Period of Performance – A Matter of Timing

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Why is Period of Performance so Important?

- RSA uses the financial information reported by grantees to determine each grantee's compliance with matching and maintenance of effort requirements. If grantees are not assigning obligations and expenditures to the correct FFY, in accordance with the period of performance requirements, RSA is unable to determine, with certainty, the grantee's compliance with these Federal requirements.
- VR agencies cannot ensure they are reporting accurate SF-425 data without tracking obligations and liquidations correctly.
- Correctly tracking, reporting and liquidating obligations also ensures the agency has accurate financial information for program planning purposes.

2 CFR § 200.302(b)(3)

The financial management system of non-Federal entities must provide for, among other things:

(3) Records that identify adequately the source and application of funds for federally-funded activities.

These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation (2 C.F.R. § 200.302(b)(3)).

Definitions (cont.)

Period of Performance is the time during which the non-Federal entity (grantee) may incur new obligations to carry out the work authorized under the Federal award (2 C.F.R. § 200.77).

For purposes of the Department's Grant Award Notifications (GANs), the period of performance is referred to as the Federal Funding Period, Box 6.

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Definitions (cont.)

- **<u>Federal fiscal year (FFY) of appropriation</u>**- The year that Congress appropriates funds to the Department to award program grants, which covers the period from October 1 through September 30.

  For example, the FFY 2018 State Vocational Rehabilitation (VR) Services grants were for the 2018 FFY of appropriation (October 1, 2017, through September 30, 2018).

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Definitions (cont.)

Obligations - 2 C.F.R. § 200.71

When used in connection with a non-Federal entity's utilization of funds under a Federal award, obligations means orders placed for property and services, contracts and subawards* made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period.

* Please note the VR program does not allow sub-awarding.

- The future period in which obligations may be paid is limited by Federal requirements and the terms and conditions applicable to the award.

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Period of Performance for RSA Formula Awards

- The **initial** period of performance for **all** RSA Formula awards **is the Federal fiscal year of appropriation** (10/1/xx- 9/30/xx).

- Section 19(a)(1) and (b) of the *Rehabilitation Act of 1973*, as amended (Act), permits grantees to carry over Federal funds, which were not obligated or expended during the FFY of appropriation (including funds received during reallotment), for obligation and expenditure during the subsequent FFY provided the grantees complied with applicable non-Federal share requirements. This means that grantees may carry over the unobligated balance of Federal funds for one FFY beyond the FFY of appropriation so long as they have satisfied applicable match requirements.

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Criteria for Carry Over Period

Practically speaking, a State may carry over Federal funds if it:

- Has an unobligated balance of Federal funds at the end of the FFY of appropriation; *and*

- Has satisfied the applicable non-Federal share requirement for:
  1. the Federal funds obligated or liquidated during the FFY of appropriation; and
  2. the unobligated balance of Federal funds to be carried over to the subsequent FFY.

Criteria for Carry Over Period (cont.)

For RSA formula awards that do not have a non-Federal share requirement, the determination regarding a carryover year will be based only on whether the grantee has <u>unobligated</u> Federal funds remaining at the end of the FFY of appropriation.

When a grantee has satisfied the requirements to carry Federal funds over to the subsequent FFY, the period of performance for that grant award consists of two FFYs – the FFY of appropriation plus the subsequent carryover year.

Period of Performance and the Obligation of Funds

If the grantee has *not* met the requirements to carry over Federal funds, <u>obligations</u> must be incurred by the end of the FFY of appropriation (fourth quarter). In this circumstance, the period of performance and the FFY of appropriation are the same (i.e., they end on September 30 of that FFY).

This means, when a grantee does not carryover funds to the subsequent year, the period of performance consists of only one year – the FFY of appropriation.

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When are Obligations Made?

1. Acquisition of real or personal property - On the date the State or subgrantee makes a binding written commitment to acquire the property (34 C.F.R. § 76.707(a)).

- Personal property refers to property that is not real property. It may be tangible or intangible (2 C.F.R. § 200.78). This definition could include vehicles, furniture, and equipment.

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When are Obligations Made? (cont.)

2. Personal services by an employee of the State – When the services are performed (34 C.F.R. § 76.707(b)).

State employee wages include associated costs (e.g., benefits, taxes, indirect costs, etc.) and are only considered obligated *after* the employee has worked the time for which the wages are being paid.

