**Review of VRS Financial Reconciliation**

**Year One (February 2014 – June, 2014)**

# Purpose of Financial Reconciliation

1. Fiduciary responsibility: to ensure that public funds are used for their program intent and legislated purpose.
2. Process improvement: to enhance financial processes and practices at grantee organizations and Vocational Rehabilitation Services (VRS).

# Goals for VRS’ First Year of Financial Reconciliation

1. To bring VRS grants in compliance with State of Minnesota’s Office of Grants Management’s (OGM) Financial Reconciliation policy, i.e., every grant has a financial reconciliation at least once during the contract cycle of the grant award.
2. To eliminate a Minnesota Office of the Legislative Auditor audit finding that VRS was not in compliance with the OGM policy on Financial Reconciliation.
3. In concert with community partners, develop and test VRS Financial Reconciliation procedures and evaluation metrics.

# Common Findings from Reconciliations - Most Frequent Findings to Least Frequent Findings

## Travel

* Travel logs that did not clearly show which travel was for which grant.
* Travel costs were allocated across multiple grants when it appeared that the travel was for a specific grant.
* Travel logs were not signed by employee and/or supervisor.

## Employee Timesheets

* Employee timesheets often did not show hours being charged to different grants. Difficult to tell who was being charged to the grant and their hourly rate of pay.
* In some cases, timesheets were not kept by the organization.
* Timesheets were not signed by the employee and/or the supervisor.

## Insufficient Supporting Documentation

* Often the supplied documentation did not support the amounts shown on the invoice being reconciled.
* It was extremely difficult to reconcile the documents with the invoice amounts.
* No document was supplied for some line items.

## Unallowed Expenses

* The most frequent unallowed expense was the purchase of food and refreshments for meetings and for clients/consumers.
* The second most frequent unallowed expense were various forms of employee recognition paid with grant funds.
  + Employee recognition can be an allowable cost if there is a Board approved policy about recognition and the expense was approved when the contract was approved by VRS.

## Cost Allocation Plans and Methods

* Cost allocation percentages used in invoices were different than approved cost allocation plans in contract budgets.
* Difficult to determine which cost allocation method(s) were used in the invoice.
* Using the percentage of a grant’s revenue to overall agency operations as the percentage for cost allocation. That is not an allowable method according to Federal regulations and nor for State grants. We will be working with grantees to use a correct cost allocation method with VRS grants.

## Direct vs. Indirect Costs and “Other”

* There was sufficient confusion about the differences between “Direct” and “Indirect Costs” that additional training may be needed. There are new changes in the Federal “Super Circular” about indirect costs. Those changes may simplify the allocation of such expenses.
* The “Other” line often contained indirect costs rather than direct costs.
* In a few instances, costs which should have been budgeted in line items were budgeted in “Other,” e.g., cell phone bills (Communications), janitorial services (Occupancy Services) and audit expenses (Contractual/Professional Fees) were put in the “Other” line item.

# VRS Performance Metrics for Financial Reconciliation Process

| **Indicator** | **Goal** | **Results** |
| --- | --- | --- |
| Notifications Sent On Time | 100% | 100% |
| Grantee submitted their documentation on-time | 100% | 87% |
| VRS sent responses to grantees on time | 95% | 63% |

* First request for reconciliation documentation was emailed on January 17, 2014; last request was emailed on May 12, 2014.
* VRS completed 54 financial reconciliations for SFY 14 and FFY 14 grants.
* Results of the reconciliations:
  + 44 grants received just the Closing Letter.
  + 10 grants received a Closing Letter and a Corrective Action Plan. All grantees successfully completed the actions required in the Corrective Action Plan.
* Grantees estimated it took 8-26 hours to locate, organize and send documentation (based on estimates from a few grantees).
* It took VRS an estimated 5-10 hours per grant to review the documents, discuss the results with the grant monitor, draft a response letter and send the response letter or Correction Action letter to the Executive Director.

# What Went Well For the First Time – from VRS’ Perspective

1. Having a dedicated email address and email folders for each grantee under the FinRec heading. Easy for VRS to locate all correspondence and supplied documentation for each grantee and each grant.
2. For VRS and grantees, able to shift to a greater use of electronic documents rather than a mixture of paper and electronic. This included adding electronic signatures which expedited contract routing and allowed signatories to sign documents without needing to be in the office.
3. VRS wrote improved and clearer instructions and forms for applications.
4. Generally, those doing the financial reconciliations were able to review all the documentation within the established time frames. The form for documenting the reconciliation worked well and should meet the recordkeeping requirements of the Office of the Legislative Auditor.
5. Saved approximately 1,040 hours of staff time after revisions to the application and contract process.

# What Did VRS Learn and What Will Change For Future Financial Reconciliations

1. Changes to be made prior to the next round of Financial Reconciliation. VRS will:
   * Be clearer and more descriptive about what documentation is needed. This should reduce some of the volume of documentation.
   * Decide what is exactly needed to reconcile fringe benefits in order to avoid especially burdensome documentation requirements.
   * Ask the grantee to include a sheet which explains which of their accounting codes are for which grant, who are the staff assigned to the grant including percentage of time and hourly wage, their cost allocation percentages and perhaps how fringes are allocated per person.
   * Ask grantee to organize their documentation by line item.
   * Include a checklist with documentation request.
   * Include a copy of the blank reconciliation form used by VRS which meets Legislative Auditor requirements.
2. It may help to have readily available examples of good forms of documentation in areas such as travel, time sheets, cost allocation methods and fringe benefits.
3. It may help to add a phone call with the grantee after the review and prior to sending out VRS’ Closing Letter. For some of the Independent Living grants, we scheduled grantee phone calls after reviewing their documentation and before writing our response letter. In all cases those calls answered some questions, clarified what we thought we “saw” in the documentation and prepared a grantee for a Corrective Action letter.