

Financial Reconciliation

Curriculum developed by the Office of Grants Management and Nonprofits Assistance Fund

Who We Are



The mission of Admin's Office of Grants Management is to standardize, streamline and improve state grant-making practices, as well as to increase public information about state grant opportunities.

Find out more at the [Office of Grants Management Webpage](#).

Who We Are



Nonprofits Assistance Fund's mission is to build financially healthy nonprofits that foster community vitality.

Our financial experts help nonprofits strengthen their capacity to address unexpected events, finance new opportunities, and realize strategic goals. We fulfill our mission by helping nonprofits thrive.

Find out more at: [Nonprofits Assistance Fund Website](#).

Trainer

Naomi Munzner

Director, Office of Grants Management

The Office of Grants Management provides policy leadership and direction to promote consistent grants administration between state agencies, funders, and grantees.

We develop and share effective resources to support standardized, streamlined, and improved state grant-making practice.

Setting the Context

Common Purpose

- * We have a commitment to **transparency, mutual respect, and customer service**
- * We strive for **pride** and **professionalism** in our field and are dedicated to **public service** and **stewardship** of state resources
- * We value building and maintaining positive **relationships** with grantees
- * We accept the responsibility to **communicate** difficult messages and **ask difficult questions** from a starting point of seeking to **understand**
- * We demonstrate **patience** and **persistence** as we move toward an outcome where the reward of having a challenging conversation results in the most amount of information being shared based upon **trust** and **mutual respect**

Guiding Principles

Value

- * Our work has purpose and clearly contributes to a meaningful outcome in the eyes of the customer or the end user.

Risk Assessment

- * We utilize risk assessment to address the continuum of grantees and grant practice to effectively identify high, medium, and low risk.

Capacity

- * We strive to efficiently and competently complete the work with available staff resources.

Training Outcomes

- * Build confidence and comfort with the reconciliation process
- * Build skill capacity with state grants staff
- * Develop and communicate a baseline understanding of what the reconciliation process looks like

Policy 08-10

Financial Reconciliation:
Definition & Scope

Financial Reconciliation: Policy 08-10

Definition

A financial reconciliation involves comparing a grantee's request for payment for a given period with supporting documentation for that request – such as purchase orders, receipts, and payroll records.

Financial Reconciliation: Policy 08-10

Scope

This policy applies to:

- **All executive branch agencies, boards, committees, councils, authorities and task forces that make grants**
 - **Competitive, legislatively made, formula and single and sole source grants**
- * It supersedes other state agency policies that concern grant monitoring except when the existing state agency policy is stricter.
- * This policy **does not** supersede any applicable state or federal law, rule, or regulation which specifies a grant payment schedule.

Financial Reconciliation: Policy 08-10

State agencies must conduct a financial reconciliation of grantees' expenditures at least once during the grant period on grants of over \$50,000.

OR

State agencies may develop and file an agency reconciliation plan for approval by the Office of Grants Management.

Financial Reconciliation Minimum Requirement

08-10 Procedure #2:

State agencies identify which grants require a monitoring visit, **which grants require a financial reconciliation, where** the monitoring visits and **financial reconciliations will take place and which agency employees will participate**

Financial Reconciliation Minimum Requirement

Your agency and/or division should have a written plan for financial reconciliation that addresses:

- * Frequency and Grant amount
 - * **Minimum requirements:**
 - * **All state grants \$50,000 and over receive a monitoring visit and financial reconciliation at least once during the grant period**
 - * **All state grants \$250,000 and over receive annual monitoring visits and financial reconciliation at least once during the grant period**
- * Risk Assessment
- * Duration/Cycle
- * Special circumstances

Financial Reconciliation Minimum Requirement

The plan should also include

- * Where financial reconciliation will take place – on-site or through desk review
- * Type of grantee:
 - * New/Continuation
 - * Multi-year funding
- * Process, procedures, and documents for the financial reconciliation process

Policy 08-10: Financial Reconciliation Option for Agencies

An agency can choose to submit a Financial Reconciliation Plan for approval to the Office of Grants Management.

A financial reconciliation plan involves completing a risk assessment of agency grantees and outlining a specific plan to reconcile agency grants over \$50,000 including a timeline for completing reconciliation.