Implications: Employee wages and any associated costs (including indirect costs) for time employees worked BEFORE the start of the period of performance of the grant award are NOT allowable costs to that award. Those costs must be charged to the prior Federal grant award. Similarly, any employee wages for time worked AFTER the end date of the period of performance must be charged to the subsequent Federal grant award.

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When are Obligations Made? (cont.)

2. Personal services by an employee of the State (cont.) (34 C.F.R. § 76.707(b)).

Implications:

- Employee wages are only reported on the SF-425 as obligations AFTER the employees have worked the time for which the wages are being paid.

- Care should be taken when making retroactive adjustments to employee wages and associated costs to ensure that the adjustments are made to the period in which the employee time was worked and charged or credited to the correct FFY award.

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When are Obligations Made? (cont.)

2. <u>Personal services by an employee of the State</u> (cont.) (34 C.F.R. § 76.707(b)).

<u>Example</u>: The period of performance for the FFY 2018 grant awards began on October 1, 2017. Employee wages and associated costs for time worked in September 2017 are NOT allowable charges to the FFY 2018 grant award. The employee wages and associated costs must be obligated to and liquidated from a grant award with a period of performance inclusive of the date the employees performed the work. In other words, the employees' wages and fringe benefits earned in September 2017 (prior to the start of FFY 2018) must be paid either from the FFY 2016 award (if such funds were carried over) or from the FFY 2018 award.

When are Obligations Made? (cont.)

3. Personal services by a contractor who is not an employee of the State - On the date on which the State makes a binding written commitment to obtain the services (34 C.F.R. § 76.707(c)).

Personal services refer to intellectual or manual work performed by a service provider.

Implications:

- A service authorization for a recipient of VR services is obligated on the date the authorization is issued.
- Payment for the authorized services must be from the award to which the service authorization was obligated.

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When are Obligations Made? (cont.)

3. Personal services by a contractor who is not an employee of the State (cont.) (34 C.F.R. § 76.707(c)).

Example: A VR agency permits VR Counselors to authorize recurring VR services for a maximum of 6 months per authorization. On May 1, 2018, a VR Counselor authorized monthly services through November 1, 2018.

This service authorization could be obligated to the FFY 2018 award (October 1, 2017-September 30, 2018) or, only if the agency's FFY 2017 grant award qualified for a carryover year, the authorization could be obligated to the FFY 2017 grant award.

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When are Obligations Made? (cont.)

4. Public utility services – When the State receives the services (34 C.F.R. § 76.707(e)).

Implications: Utility expenses are considered obligated when the service is provided, not when it is billed or paid.

Example: A grantee receives a utility bill for a leased office in November 2017 that was for utility services provided in September and October of 2017. The entire cost of the bill could not be obligated or charged to the FFY 2018 grant award (October 1, 2017 – September 30, 2018) because the utility services provided in September 2017 occurred prior to the start of the FFY 2018 period of performance. On the other hand, the VR agency could use FFY 2017 grant funds to pay the entire bill, so long as the agency met the match requirement to carry funds over for obligation in the subsequent FFY. If it had no funds to carry over, the agency must pay the amount of the bill that covers the September usage with FFY 2017 award funds and the October portion of the bill with FFY 2018 grant funds.

When are Obligations Made? (cont.)

5. Travel – When the travel is taken (34 C.F.R. § 76.707(f)).

Implications:

- Employee mileage reimbursement is obligated when the travel is completed.
- RSA understands that certain costs like airplane tickets must be purchased in advance and will need to be obligated accordingly.

Example: A State VR employee attends a conference in September 2017, and the travel reimbursement is received in October 2017. The travel costs would have to be obligated to and paid from a grant award with a period of performance that included September 2017. This could be either FFY 2016 funds (if the grantee satisfied the match requirement to carry funds over to the subsequent FFY) or FFY 2017 funds.

When are Obligations Made? (cont.)

6. Rental or real personal property - When the State uses the property (34 C.F.R. § 76.707(g)).

Implications:
Rental expenses are considered obligated when the space/equipment is used, not when it is billed or paid.

Example:
A grantee signs a yearly lease for office space at several locations. The rental costs are not considered obligated at the time the lease is signed. Rather, the lease costs are considered obligated at the time the space is used (i.e., on a monthly basis). Similar to the last example, the agency would need to be careful when the lease period crosses FFYs.

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Tracking, Reporting, and Liquidation of Obligations

- Funds can only be liquidated from an award if the associated obligation could be assigned to the award. In other words, the grantee must liquidate the obligations with the funds available for use for the period of performance in which the obligation was made.

