

# Specialty Crop Block Grant Program

Spring 2012 Educational Bulletin



## Evaluating the Financial Capabilities of Grantees

One important step in grant management is determining the financial capabilities of your applicants and, ultimately, your grantees. You must somehow determine if the applicants are able to appropriately and responsibly utilize and monitor federal funds. Funding agencies can include special criteria or questions in the application to help them evaluate the financial well-being and capabilities of the applicant organization.

An important first step is to ensure that the applicant organization and its executives are not excluded from receiving Federal assistance. This can be accomplished by searching the Excluded Parties List System ([www.epls.gov](http://www.epls.gov)). Although this list is not exclusive to financial issues, it is a required element of the Specialty Crop Block Grant Program (and all federal grant programs) and will let you know immediately that an organization or individual is ineligible to receive federal funds. The search results of an applicant's eligibility or ineligibility must be documented.

Many clues to the financial strength and ability of the organization to manage grant funds may be found in the budget section of the applicant's project proposal. As you review the budget, you should keep an eye out for early warning signs that the organization may not be prepared to manage the project funds.

First, verify that the costs proposed are appropriate for and specific to the proposed project. For example, if the organization is planning to use grant funds to hire an executive director or other staff that are not specific to the proposed project, it may indicate that the organization is unable to sustain its daily operations without the support of the grant. Lack of sustainability is a red flag.

Second, verify that significant costs are competitive. Was there a bid process to determine the rates of any contracts? Does it appear that the organization has followed appropriate procurement policies? If it is not clear, more information may help you get a better sense of the financial strength and organization of the applicant.

Third, do the costs appear to be reasonable? In situations where an applicant is not prepared to manage grant funds, they may request unreasonable amounts of money for specific items or tasks. This can stem from an unrealistic estimation of the cost of a project, an effort to "pad" the budget to make it easier to add to the project or use the funds for other purposes once the grant is awarded, or a lack of understanding of how to create a reasonable budget. As you review the budget, you should ensure that the applicant provides you with sufficient information to enable you to determine that the costs are reasonable.

Fourth, are the costs allowable under federal regulations and program guidelines? When an applicant provides a budget that includes items that are not allowable under federal regulations and program guidelines, it may be an indication that the applicant does not understand how to properly use federal funds. The applicant may not be aware of the re-

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restrictions associated with the funds being sought. Furthermore, when unallowable costs, such as fundraising are included, it again could indicate that the organization is not sustainable without the support of this grant.

Fifth, is the applicant seeking to purchase special purpose equipment under the grant? If so, is the equipment required for the successful completion of the project? Does the applicant have a plan for the use of the equipment after the grant expires? The purchase of special purpose equipment carries with it specific obligations restricting its use, management and disposition during and after the grant. If an applicant does not provide information demonstrating his understanding of these federal regulations and requirements, more investigation by the funding agency may be warranted to ensure that the applicant is fully aware of and able to manage the project in accordance with applicable federal regulations.

In addition to potential clues in the budget section of the application itself, funding agencies may find clues about the applicant's financial capabilities in the structure and history of the organization. In such cases, funding agencies may require supplemental financial information from applicants if they meet certain criteria. For example, you might consider requesting additional information if the applicant:

- Is a first-time grant recipient of the funding agency or has not received grant funds within a specified period of time (2-5 years)
- Is a first-time recipient of federal funds or has not received federal funds within a specified period of time (2-5 years)
- Is receiving a grant of more than a certain dollar amount (e.g., \$25,000)
- Is a newly organized entity
- Is a non-profit organization
- Is known to have financial problems (through an A-133 audit report or some other source)
- Appears to need the grant to be able to continue its daily operations (even those not related to the proposed project)



Some documents that might assist you in determining the financial capabilities of your applicants include:

- A-133 audit report or other certified financial audit
- IRS form 990 (in the case of a non-governmental organization)
- Financial statements
- Description of the organization's accounting, recordkeeping, financial management, and/or procurement systems
- Description of the organization's internal controls
- Description of the organization's procedures for purchasing, travel, consultants, and property management
- Certification from a CPA that the applicant can establish fiscal controls and accounting procedures which assure that federal and state/local grant funds are disbursed and accounted for properly
- Financial capability/management questionnaire (designed by the funder)
- Dun & Bradstreet information
- Better Business Bureau information

Once you have awarded the grant, your responsibility to monitor the ability of your grantees to manage the funds appropriately still does not end. You should continue to look for clues in their reports, amendment requests, and payment requests to ensure that the project is progressing on schedule, on budget, and as proposed and that all funds are being adequately managed. If, as you review these materials, you begin to have some concern regarding the financial management of the grant, you should consider scheduling a site visit to review the grantee's financial documents either in person or through a desk review.