The financial reconciliation plan should also consider other potential risk factors, including but not limited to:

- * Grant award amount
- * Grantee staff turnover
- * Prior performance
- * Delayed or missing performance reports

Vocabulary

- * **Grant period:** The start and end date of the grant contract
- * **Direct Cost:** Expenses that are required to carry out a program
More detail in Step 4, slides 37-39
- * **Indirect cost:** Expenses that benefit all areas and programs and cannot be specifically assigned but are essential for the health and functioning of the grantee. Also called overhead, administration, management, etc. More detail in Step 4, slides 37-44
- * **Cost allocation:** The process of attributing and assigning costs to a cost object, cost center. Assigning a common cost to several cost objects . Examples in Step 4, slides 36-44

Part 1

Financial Reconciliation Steps

Financial Reconciliation Steps

Identify
the
payment
to be
reconciled

Notify
the
grantee

Receive
the
documents

Review and
analyze
submitted
documents

Write a
Report

Address
questions
and
conduct
follow-up

Reflect
and
adjust

Step 1: Identify the Payment to Be Reconciled

Identify the payment to be reconciled

Notify the grantee

Receive the documents

Review and analyze submitted documents

Write a Report

Address questions and conduct follow-up

Reflect and adjust

Step 1: Identify the Payment to Be Reconciled

08-10 Procedure:

- * State agencies identify **which** grants require a financial reconciliation, **where** the financial reconciliations will take place and **which** agency employees will participate and are responsible

Step 1: Identify the Payment to Be Reconciled

08-10 Procedure:

- * Identify the time period of when financial reconciliations will take place during an active grant period.
- * Identify and plan for how long the financial reconciliation process will take.
- * Identify if financial reconciliation will be conducted through a desk review process or through an on-site review process.

Example Agency Monitoring Plan

Administrative capacity reviews will be conducted on all grantees that have not previously done business with our office.
Grant Manager conducts final negotiation and approval of application work plan and budget.

ALL GRANTS RECEIVE:	New Grantee 1 year grant	New Grantee 2+ year grant (incl. Special Projects)	On-going Grantee (Continuation grants)
Grant Management Training/Orientation	1 st Quarter of Year 1	1 st Quarter of Year 1; annually if principals change	As needed (new staff, new policies, etc.)
Pre-Approvals Required	* Contracts in excess of \$5,000 * Consulting Fees in excess of \$450/day * Out-of state travel	* Contracts in excess of \$5,000 * Consulting Fees in excess of \$450/day * Out-of-state travel	* Contracts in excess of \$5,000 * Consulting Fees in excess of \$450/day *Out-of-state travel
Financial Status Report (FSR) Review	FSR is reviewed to confirm that expenses are within budget and correlate to activities underway	FSR is reviewed to confirm that expenses are within budget and correlate to activities underway	FSR is reviewed to confirm that expenses are within budget and correlate to activities underway
Narrative Progress Report Review	Quarterly Will compare progress to budget expenditures	Quarterly Will compare progress to budget expenditures	Semi- annually: Program A Quarterly: Program B and C Will compare progress to budget expenditures
Statistical Data Report Review	Part of progress report	Program A: Special Projects semi-annually Program B & C: part of progress report	Part of progress report
Financial Reconciliation	Source documentation to be reconciled for one FSR every 12 months. To be done within first six months of operation; repeated if issues identified	Source documentation to be reconciled for one FSR every 12 mos. To be done randomly and repeated if issues have been identified	Source documentation to be reconciled with one FSR every 12 months. To be done randomly and repeated if issues identified
Comprehensive Monitoring Site Visit & Report (preferably in person)	Within 1 st quarter	23 Within 1 st quarter \$50,00 & above – annually Below \$50,000 – every two years.	\$50,000 & above – annually Below \$50,000 – every two years

Step 2: Notify the Grantee

Identify the payment to be reconciled

Notify the grantee

Receive the documents

Review and analyze submitted documents

Write a Report

Address questions and conduct follow-up

Reflect and adjust

Step 2: Notify the Grantee

- * Send the grantee a notification to communicate and schedule the reconciliation activity
- * Request grantee response within a timeframe that allows both parties enough time to prepare, discuss logistics, etc.
- * Provide a few specific options for the grantee to choose from- i.e. electronic submission, and/or hard copy, additional formats
- * Allow the grantee ample time to respond to your request

Step 2: Notify the Grantee

Considerations when contacting grantees:

- * What kind of relationship do I currently have with this grantee? What kind of relationship do I hope to have?
- * Have I encouraged pro-active, frequent, consistent, and transparent communication up to this point? How is this approach reflected in all grantee contact the state has?
- * Have I made it clear that the grantee can contact me if they have any questions about this process?

