

DHHS POLICIES AND PROCEDURES

Section IV:	General Administration
Title:	Subrecipient Monitoring Manual
Chapter:	Matching, Level of Effort, Earmarking
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Matching, Level of Effort, Earmarking

Many federal and state programs have matching, level of effort and earmarking requirements. The terms are defined as follows:

1. Matching – matching, also known as cost sharing, requires the subrecipient to provide contributions of a specified amount or percentage to match state and federal funds. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions). Most match for programs in DHHS is expressed as a percentage, e.g. for every \$1 spent, the subrecipient must spend x% of matching funds. To be accepted and allowable, all matching contributions must be:
 - A. Verifiable in the subrecipient’s records;
 - B. Incurred or earned during the period of the award;
 - C. Not used to meet matching requirements of any other federal or state program (unless specifically allowed by federal or state regulation);
 - D. Necessary and reasonable for proper and efficient accomplishment of the program;
 - E. Allowable under the applicable cost principles; and
 - F. Non-federal, non-state funds (unless specifically authorized by federal or state regulation or the subrecipient’s contract/award).

In addition, in-kind contributions may only be recognized at their “fair market value” – the amount that a reasonable, prudent person would be willing to pay for the goods or services if they had to be purchased. For example:

- A. Volunteer services and donated personnel may be valued at rates consistent to those paid by the subrecipient to its employees or contractors performing similar functions;
 - B. Donated supplies are valued at the retail price at the time of donation;
 - C. Loaned space, for which the donor retains title, is valued at the prevailing rental rates for similar space.
2. *Level of effort* - The term level of effort encompasses three separate types of requirements that may apply to the expenditure of state or federal funds. It includes

requirements for

- A. A specified level of service to be provided from period to period, e.g. a “baseline” number of clients;
 - B. A specified level of expenditures, also known as Maintenance of Effort (MOE), from non-state or non-federal sources for specified activities to be maintained from period to period (the same criteria for allowability of matching funds generally apply to MOE expenditures); and
 - C. State or federal funds having to be used to supplement and not supplant non-state or non-federal funding of services.
3. *Earmarking* – Earmarking refers to requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.

Matching, level of effort and earmarking requirements that apply to each funding source are identified in grant documents, allocation letters, contracts, and state and federal regulations. Divisions must be especially proactive in taking steps to ensure that their subrecipients are aware of all of the level of effort and earmarking requirements that may apply to the funds that they are receiving. The objective of monitoring matching, level of effort and earmarking is to provide reasonable assurance that state and federal funds were maximized and used only for intended purposes.

For programs listed in the annual State Compliance Supplements, the compliance supplements specify the requirements for matching, level of effort and earmarking.

Suggested Monitoring Procedures:

For subrecipients assessed as low risk:

1. Review compliance supplements, contract, grant awards, allocation letters, funding authorizations, etc. to identify if match, level of effort or earmarking requirements pertain to the program and the subrecipient.
2. Review the agency’s plan of work for the funding year, if available, to determine if services planned meet level of effort or earmarking requirements.
3. Review the agency’s budget for the funding year to determine if sufficient match or MOE is budgeted to meet state and federal requirements.
4. Review the internal control information to determine if the information indicates that procedures are in place to comply with matching, level of effort and earmarking requirements.
5. Review the periodic progress reports to determine if activity-based level of effort and earmarking requirements are being met.

6. Review expenditure reports/requests for funds to determine if matching and expenditure-based level of effort and earmarking requirements are being met.

For subrecipients assessed as medium risk:

In addition to activities outlined above for low risk subrecipients:

1. Request a copy of the agency's cash disbursements journal or general ledger to determine if expenditures are charged to accounts in a manner that match and MOE or fiscal earmarking requirements can be accurately documented and reported.
2. For activity-based level of service and earmarking, request copies of the agency's attendance or census records, or other activity records that document that the appropriate number of services, events or clients with specific characteristics are being delivered.

For subrecipients assessed as high risk:

In addition to activities outlined above for low and medium risk subrecipients:

1. Perform a physical examination of the documentation for any in-kind match and determine if it is accurately documented. If the in-kind match is attributable to an individual's work effort, review payroll documents to gain assurance that the individual being used as match is not paid from a State (unless approved by the division) or federal funding source.
2. Select a random sample of expenditures and trace back from the general ledger to determine if expenditures reported as MOE are for allowable purposes, properly documented, and properly coded in the accounting records.
3. Select a random sample of expenditures and trace back from the general ledger to determine if expenditures are appropriately matched by non-state or non-Federal funds.
4. Review the prior year financial statements in comparison to the current budget to gain assurance that new state or federal funding is not being used to supplant expenditures previously funded from another source.
5. Review the case records of clients reported as meeting certain earmarking criteria to determine if that criteria is supported by the record. An example of this would be Work First recipients enrolled in a substance abuse program – verify that the records of the substance abuse program clearly document the participant's eligibility for Work First.

Documentation:

Monitoring Tool/Instrument
Working Papers
Summaries
Monitoring Results Report

For questions or clarification on any of the information contained in this policy, please contact [Office of the Controller](#). For general questions about department-wide policies and procedures, contact the [DHHS Policy Coordinator](#).