**DOCUMENTATION GUIDELINES**

**VOCATIONAL REHABILITATION SERVICES FINANCIAL RECONCILATION**

**PROCEDURE DATED: October 15, 2014**

# Closing Letters and Corrective Action Plans

1. At the conclusion of its Financial Reconciliation, VRS will send a Closing Letter to the grantee. The Closing Letter will state one of two conclusions:
	1. In situations where all expenses are documented, cost allocation plans are understandable and reasonable and/or the amount of undocumented expenses meets the criteria described in this document, the grantee has met the requirements of the Financial Reconciliation and no further work needs to be done.
	2. In those situations where expenses are not sufficiently documented or the cost allocation plan is not understandable or reasonable, the Closing Letter will state which budget category(ies) was either not fully documented or not verifiable. Depending on the situation, the Closing Letter may also contain a Corrective Action Plan for a grantee.

# Corrective Action Plans

1. If VRS determines that a grantee is unable to satisfactorily document expenses, has unallowable expenses or a cost allocation plan which is not understandable or reasonable, VRS will probably include a Corrective Action Plan in the Closing Letter.
2. The Corrective Action Plan will outline the actions needed to be taken to resolve the issues. Actions may include: a reduction in a future Request For Reimbursement by the amount of the undocumented or unallowed expense; a check to repay the amount of the undocumented or unallowed expense, changes in cost allocation plans/methodologies or changes in grantee policies related to grants management.
3. VRS will follow-up to ensure that Corrective Action Plans are completed.

# General Criteria for Expenses Other Than Indirect/Other, Payroll, Fringe Benefits, and Travel:

1. Acceptable supporting information for reconciliations includes invoices, receipts, travel logs, timesheets as the primary evidence; journal entries could be acceptable to show allocation of costs such as fringe benefits. Grantees should provide acceptable documentation which allows VRS to verify reimbursement requests.
	* In situations when VRS is unable to reconcile a budget category due to insufficient supporting documentation, the reviewer shall use his or her professional judgment to determine whether or not to request additional supporting details. If the grantee is asked to provide additional details, VRS shall allow a minimum of ten calendar days for the grantee to submit information or an explanation.
2. If the missing documentation represents less than 5% of the approved budget line item or less than $50, VRS will not require the grantee to reduce a subsequent Reimbursement Payment Request or repay the amount.
3. If the missing documentation represents more than 5% of the approved budget line time or more than $50, VRS will follow up with one additional request for the missing information. If grantee fails to respond within ten days, the Closing Letter will include a Corrective Action Plan describing what actions will need to be taken.

# Payroll:

1. For Federal funds, VRS has the right to ask for time records which would verify that payroll costs are related to and legitimately charged to the grant. A grantee may provide acceptable secondary information such as a payroll register and/or general journal/ledger entries along with the grantee’s certification of the employee time percentage charged to the grant. A grantee’s failure to provide such evidence could be cause for VRS to determine that claimed salary costs on the Reimbursement Payment Request (RPR) are undocumented and therefore unallowed.
2. For State funds, VRS has the right to ask for time records which will allow verification that payroll costs are related to the grant. If time records are not provided, the reconciler shall use professional judgment to determine whether secondary documentation provided by the grantee is sufficient to support the amount claimed on the RPR. Acceptable secondary documentation may include a payroll register and grantee certification of applicable employee percentage of time devoted to the specific grant during the reimbursement period. A grantee’s failure to provide such supporting documentation could be cause for VRS to determine that claimed salary costs on the Reimbursement Payment Request (RPR) are undocumented and therefore unallowed.
3. Signatures: Time records furnished by the grantee shall be signed by the employee and his or her supervisor. In the event that the grantee uses an electronic time record system, it is acceptable for the grantee to forward screen shots or other similar evidence and may certify that the electronic time records were verified.