Step 3: Receive the Documents

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Step 3: Receive the Documents

Documents you may receive include but are not limited to:

- * Invoices
- * Timesheets/Payroll
- * Receipts/canceled checks

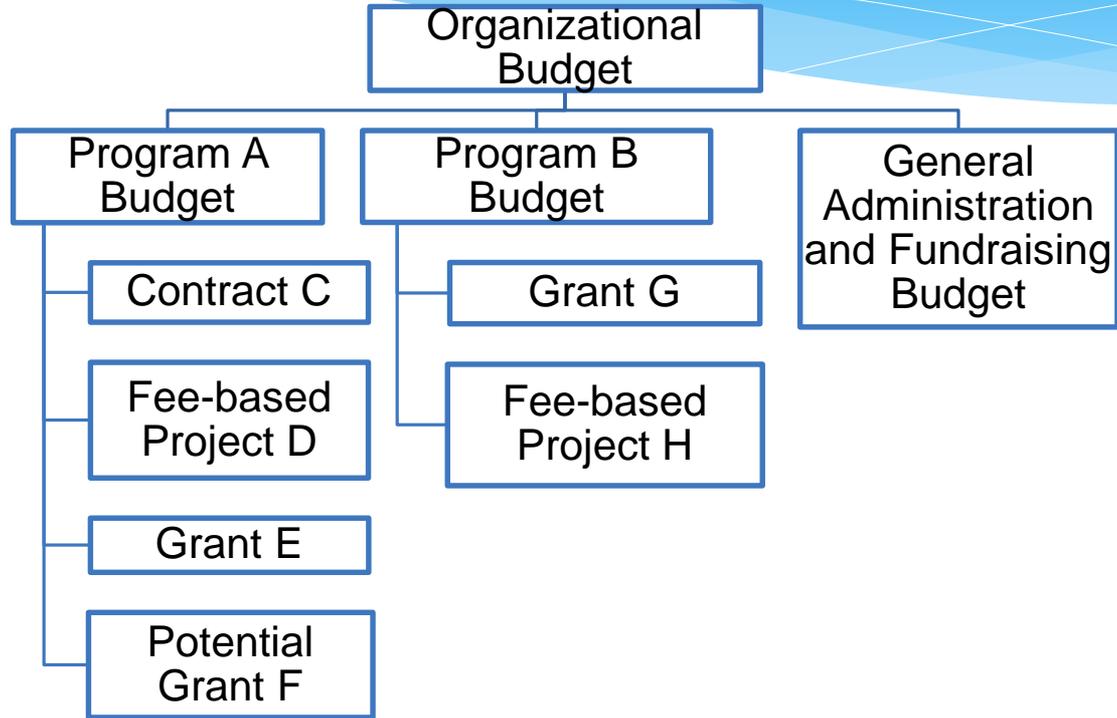
Key question: What do I need to see in order to verify the payment?

Step 3: Receive the Documents

- * State approved grantee documents used as baseline:
- * Executed grant agreement:
 - * Approved budget
 - * Approved work plan

Budgets: Plans to Manage Limited Resources

Understanding Grantee Budgets



Financial Reporting: Grantee Perspective

Some essential information grantees utilize for strong financial management:

- * Annual budget
- * Income statement comparison of actual financial results to budget
- * Availability of cash to support needs for near term future
- * Understanding of Balance Sheet (assets and liabilities)
- * What program activities have resulted from the use of financial resources (outputs and outcomes)

Step 4: Review and Analyze Submitted Documents

Identify the payment to be reconciled

Notify the grantee

Receive the docs

Review and analyze submitted documents

Write a Report

Address questions and conduct follow-up

Reflect and adjust

Step 4: Review and Analyze Submitted Documents

It's helpful to know:

- * Is the grantee using cash or accrual accounting?
- * Which allocation method is the grantee using for expenses?

