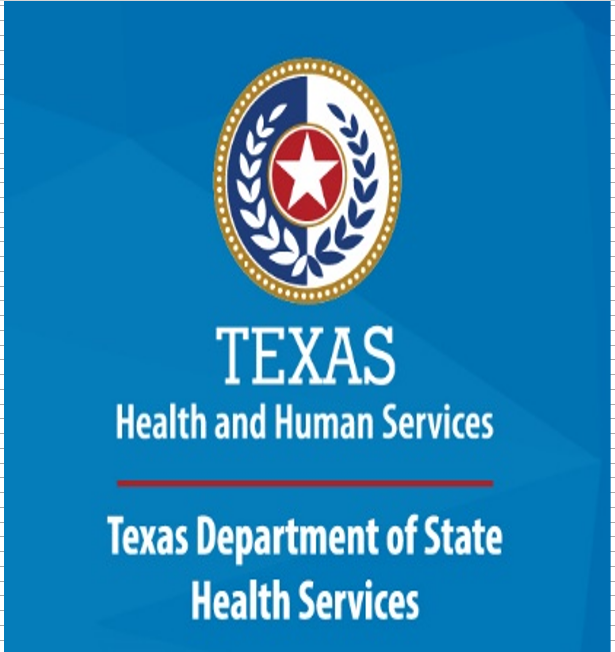
**A GUIDE ON**

**EXPENDITURE FINDINGS**



**Synopsis**

This document serves as a guide for Texas Department of State Health Services (DSHS) recipients/subrecipients to understand steps taken by the Office of Compliance and Accountability (OCA), Fiscal Support and Oversight (FSO) team to evaluate grantees’ expenditures. The focus is on what an expenditure finding is, when it occurs, and its importance, as well as suggestions and tips for grantees to strengthen internal controls over expenditure processes.

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# I. EXPENDITURE TESTING

* Grantees must track and properly retain documents related to purchases made using grant funds. DSHS FSO tests expenditures to ensure compliance. Expenditure testing is a multistep process. The following definitions are relevant to the process:
* The Invoice for goods or services may be a requisition, purchase order, bill, order form, receipt, or invoice from the vendor that serves as a formal record of a transaction.
* Cost Allocation is how grantees assign expenses across funding sources and involves determining how departments or programs align with shared costs. Grant regulations require use of a reasonable methodology that is documented.
* Payments made for grant expenses must be documented from authorization through the payment clearing. The documentation should include invoices and receipts, packing slips, and the chain of payment. This may be a copy of a check or wire transfer, or a credit card statement showing both the charge and the payment.
* Proof of clearance: Verification of payment includes a bank statement for the account with the grant funds. For example, the statement will show the check image or number, electronic funds transfer (EFT) information, and/or credit card payments that have cleared.

At the end of the testing stage, the DSHS monitoring team leads schedules an Exit Conference, which is the final step of field work and allows the review team the opportunity to present and explain any observations noted. At this time, the team may receive clarification and/or additional information from the grantee. Depending on the significance of the issue, the observation could become a report finding.

# II. WHAT IS AN EXPENDITURE FINDING

An expenditure finding occurs when a grantee’s financial management system and accounting system.

* **do not adequately account for the funds awarded.**
* **Costs billed to DSHS do not comply with contractual, federal, and/or state requirements, are not adequately documented or have been charged to the wrong budget period.**



Findings resemble a needle grazing the surface of a balloon. If there are too many scratches or excessive friction, the balloon will eventually burst. Repeated findings can indicate serious underlying weaknesses in internal controls.

**Technical Assistance (TA) trainings are offered to all grantees to help reduce future findings.**

# III. SUGGESTIONS AND TIPS

## Common Expenditure Findings and Solutions

**This section outlines common expenditure errors and their solutions for grantees. Its purpose is to highlight frequently encountered issues that can be avoided. Examples of common findings include:**

**Sales Tax – Texas State Sales Tax is an unallowable cost to grants and is a common expenditure finding. Most grantees are exempt from and should not pay state sales tax. In a case where sales tax is charged to a DSHS grant, grantees will receive a finding and the sales tax portion of the expense will be disallowed.**

**To prevent this from occurring, grantees should have policies and procedures in place to avoid charging sales tax to a DSHS grant. It is essential for grantees to provide staff with appropriate training regarding these rules.**

**There are several methods to implement safeguards in financial systems to ensure that sales tax is not applied to a DSHS grant. Grantees might create a payables checklist or add a reminder about sales tax on payment request documents. If sales tax is mistakenly included on an invoice and the grantee intends to pay it while seeking a refund from the vendor, the sales tax should be allocated to a different funding source, such as general revenue. If a grantee is not exempt from sales tax, that expense is unallowable and must not be charged to the grant.**

**Late Fees** – Late fees are financial penalties that occur when payments are not made by the due date. These fees are not allowed to be charged to a DSHS grant. If DSHS identifies a late fee charged to a grant, it will result in a finding and that portion of the expense will be disallowed.

