

Fundamentals of Financial Reconciliation for MDH Grantees

Summary

- Provides an overview of the Financial Reconciliation (FR) process, a required review that verifies invoices align with supporting documentation and comply with grant agreement requirements.
- Clarifies that FRs are not audits, but collaborative oversight activities to ensure accurate, appropriate, and allowable use of grant funds.
- Outlines documentation requirements, including both source documentation and proof of payment. Describes these documents must be complete, organized, and properly redacted before submission.
- Defines grantee expectations and responsibilities, including timely communication, record retention, and readiness to support FR requests at any point during the grant period.
- Explains potential outcomes of the FR process, including issues, findings, and corrective action plans, along with best practices to support compliance and successful reconciliation.

Introduction

This document provides a foundational overview and general guidance of the financial reconciliation (FR) process for grantees of the Minnesota Department of Health (MDH).

Please note, this is not a legal document and does not cover all aspects of a FR. You are responsible for following defined policies and requirements based on the language in the grant agreement.

Defining Financial Reconciliation

A financial reconciliation involves matching a grantee's invoice for a given period of time with supporting documentation for that request, such as time sheets, payroll records, purchase orders, receipts, etc.

At least one FR must occur before the final invoice for that grant agreement is paid. An FR allows MDH to verify the grantee's accounting records match the paid invoices, and that grant funds were spent accurately, appropriately, and in compliance with the grant agreement.

An FR is not an audit.

Why is it important?

An FR is a required oversight process to ensure that grant-funded work aligns with the goals, activities, and budget outlined in the grant agreement. This process relies on strong communication and collaboration between MDH staff and grantees to verify that expenditures are appropriate, accurate, and supported. This is not punitive and provides assurance that MDH and the grantee have the same understanding of grantee activities and expenditures.

Supporting Documentation

There are two types of supporting documentation, **source documentation** and **proof of payment**. Both types are **required** for each expense. This means, for every source documentation, there is also proof of payment.

Providing both types ensures MDH can verify compliance.

Personal and sensitive information must be redacted by the grantee prior to submitting it to MDH. See the *Private Information* section of this document for more information.

Source Documentation

Source documentation confirms and provides additional details about the expense. The information needs to verify the product or services, vendor, dates, unit cost, and total amount.

- Vendor Invoices
- Receipts
- Travel logs (*See appendix A for an example*)
- Mileage Reports
- Expense Reports
- Timesheets, *approved with signatures*
- Full Time Employee (FTE) breakdowns
- Payroll Reports
- Proof of federally approved indirect cost rate, *if applicable*
- Expense allocation plans
- Grantee Transaction Report (*See appendix A for an example*)

Proof of Payment

Proof of payment validates that the expense was paid by the grantee.

Here is a list of examples:

- Copies of cancelled checks, both front and back, or reports from financial systems.
 - Bank documents should have personal information redacted, including the Magnetic Ink Character Recognition (MICR) on checks, but include a bank header and information.

- Employee paystub showing an employee’s expense report was paid.
 - Private data should be redacted, this includes SSNs, addresses and phone numbers.
- Credit card statements showing balance paid in full.
 - Sufficient proof of payment for expenses paid by credit card includes both the invoice or receipt *and* proof that that the credit card balance was paid.
 - If the expense was paid with a grantee’s business card (regardless of whether it is issued to one specific employee), this additional documentation must show the date that the grantee made the purchase and the date the grantee paid the credit card bill.
 - If the expense was paid with a personal credit card that belongs to an employee of the grantee organization, this additional documentation must show the date the employee made the purchase, a copy of the expense report showing the purchase, and report from the employer’s accounting system showing the employee was reimbursed.

Grantee’s Expectations and Responsibilities

What Grantees Can Expect

- The FR can happen at any time and for any invoice throughout the grant agreement period.
- When it’s time for an FR, grantees will be contacted via email with details and instructions from MDH.
- MDH will request all supporting documentation for the invoice(s) selected for the FR.
- Grantees have 30 calendar days from the date of the request to submit the supporting documentation for the invoice period identified.
- As part of the FR, MDH might visit the grantee’s site.
 - Grantees will be notified if a site visit is planned.
- MDH may conduct more than one FR during the grant agreement period.
- MDH may hold unpaid invoices until an FR is complete.

Grantee Responsibilities

- Read and understand the grant agreement, share it with all employees that work on the grant.
- Demonstrate responsible stewardship of the financial resources by providing diligent oversight to ensure all activities and expenses align with the approved work plan and budget in the grant agreement.

- Document and comply with your internal policies and procedures, including activities regarding separation of duties, internal controls, and conflict of interests.
- The grantee is required to retain supporting documentation, both source documentation and proof of payment, for all financial related transactions during the grant award and for the required six years after the end of the grant agreement.
- Provide organized and thorough documentation for expenses as requested by MDH to complete the FR.
- Communicate timely, consistently and effectively with MDH grant staff.