# Travel:

1. The grantee shall furnish employee business expense reports or similar evidence as proof of expenses charged to the grant. Travel charges to the grant shall be limited to employees identified in the budget narrative or via information provided as part of the financial reconciliation. Employees who charge travel expenses must either perform work that is directly associated with the grant or are indirectly working on grant activities, such as an executive director. As part of the reconciliation process, VRS may ask how a travel cost furthered the goals of the grant agreement.
2. For any out of state travel, the grantee shall obtain prior approval at the time the budget is approved or from the appropriate grant manager prior to the out-of-state travel. If a grantee incurs out of state travel expenses without prior approval from the appropriate grant manager, VRS may request that payments be deducted from future Requests For Reimbursement or repaid.
3. The grantee shall follow the current employee business expense reimbursement rates found in the State of Minnesota Commissioner’s plan (see attachment). Failure to follow Commissioner’s plan rules or any other errors, math miscalculations, or deviations amounting to more than $25 will be cause for VRS to request that payments be deducted from future Requests For Reimbursement or repaid.
4. Signatures: Employees and supervisors shall sign travel and business expense reports unless there is a Board of Directors approved policy that supports either the employee or the supervisor signature on travel and expense reports. If the grantee uses an electronic system for such expenses, screen shots and a grantee certification may be used in lieu of signatures.
5. Summary entries in a general ledger or journal are not sufficient evidence to support employees’ travel and business expenses. Grantees must furnish employee travel and business expense reports or similar evidence offering reasonable proof of such costs.

# Fringe Benefits:

1. For financial reconciliation purposes, each grantee shall provide reasonable evidence which supports the amount claimed as reimbursable fringe benefits. Reasonable evidence may include an employee benefits summary that indicates the total employer paid cost of benefits accompanied by invoices that detail the employer’s cost for benefits. The grantee may explain the benefit costs by showing the cost of benefits multiplied by the employee’s percentage of time charged to the grant. Additional sufficient evidence could include the grantee’s calculation of payroll tax costs for each employee who has time charged to the grant. This includes the current worker’s compensation, unemployment insurance, and FICA/Medicare tax rates. At a minimum, a grantee must provide journal or ledger entries showing the fringe benefit and payroll tax charges for each employee who has time charged to the grant. ***Fringe benefits charged to the grant using a flat percentage of gross salaries and wages is insufficient documentation to support this budget category.***

A grantee’s inability to provide adequate supporting documentation for fringe benefits does not constitute disallowed costs, but shall be determined to be not fully documented and not verifiable.

# Indirect Costs:

1. Indirect costs are general/administrative costs which support the goals of the grant. This includes wages and salaries for an executive director, accounting, human resources, information technology, or any other staff who provide services to the organization but who do not work on program services directly related to the grant agreement. Grantee should explain their methodology for calculating and allocating Indirect Costs. If the grantee has directly negotiated an indirect cost rate with a federal agency, that rate shall be used. Effective for new grants beginning on or after January 1, 2015 - in lieu of adequate supporting documentation for indirect costs or a negotiated rate, a grantee may claim ten percent (10%) of total direct program costs charged to the grant as reimbursable indirect costs. Indirect costs include depreciation.

# Other Costs Budget Category:

1. Each grantee shall minimize the use of the “Other” budget category to the greatest extent possible. “Other” costs shall be limited to expenses which cannot be classified under any other budget line item. A grantee is not allowed to use the “Other” budget category as a contingency or reserve account. As a guide, “Other” costs generally should not exceed 5% of the total budget.

# Misclassified Expenses/Budget Modifications:

1. The reconciliation process may determine that a grantee has improperly claimed expenses under an incorrect budget category. In these cases, VRS shall consider such costs as documented provided that the grantee has furnished adequate supporting information. The net result of this situation is that the grantee has over reported the amount of expenses in one budget category and underreported the same amount in another category. VRS shall notify the grantee of these misclassification errors and may request that the grantee execute a modification to the grant budget. In lieu of a modification, VRS shall instruct the grantee to offset any amounts over reported in a budget category on a subsequent reimbursement request. When the misclassification error(s) amount to more than 5% and more than $250 for any budget category, VRS has the authority to request a budget modification.
2. A budget modification is not effective until the grant manager and the grantee’s authorized representative sign the agreement. If VRS requests any grantee to reduce otherwise allowable costs for any budget category due to misclassification errors and the grantee is unable to comply because there are no additional reimbursement periods remaining in the grant cycle, VRS shall not deem such costs as undocumented or disallowed provided that the grantee’s total costs for all budget categories do not exceed the allowable amount stated in the grant agreement.