## Getting Closure - What is Grant Closeout?

Closeout is the formal process of documenting the expiration and completion of a project, including the fulfillment of all reporting and financial requirements. The closeout process requires grant managers to verify that all funds have been accounted for and all documentation associated with the project is in place. Typically, closeout procedures include the following:

- Receipt and review of Final Performance Report
- Receipt and processing of Final Financial Report and any required accompanying documentation
- Receipt and review of most recent audit report, as applicable
- Receipt and review of Property Reports related to the inventory of any equipment purchased with grant funds that has a current per-unit fair market value of \$5,000 at the end of the grant
- Receipt and review of information related to any patentable work or inventions developed under the grant
- Receipt and processing of final payment request
- Return/deobligation of any unspent grant funds



Once these materials have been received, reviewed and accepted, the grant may be closed and a closeout letter may be sent to the recipient, itemizing any continuing obligations related to the grant.

## When Does Closeout Begin?

Closeout is a vital part of the grant management process and begins even before the submission of the initial application. It is recommended that Closeout Conformance be included in evaluation criteria, along with other criteria that are priorities for your state. In other words, if an organization or individual is applying for a grant from your state, but has been late in submitting the necessary closeout materials on previous grants, you may use that information in your evaluation, provided you have included it in the evaluation criteria in your Request for Proposals.

Once an award is made, it is important that the recipient is aware of closeout requirements. Therefore, contractual arrangements should include a section specifically focused on closeout requirements and should indicate that grantees are responsible to reserve some of the grant funds to cover any expenses associated with completing the closeout reporting requirements.



## Property Disposition during Closeout

Closeout procedures should include a review of all property (tangible or intellectual) purchased or developed under the grant.

In the case of tangible property (equipment), if the current per-unit fair market value of the item is less than \$5,000, then it is no longer considered equipment and is not subject to the federal regulations governing equipment. If the current per-unit fair market value of the equipment is \$5,000 or more, the use, management, and disposition of equipment are subject to [7 CFR 3016.32](#) even after the grant ends until the value of the equipment is \$5,000 or less.

If intangible property such as patentable work or inventions were developed with grant funds, then closeout procedures must include the submission of a statement and certification of inventions. Furthermore, the developed inventions are subject to federal regulations ([37 CFR § 401.1-16](#)) governing the disposition of inventions and patents.

## Closeout Checklist

A closeout checklist may be helpful to track the progress towards grant closeout and document the completion of your closeout procedures. While such a checklist does not need to be complex, it should include the following categories:

- Information you need to initiate closeout, such as how you calculate the earliest date that you could begin closeout
- Requirements the recipient must meet, such as documents that must be submitted and tasks that must be completed
- Sign off by grant/program personnel



## A Final Note on Closeout

Although the project is officially closed once the closeout procedures are complete, there are several actions that may still be taken, as needed.

- The funding agency retains the right to disallow costs if a site visit, audit report, or other documents yield evidence that funds were used to cover unallowable costs.
- The recipient is obligated to return any funds refunded or “found.”
- The State department of agriculture recipient is subject to Audit requirements and must participate in an A-133 audit or a program specific audit on an annual basis. The State department of agriculture must also ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of 7 CFR Part 3052, “Audit of States, Local Governments, and Non-profit Organizations” for that fiscal year.
- The recipient is required to continue to monitor equipment, ensuring compliance with federal regulations until the current market value of the item depreciates below the \$5,000 threshold. Furthermore, the recipient must request disposition instructions from the funding agency, should a change in disposition become warranted.
- Recipients are required to retain records related to the grant in accordance with federal regulations, state record retention requirements, and SCBGP program requirements (3 years from the date of submission of the Final Financial Report).
- The Federal government retains rights to intellectual property developed under the grant, in accordance with federal regulations.



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