cost-sharing requirements in accordance with the award agreements.

What OIG Finds
Recipients of the eight financial assistance awards reviewed for this audit mostly complied with cost-sharing requirements in accordance with the award agreements. However, OIG found that award recipients could not support 12 (13 percent) of 89 expense transactions selected for sampling, totaling $46,306. Additionally, three of the award recipients used expenses incurred outside of the awards’ periods of performance to fulfill the cost-share requirement established in the agreements. Finally, OIG found that 8 (22 percent) of 36 Federal Financial Reports (Standard Form 425) reviewed for this audit included an incomplete or incorrect cost-share amount.

OIG determined that the incomplete or incorrect cost-share reporting occurred, in part, because of weaknesses in the Department’s system of internal controls that is meant to discover and correct errors during award execution. For example, monitoring plans were not tailored to awards, monitoring controls were not adjusted when the COVID-19 pandemic prevented site visits, and Grants Officer Representatives (GOR) training did not provide adequate instruction for oversight of cost-share requirements. Furthermore, Grants Officers (GO) and GORs lacked clarity related to their responsibilities for monitoring financial aspects of awards.

As a result of its testing, OIG identified $261,119 of unsupported or unallowable cost-share transactions. Until the internal control deficiencies identified are corrected, the Department will not have reasonable assurance that cost-sharing requirements are being fulfilled in accordance with Federal requirements and award agreements.

What OIG Recommends
OIG made 12 recommendations to 3 Department bureaus to improve internal controls related to monitoring cost-sharing requirements and to determine whether identified questioned costs are allowable and supported. On the basis of the Department’s responses to a draft of this report, OIG considers the 12 recommendations resolved, pending further action. A synopsis of management’s responses to the recommendations offered and OIG’s reply follow each recommendation in the Audit Results section of this report. Responses received from the Bureau of Administration; Bureau of Population, Refugees, and Migration; and the Office to Monitor and Combat Trafficking in Persons are included in their entirety in Appendices C through E, respectively.