Step 4: Review and Analyze Submitted Documents

Grantee Accounting Methods

Cash accounting

- * Recognizes income and expenses when funds are received or disbursed

Accrual accounting

- * Recognizes income and expenses when the activity takes place to create revenue or obligation to pay

Step 4: Review and Analyze Submitted Documents

Direct expenses

- * Expenses that are required to carry out a program

Indirect expenses

- * Expenses that benefit all areas and programs and cannot be specifically assigned but are essential for the health and functioning of the organization
- * Indirect is also called overhead, administration, management, etc.

Direct or Indirect?

Expense Area	Direct	Indirect
Executive Director Salary		
Program Director Salary		
County Administrator Salary		
County Coordinator Salary		
Development Staff Salary		
Benefits, Taxes, Insurance		
Consultants and Contractors		
Professional Fees - Audit, Legal		
Office Supplies		
Telephone		
Rent and Utilities		
Technology - Internet, Website		
Insurance		
Equipment Leases		
Marketing and Communications		
Board Meeting Expenses		
Staff Training and Development		
Depreciation Expense		

Allocating Direct Expenses

Commonly used methods for allocation

Method	When to Use
1. Simple assignment of expense	Expenses that can be clearly identified/quantified
2. Formula based on use of staff time	Preferred method for all salaries and benefits
3. Formula based on use of resources	When resource use is different for program areas and can be measured
4. Formula based on FTE equivalents	Expenses that "follow the people"

Method 1: Simple Assignment of Expense

- * This method is used when the type of expense has a relationship to a program that can be identified and quantified.

	Program 1	Program 2	Program 3	Admin	Fund	Total
Mileage	3,000	2,200	750	1,200	2,500	\$ 9,650
Conferences/Meeting Expense	600	950	750	250	250	\$ 2,800

Method 2: Formula Based on Use of Staff Time

- * This method is used by most grantees since staff usually make up the largest percentage of the budget and can be directly related to functional areas.

Date	Hour	Hour :00	Hour :30
	8:00		
	9:00		
	10:00		
	11:00		
	12:00		
	1:00		
	2:00		
	3:00		
	4:00		
	5:00		
Totals:		Program A	
		Program B	
		Admin	

	Program 1	Program 2	Program 3	Admin	Fund	Total
Program 1 Employee Hours	40	0	0	0	0	40
Program 3 Employee Hours	0	0	35	5	0	40

	Program 1	Program 2	Program 3	Admin	Fund	Total
Program 1 Employee Salary	100%	-	-	-	-	100%
Program 3 Employee Salary	-	-	87.5%	12.5%	-	100%

	Program 1	Program 2	Program 3	Admin	Fund	Total
Program 1 Employee Salary	56,000	-	-	-	-	\$ 56,000
Program 3 Employee Salary	-	-	59,500	8,500	-	\$ 68,000

Method 3: Formula Based on Use of Resources

- * This method is used when the type of expense has a relationship to a program that can be measured in a general way.

	Program 1	Program 2	Program 3	Admin	Fund	Total
Use of building space	6%	69%	10%	10%	5%	100%
Rent	2,800	32,200	4,667	4,667	2,333	\$ 46,667

Method 4: Formula Based on FTE Equivalents

- * This method is used by many grantees since staff usually makes up the largest percentage of the budget and other expenses often have some relationship to staff size.

	Program 1	Program 2	Program 3	Admin	Fund	Total
Hours	40	72	35	38	15	200
FTE Equivalent	1	1.8	.875	.95	.375	5
Percent of Total FTEs	20%	36%	17.5%	19%	7.5%	100%
Office Supplies	1,950	3,510	1,706	1,853	731	\$ 9,750
Computer Maintenance	447	805	391	425	168	\$ 2,235

Distribution of Indirect Costs (Fund. and Admin)

- * Why should distributions be made?
- * What methods do the grantees use to distribute indirect costs?
- * What are the common objectives to distributing overhead costs?

Part 2

Financial Reconciliation Steps

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Reflect
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Step 5: Write a Report

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Step 5: Write a Report

- * Your agency should have a report format/template to describe the financial reconciliation results.
- * Determine what information is summarized and directly reported to the grantee.
- * Provide the facts about what documents were reviewed, what information was analyzed, and address any questions and/or discrepancies.
- * Debrief with your colleagues.