Private Information

Grantees are required to ensure any private data has been redacted from documents submitted to MDH, such as:

- Home addresses
- Social security numbers
- MICR numbers
- Bank account numbers
- Credit card numbers
- Names of clients/grant participants
- Only the Financial Reconciliation Certification Form, completed by MDH, becomes public data.
- Grantees, and MDH, are required to comply with Minn. Chapter 13, Minnesota Data Practices Act, as it relates to all data provided created, collected, received, stored, used, maintained, or disseminated by grantee, under the grant agreement.
- **Do not submit unredacted private data.**

Issues, Findings, Recommendations, and Corrective Action Plans

Definitions:

- **Issues:** area of concern, no compliance violation, could become a finding if not addressed.
- **Finding:** a specific violation of law, regulation, agreement, or policy.
- **Recommendations:** guidance or direction that MDH will provide to the grantee to address any issues that were identified during the FR.
- **Corrective Action Plan:** the steps the grantee will take to correct the finding; this includes identifying who is responsible for each step and a date by that each step will be completed.

At the end of the FR process, MDH will document the results of the reconciliation, areas of success, any over/under payments, and areas needing improvement.

MDH reserves the right to determine appropriate action steps when noncompliance or unsupported costs are discovered.

MDH will communicate the results and recommendations to the grantee regarding any issues or findings. Grantee will establish a corrective action plan to address internal controls gaps.

Corrective action plans are expected to be carried out timely and in accordance with the timeline defined in the corrective action plan. MDH will follow-up with the grantee on the progress of the corrective action plan until resolved.

Best Practices for Financial Reconciliations

- From the start of the grant agreement, have a filing system to retain and organize all documents that pertain to grant expenses and provide clear images. Paper or electronic filing is acceptable.
- If an expense does not have sufficient documentation, it will not be considered a valid grant expense.
 - All documentation must be kept during the grant award and for six years after the end of the grant agreement. This means the grantee may be keeping documents for up to 11 years.
- Make sure the documentation falls within the dates of the invoice and not prior to when the grant agreement begins or after the grant agreement ends. Expenses need to have been incurred and paid within the grant year.
- Ensure costs are not duplicated within line items on this grant, between line items on this grant, or with any other grant.
- Document your calculations, decisions and rationale. Make sure it is easy for MDH staff to understand how you reached your conclusions on allowability and reasonableness.
- Stay in communication with your assigned MDH contact(s) and ask questions at any time. Reach out with any uncertainties to the process.
- Be prepared to answer follow-up questions and provide additional documentation.
 - An FR is not a one-time event and then it's over.
 - An FR can take several weeks or longer from start to finish.

Appendix A: Supporting Documentation Examples

Grantee Transaction Report

A detailed report from the grantee's accounting system that shows the itemized expenditures were paid from the MDH grant funds.

Incentive Log

Incentives, such as gift cards, purchased to be used as part of the approved work plan and budget must be carefully tracked and are subject to additional reconciliations and audits.

Incentives purchased by grantees can only be invoiced when distributed.

Be sure to document both the purchase and distribution of the incentives.

Grantee Name:	Community Health Care			Incentives Purchased:	100						
MDH Program Name:	Grantee Success			Incentives Distributed:	11						
MDH Grant Manager:	Jenna Smith			Incentives on hand:	89						

Date of Entry	Description of incentive	# purchased	# distributed	Identifying Info	Value/Amount	Total Value	Participant Case/File #	Date incentive received	Signature, Grantee staff providing incentive	Quarterly Reconciliation Notes	Completed by:
2/1/2025	Target gift card	100			\$25	\$2,500			Jenna Smith		
2/2/2025	Target gift card		1	4567	\$25	\$25	34-56424	2/2/2025	Jenna Smith		
2/15/2025	Target gift card		2	4568, 4569	\$25	\$50	34-12343, 34-35434	2/15/2025	Jenna Smith		
2/20/2025	Target gift card		2	4570, 4571	\$25	\$50	34-12343, 34-35434	2/20/2025	Jenna Smith		
2/25/2025	Target gift card		2	4572, 4573	\$25	\$50	34-12343, 34-35434	2/25/2025	Jenna Smith		
3/7/2025	Target gift card		1	4574	\$25	\$25	34-56434	3/7/2025	Jenna Smith		
3/15/2025	Target gift card		2	4575, 4576	\$25	\$50	34-12787, 34-35980	3/15/2025	Jenna Smith		
3/23/2025	Target gift card		1	4577	\$25	\$25	89-23538	3/23/2025	Jenna Smith		
4/1/2025	Quarterly reconciliation	0	0	n/a		\$275	n/a	4/1/2025	See printed report for signatures	Physical inventory matched this report.	Mark Anderson

Minnesota Department of Health
 Financial Management | Grants Office
 625 Robert St N
 St. Paul, MN 55155
health.grantsoffice@state.mn.us
www.health.state.mn.us

05/07/2026

To obtain this information in a different format, please email health.grantsoffice@state.mn.us