

Section 6.2.4: Financial Reviews and Final Financial Clearances

PURPOSE AND POLICY

Financial reviews of all subawards are conducted to provide comprehensive risk assessment and mitigation related to grants and agreements administered by the State of Arizona. This is accomplished by:

- Evaluating the fiscal integrity and financial capability of applicants for awards to assess the risk of potential fraud, waste, abuse, or mismanagement of funds;
- Examining and reconciling proposed costs to determine if the budget and budget narrative accurately translate project costs; and
- Ascertaining that costs are reasonable, necessary, allocable, and allowable under applicable program guidance, cost principles and agency regulations for fulfilling the overall objectives of the grant program.

Grant program managers should request financial review for applications by forwarding them to their appropriate agency financial resource.

Applicants delinquent in submitting Financial Status Reports and audit reports from previous awards may have new awards withheld and/or will have a special condition added withholding funds (see Chapter 9). In addition, the grant program manager ensures that all issues raised during the financial review have been satisfactorily addressed so that the final financial clearance may be issued prior to issuance of a new award.

State agencies may consider subgrantee past performance (e.g., whether a prior subgrantee successfully completed all prior grant requirements) in making funding decisions on future awards. For new subgrantees, agencies may require additional financial information. Every applicant for funding is on notice that the application may be rejected and/or access to funds restricted for any of the following reasons:

- An “open” audit report where the subgrantee has not attempted to resolve or has taken no action to resolve findings;
- An “open resolved” audit report where the subgrantee has not attempted to close the report after an agreed upon resolution strategy;
- An overdue audit report;
- A delinquent federal or state debt;
- Delinquent financial or programmatic progress reports, or final reports for all State of Arizona grants;
- Poor cash management; or
- Noncompliance with any legislative, regulatory, or administrative requirements.

Uniform Guidance [§200.205 - 207](#) sets forth review and conditions requirements for subgrants funded in part or in full with federal funds. This includes the requirement to check applicant performance integrity in the System for Award Management (SAM) at SAM.gov, as well as any OMB-designated repositories of

government-wide eligibility qualification or financial integrity information as appropriate. The grant program manager must document compliance with these federal review requirements.

The Office of Grants and Federal Resources (GFR) strongly recommends that grantors use the eCivis Subrecipient Manager (SRM) for managing the grant lifecycle, from their notice of funding availability (NOFA) to subgrantee closeout.

PROCEDURE

1. **Evaluate the fiscal integrity and financial capability of the applicant**

All applicants for funding are subject to a fiscal integrity review. If the applicant previously received an award from the grantor agency, the financial analyst reviews past performance concerning timely financial report submissions, timely and accurate submission of annual audits, and adherence to award special conditions, cash management policy, and federal debt.

GFR recommends that non-profit and for-profit organizations that have not previously received an award from the grantor submit their most recent audited financial statements. The Dun and Bradstreet (D&B) database is also queried to determine whether the applicant has the resources necessary to account for and administer federal funds properly (if originating source of grant program funding). The grantor should use D&B information, such as bankruptcy data or issues with large debt, as a flag in their financial review of the applicant's fiscal capability.

If the audit and D&B review are insufficient to determine the applicant's ability to administer subgrant funds, the grantor financial representative or grant program manager should contact other state agencies, if appropriate, to check on past performance. If there is a high-risk determination, the financial representative or grant program manager notifies his/her supervisor for technical assistance and/or on site assessment. Grant program managers or their supervisors may reach out to the Office of Grants and Federal Resources (GFR) for assistance with contacting other state agencies that may be subgranting to their potential awardees. Indian Tribes are not subject to query in the D&B database.

As noted above, financial reviews for awards funded with federal monies requires checks of applicant performance integrity in the System for Award Management (SAM) at SAM.gov, as well as an OMB-designated systems per Uniform Guidance.

2. **Conduct budget review/cost analysis of proposed project costs**

Each application should include a budget and accompanying narrative and/or budget detail worksheet which is examined and evaluated to ensure costs are allowable, reasonable, and allocable. A reviewer analyzes the basic cost data to determine if the estimate is representative of the total cost of performance of the project.

If the applicant has proposed an indirect cost rate that was approved by the federal government, the grantor accepts the rate approved by the federal government. A copy of the

negotiated agreement must be submitted during the application process in order for the applicant to obtain immediate access to these funds upon receipt of the award. When indirect costs are proposed and the applicant does not have an approved indirect cost rate nor direct federal funding and thus no cognizant federal agency, the applicant submits a request to utilize a de minimis indirect cost rate to the grant program manager for the establishment of a rate before access to funds is granted. The grant program manager may approve a modified total direct cost (MTDC) de minimis rate up to 10%. If no indirect cost agreement is received, the applicant is requested to directly expense the items, or a special condition is added to hold funds. Refer to [Section 6.2.5](#) for policy regarding indirect cost negotiation and acceptance.

3. **Issue initial financial clearance or notify applicant**

Upon finalizing the financial review, the grant program manager should clear the application for consideration for funding if the applicant has met all requirements stated above. If the applicant has not met the requirements, the grant program manager, in consultation with the grantor financial representative, should contact the applicant to request more information or to inform them about the decision to not fund the application.