Step 5: Write a Report

Ask yourself, is any of the information:

- * Missing?
- * Inadequate?
- * Incorrectly coded?
- * Outside of the grant period?
- * Mathematically incorrect?
- * Other?

Step 5: Write a Report

Common findings in reconciliation:

- * Personnel billed to grant are not the same positions in the grant budget
- * Lack of proper source documentation or time sheets
- * Unreasonable, ineligible or unnecessary costs
- * Cost items billed to the grant that are not in the budget
- * Expenses not billed within the grant contract period

Step 5: Write a Report

Reporting template should include the results of the financial reconciliation:

- * Identify areas of compliance and questions, if applicable.
- * Is the process completed?
- * Address areas of follow-up– are there missing documents that need to be submitted?
- * Are there additional steps that are coming as a result of the process? If so, identify and provide expectations, the timeline, and appropriate agency point of contact.
- * Thank and acknowledge the grantee's time and cooperation.

Step 5: Write a Report

Please reference the [Office of Grants Management Webpage](#) for templates and examples

Step 5: Sample Letter

Dear Emma Employee;

Subject: Reconciliation for Grant #2347802394

The financial reconciliation for the period August 1 through September 30, 2014 has been completed. The purpose of conducting this reconciliation was to ensure that expenses claimed were in compliance with state and federal laws and requirements, and to provide guidance to your organization.

We completed the examination of the invoice and supporting documents and found that your agency was generally in financial compliance with the approved grant contract agreement and the approved budget. Please reference the follow-up items addressed below.

Follow-up:

We would like to express our appreciation for your cooperation extended to us.

Feel free to contact me with any questions at 651-555-3535 (phone), or 651-555-4646 (FAX), or by e-mail at josephine.smith@state.mn.us.

Sincerely,

State Agency Fiscal Staff

Step 6: Address Questions and Conduct Follow-up

Identify the payment to be reconciled

Notify the grantee

Receive the documents

Review and analyze documents

Write a Report

Address questions and conduct follow-up

Reflect and adjust

Step 6: Address Questions and Conduct Follow-up

- * Working within your state agency and with the grantee to resolve questions, issues, discrepancies, and gaps requires both art and science. Seek first to understand and be open to teachable moments.
- * If no follow-up with the grantee is required, clearly communicate that information.

Step 6: Address Questions and Conduct Follow-up

- * There will most likely be questions and the situation may require further follow-up in order to learn more and receive clarification.
- * Reconciliation results may generate concerns about how a program is operating.
- * Think about in what circumstances do the financial reconciliation results require you to:
 - * Consult with other colleagues in your agency or across divisions
 - * Involve your supervisor in the situation
 - * Consider revising, amending, or terminating an agreement with a grantee

Step 6: Address Questions and Conduct Follow-up

Consult with other people within your agency or across division(s) when someone else has:

- * Encountered a similar situation with another grantee
- * Experience with the grantee and can provide additional perspective
- * Greater understanding of the issue (programmatic or fiscal)
- * Your trust and confidence, and is willing to be a sounding board to your ideas

Step 6: Address Questions and Conduct Follow-up

- * Troubleshoot how to approach grantee follow-up with state colleagues across divisions. This is important if the grantee has multiple grants involving several agency colleagues.
- * Coordinate the message.
- * Work directly with the grantee to resolve the issues.
- * Approach the conversations and communication with the grantee with respect, candor, and honesty.

Step 6: Address Questions and Conduct Follow-up

Involve your supervisor in the situation when:

- * You are unable to resolve the issue with the grantee on your own.
- * You see potential red flags that indicate more follow-up may be required and generate additional questions.
- * The issue with the grantee is potentially illegal.

Step 7: Reflect and Adjust

Identify
the
payment
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reconciled

Notify
the
grantee

Receive
the
documents

Match
the docs
to the
amounts

Write a
Report

Address
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Reflect
and
adjust

Step 7: Reflect and Adjust

- * What did I learn from this situation?
- * What did I learn that I can share with my colleagues?
- * Are there trends I see over time with financial reconciliation results?
- * How do I incorporate the results of financial reconciliation into the overall grant contract/pre-award/negotiation process?
- * What is my process for developing and sharing training and technical assistance resources for grantees that have findings from financial reconciliation which require follow-up?
- * Do I have a process for grantees to evaluate our agency's reconciliation process?

Thank you!

Office of Grants Management