Financial obligations paid for with DSHS funding should be paid on time.  **Grantees should have policies and procedures in place to prevent late payments and ensure that any penalties incurred are not charged to DSHS.**

**Unallowable Charges/Costs –** Unallowable costs refer to expenses that cannot be included in charges to grants. A cost that does not demonstrate a relative benefit to the grant or lacks documentation to show that benefit will result in a finding and the expense will be disallowed. Specific unallowable costs are often included in the DSHS subrecipient contract.

Grantees are encouraged to familiarize themselves with the grant terms and permissible expenses. For example, if a picture frame or a pot of coffee is bought using grant funds, the grantee should check whether these purchases are allowed under the grant guidelines. If they aren’t, the grantee will need to source the funds from an alternative budget.

**Grantees should have policies and procedures in place to prevent unallowable charges to a DSHS grant and ensure relevant staff receive appropriate training regarding these requirements.**

**Charges Outside of the Budget Period – The budget period defines the specific time frame during which grant funds may be used.** Charging an expense incurred outside of this time frame will result in a finding and the expense will be disallowed. The only exception to this would be an allowance in the contract for **Pre award costs** that are allowed, to benefit the grant program. These are subject to prior approval by DSHS.

For example, if a budget period is September 1, 2024, through August 31, 2025, and the grantee purchases supplies in August 2024 in preparation for the grant beginning, this cost is not allowed. The reason is that the expense was made before the contract period started. Unless specifically provided for in the contract, this purchase would be disallowed, even if the purchase was related to grant activities.

Grantees should consider this requirement when charging grants for annual subscriptions or other recurring charges. For subscriptions paid in one lump sum annually, grantees may be able to schedule that expense at the beginning of the approved budget period. Grantees may also choose to pay subscriptions monthly for ease of tracking and billing. An accrual adjustment in the grantees’ financial system is also an acceptable way of handling this type of expense.

**Missing Documentation – Missing documentation such as invoices or receipts, cost allocation paperwork, payment methods, or bank statements will be noted as observations and can be elevated to findings. If there is not enough documentation to verify the associated transactions, the associated costs may be disallowed.**

**Cost Allocation Plan – A** cost allocation plan is used to identify and assign expenses incurred in support of activities implemented or administered by a grantee to multiple benefitting programs. Common issues regarding cost allocation plans include:

* Incorrectly apportioning costs.
* Not having a documented methodology for the allocation plan.
* Having an outdated plan.
* Not having a cost allocation plan at all.
* Using a methodology that cannot be verified and/or is not reasonable (e.g., overly complex or does not align with the type of cost being allocated).

**DSHS does not dictate the specific methodology to be used. However, grantees are required to employ a valid methodology that is reasonable, well-documented, and verifiable.**

## How to Prevent Expenditure Findings

Contract terms should be communicated to all relevant employees in writing and made easily accessible. This is crucial for preventing errors. An organization should be able to clearly justify the purchase of an item and explain how it aligns with the grant’s scope of work.

Expenditure errors can be reduced through effective organization, structured processes, internal checks, and transparency. Ideally, grantees should incorporate separation of duties into their workflows. For example, the person who authorizes a check to be written should not be the same person who records the check in the accounting software or reconciles the checking account. Grantees may need to develop, review, or revise policies and procedures, update forms, and offer regular staff training to ensure adequate controls over expenditures are in place.

## Recommended Procedures to Implement

The OCA/FSO team is committed to assisting grantees in enhancing their fiscal compliance. To support this initiative, the FSO Technical Assistance group has created recommendations to help grantees avoid future expenditure findings. These recommendations include the following:

* 1. Grantees should implement applicable control procedures that can support or enhance the organization’s existing daily functions and improve or strengthen current procedures.
  2. Grantees should consider providing trainings to staff on a routine basis, such as monthly, or quarterly. Periodic training on procedures for new and existing employees improves the overall knowledge and practices for the organization.
  3. Procedures should be systems based and not reliant upon individuals. That is, duties and functions should be included in the employee job descriptions. Standard Operating Procedures (SOPs) and should reference staff by title so that employee turnover does not leave gaps in critical elements of good internal controls. A staff continuity plan can also ensure that vacancies do not result in insufficient controls.
  4. A course of action should be relevant to a specific issue. For example, if an expenditure finding is due to sales tax charged to a DSHS grant, the grantee could implement training for financial staff emphasizing sales tax rules. A general policy review or update would not necessarily address the gaps in the system that produced the error.
  5. Management is encouraged to involve staff in relevant departments in resolving the finding as well as updating systems and implementing corrective actions. Collaboration will often lead to a better solution that will help to avoid repeat findings.

**Please contact our DSHS Technical Assistance Team for any questions:**

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