Fiscal Monitoring Unit
Frequently Asked Questions

Below are some common questions that pertain to an HHSC fiscal monitoring compliance review.

How do you decide which entity to perform a fiscal monitoring compliance review?

FMU uses a risk-based risk assessment annually to determine the monitoring plan for that upcoming fiscal year. The risk assessment is based on five indicators:

1. Single Audit Results
2. Most recent Fiscal Monitoring Review results
3. Most recent FMU initiated a review
4. Number of active contracts
5. Maximum potential contract value of all of the active contracts

The objectives of the Fiscal Risk Assessment and Monitoring Plan processes are to identify and prioritize HHSC recipients/subrecipients that pose potential risk related to grant funds and to minimize the risk of misuse by ensuring funds are expended for their intended purposes. FMU's goal is to monitor all high risk subrecipient/recipient grantees at least every two years and medium risk grantees at least every five years.

What is a cost allocation?

Allocability is one of the fundamental cost principles used in determining whether costs are allowable. It is a measure of the extent to which a cost benefits a particular cost objective and can be charged to that cost objective. Likewise, costs that do not benefit a particular cost objective are not allocable to and cannot be charged to that cost objective. The grantee's Cost Allocation Plan is a document that identifies, accumulates, and distributes all allowable costs that are allocated (instead of being directly charged) to benefiting cost objectives and identifies the allocation methods used for distributing costs. The base period should coincide with the period in which the costs to be allocated were incurred. Some examples of acceptable allocation methodologies are FTE’s, square feet, and patient census.

What are common findings that are identified during a fiscal monitoring compliance review?

Grantees must be aware and fully compliant with all of the requirements in federal and state regulations, and ensure all requirements are followed. The following are samples of commonly cited findings by the HHSC Fiscal Monitoring Unit. This section is not all-inclusive of the fiscal requirements or of conditions that may be cited as part of a fiscal review. Findings noted in a fiscal monitoring compliance review will cite the federal and/or state regulation that was violated.

1. Lack of documentation – Adequate expenditure support documentation, including vendor contracts, invoices, copies of checks and electronic fund transfers, and complete and accurate detailed general ledger transaction reports, need to be maintained in order to verify expenditures charged to the HHSC programs.
2. Prior period costs – Costs incurred outside of the period of performance were charged to the current funding period. These costs were incurred prior to the start of the funding period date of the appropriate fiscal year and were not authorized by the agency.
3. Salaries using predetermined percentages – Charges of salaries and wages were not supported by documentation that supported the distribution of the wages and accurately reflected the work performed.
4. Inadequate support for personnel allocations/no timesheets – The distribution of the salaries and wages were not supported by documentation that supported the distribution of wages and accurately reflected the work performed.
5. Sales Tax – Taxes in which the grantee is required to pay are allowable except from those taxes from which an exemption is available.

Is there a specific accounting system that my organization needs to use?

FMU does not require a specific brand for an accounting system to be used. However, the accounting system, must conform to Generally Accepted Accounting Principles (GAAP) applicable to recipients of State and Federal funds. An effective accounting system will be able to perform the following:

- identify and record all valid transactions.
- record transactions to the proper accounting period in which transactions occurred.
- describe transactions in sufficient detail to permit proper classification.
- maintain records that permit the tracing of funds to a level of detail that establishes that the funds have been used in compliance with contract requirements.
- adequately identify the source and application of funds of each Program Attachment.
- generate current and accurate financial reports in accordance with contract requirements.

In addition, a separate cost center must be maintained within the general ledger to capture costs incurred for carrying out the activities of each contract. A cost center is defined as a unique series of general ledger accounts established for the purpose of accumulating and categorizing expenses related to a specific cost objective. Multiple cost centers may be used, provided the total cost in each of the cost centers supports the reimbursement amount and the total allowable cost reported to HHSC.