Example: The VR agency makes an obligation for utilities (electricity) in September 2017. The obligation occurs in FFY 2017. This means that the obligation must be paid (liquidated) with either FFY 2017 grant funds or with FFY 2016 grant funds (if the grantee met the requirement to carry those funds over into FFY 2017) because these are the funds available to cover the period of performance in which the obligation was made.

Tracking, Reporting, and Liquidation of Obligations (cont.)

- States, even those operating on a cash basis, must still ensure the proper liquidation of funds from the appropriate grant award.

- VR agencies must ensure that obligations assigned to an award are liquidated by the end of the liquidation period, which is 90 days after the end of the period of performance.

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Tracking, Reporting, and Liquidation of Obligations (cont.)

Non-Federal share can only be counted as match when obligated in the year of appropriation of an award. Non-Federal obligations that are cancelled during the carryover period, or otherwise fail to liquidate, after the FFY of appropriation may not be used toward satisfying the match requirement, for that FFY.

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Tracking, Reporting, and Liquidation of Obligations (cont.)

Example 1: A VR agency permits VR Counselors to authorize VR services for a 6-month period of time. On May 1, 2017, a VR Counselor authorized monthly services through November 1, 2017. The provider submits an invoice for the services on January 1, 2018. This invoice could not be paid from the FFY 2018 grant award that began on October 1, 2017, because the service was obligated on May 1, 2017, prior to the start of the FFY 2018 award. The authorization could have been obligated and liquidated from the FFY 2017 grant award or the FFY 2016 grant award carryover period, if applicable.

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Tracking, Reporting, and Liquidation of Obligations (cont.)

Example 2: A State enters into a contract requiring the contractor to provide services to beneficiaries of the program. The contract is awarded and the contractor provides services, starting on July 1, 2017. The contract binds the contractor to provide the services through June 30, 2018. In this example, the obligation would be valid if assigned to the FFY 2017 award under the regulation in 34 C.F.R. § 76.707, despite the fact that most (three-fourths) of the services would be provided in the following fiscal year.

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Tracking, Reporting, and Liquidation of Obligations (cont.)

<u>Example 3</u>: Using the same scenario as in example 1, except that the contract is awarded on September 15, 2018 and the contractor starts providing services on October 1, 2018. In this example, all of the services would be provided in the following FFY. Because the services would not benefit the fiscal year being charged (due to fact that all of the services would be provided in the subsequent fiscal year), the contract could not be charged to the FFY 2018 ending on September 30, 2018.

How does your agency ensure that authorizations obligated an awarded have at least some of the services performed during the period of performance for the award?

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Questions

Q. Can a State that incurs a large contract for the provision of VR services at the end of a carryover year draw down funds to pay the obligation after the end of the liquidation period?

A. No, unless the Department grants an extension (i.e., late liquidation) upon the request of a State.

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Identifying Issues

One way to test your system is to review the obligations and expenditures during the first month of a new grant award (October 1 - October 30) to determine if an obligation or expenditure may be charged to the new FFY or appropriation’s award. Some questions to ask yourself as you analyze the obligations and expenditures at the beginning of an FFY:

1. Are personnel costs charged only for personnel time worked after September 30?
2. Are administrative expenditures (e.g., rent, utilities, etc.) only for costs incurred (services provided) after September 30?

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Identifying Issues (cont.)

3. Were the authorizations for consumer services paid, authorized (obligated) after September 30?
4. Were payments for staff travel only for travel that occurred after September 30?
5. Were all contract expenditures for contracts obligated after September 30?

These are just a few of the questions that should be considered.

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Reminder

Grantees must assign all Federal and non-Federal obligations and associated expenditures on a FFY basis to the correct Federal award.

- This is the only manner in which grantees can accurately report the amount of Federal and non-Federal obligations and liquidations, by FFY, on the Federal Financial Report (SF-425).

Considerations

- Do the funding sources and budget structure permit the assignment, tracking, reporting, and liquidation of obligations to the appropriate grant award (both Federal and non-Federal funds)?
- Does your case management system transmit sufficient information for your accounting system to determine which FFY or grant award number the expense was obligated to ensure payment from the correct Federal award?
- What are your processes for determining when obligations assigned to one Federal award are closed and another opened?

How Does a State Address Period of Performance Issues?

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Questions?

If you have any additional questions, please email them to RSAfiscal@ed.gov.

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