# Disallowed Costs:

1. VRS shall request RPR adjustments or repayment for any of the following disallowed costs:
* Bad debts
* Donations/contributions
* Entertainment
* Fines and penalties
* Fundraising – there are exceptions to fundraising based on new regulations for Independent Living Centers
* Lobbying
* Any personal use of grant funds
* Selling, marketing, or other promotional expenses
* Organization costs
* Startup costs
* Any food, beverages, refreshments, or condiments which are charged to the grant. This excludes meal allowances when an employee is in travel status as defined under the State of Minnesota Commissioner’s plan.
* Contingency costs. The grantee cannot create a pool or budget category to meet unplanned, emergency, or unanticipated expenses.
1. Use of grants funds for employee recognition can be an allowable expense if the following conditions are met:
	* There is a Board of Director’s approved policy for employee recognition.
	* The use of funds for employee recognition is clearly stated in approved budget narrative.
	* The actions meet Internal Revenue Service rules.
	* The amount spent for recognition does not exceed $25 in value per employee.
	* An employee can only receive one recognition award per year with VRS grant funds.
	* Allowable amounts per employee cannot be aggregated to pay for a larger expense, i.e., a party.
	* Recognition gifts paid with grant funds can only be cash or gift cards.

# Cost Allocation Plans:

1. Grantees must have a cost allocation plan which has been approved for each grant. Acceptable cost allocation plans may be based on salaries, full time equivalents, or use of space and/or resources.
	* Examples of unacceptable cost allocation plans include but are not limited to using the grant’s percentage of the organization’s total revenues or dividing a budgeted amount for a budget category by the total number of reimbursement periods and charging the grant equal amounts on each financial status report. As part of a corrective action plan, VRS shall request that the grantee develop and implement an acceptable cost allocation system.
2. When a VRS grantee does not initially demonstrate an acceptable cost allocation plan, VRS shall determine that costs claimed under an unacceptable method are not fully documented and not verifiable. Following a corrective action notice, a grantee’s failure to develop an acceptable cost allocation method for any grant in any subsequent grant cycle may be cause for VRS to disallow costs and request repayment or reduce otherwise allowable costs in any given budget category.

***15 Expense Reimbursement***

Mileage reimbursement is at the Federal IRS mileage reimbursement rate.

In addition to mileage, actual parking fees and toll charges shall be reimbursed. At the sole discretion of the Appointing Authority, employees who normally are not required to travel on state business may be reimbursed for parking at their work location on an incidental basis when they are required to use their personal or a state vehicle for state business and no free parking is provided.

Reimbursable expenses may include, but are not limited to, the following:

Commercial transportation (air, taxi, rental car, etc.) provided that no air transportation shall be by first class unless authorized by an Appointing Authority; and that reimbursement for travel which includes more than one destination visited for State purposes and non-State purposes shall be in an amount equal to the cost of the air fare only to those destinations visited for State purposes.

Meals including tax and a reasonable gratuity. Employees shall be reimbursed for meals under the following conditions:

1. **Breakfast**. Breakfast reimbursements may be claimed if the employee leaves his/her temporary or permanent work location before 6:00 a.m. or is away from home overnight.

2. **Lunch**. Lunch reimbursements may be claimed if the employee is in travel status more than thirty-five (35) miles away from his/her temporary or permanent work location or is away from home overnight.

3. **Dinner**. Dinner reimbursements may be claimed only if the employee is away from his/her temporary or permanent work location until after 7:00 p.m. or is away from home overnight.

4. **Reimbursement Amount**. Except for the metropolitan areas listed below, the maximum reimbursement for meals including tax and gratuity shall be:

Breakfast $9.00

Lunch $11.00

Dinner $16.00

For the following metropolitan areas and any location outside the forty-eight (48) contiguous United States, the maximum reimbursement shall be:

Breakfast $11.00

Lunch $13.00

Dinner $20.00

The metropolitan areas are:

Atlanta, Baltimore, Boston, Chicago, Cleveland, Dallas/Fort Worth, Denver Detroit, Hartford, Houston, Kansas City, Los Angeles, Miami, New Orleans, New York City, Philadelphia, Portland, Oregon, St. Louis, San Diego, San Francisco, Seattle, Washington, D.C.