

LIHEAP2015
LOW INCOME HOME ENERGY ASSISTANCE PROGRAM
NATIONAL CONFERENCE
JUNE 17-19, 2015, BALTIMORE, MD

Obligations vs. Expenditures

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Purpose

- **This session will cover:**
 - Differences between financial obligations and expenditures
 - The role grantees play in defining obligations and expenditures
 - How obligations and expenditures affect LIHEAP



Agenda

- **Overview: Knowing the Differences**
- **A Focus on Obligations**
- **A Focus on Expenditures**
- **Questions and Answers**



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Knowing the Differences

OVERVIEW



What's the difference?

- **Obligations (Commitments/Agreements)**

- Financial obligations are the commitment of funds for specific use.
- Obligations should be defined in writing.



- **Expenditures (Payments)**

- Expenditures are the payment of funds.
- Expenditures should be defined in writing.



What's the difference?

- **All financial rules for LIHEAP focus on obligations.**

- It is up to each State or Tribe to determine how to define obligations within their financial manuals.
- Since obligation definitions can be different, all grantees need to have a firm understanding of the obligations set forth in their manual.

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A FOCUS ON OBLIGATIONS

ADMINISTRATION FOR CHILDREN & FAMILIES

What are obligations?

- **Examples of obligations:**
 - ✓ Approval letters are issued to clients
 - ✓ Credit lines are established with vendors
 - ✓ Signed contracts with local agencies
 - ✓ Purchase Orders or Requisitions for a check are made by LIHEAP
 - ✓ Payments are recorded in the General Ledger

ADMINISTRATION FOR CHILDREN & FAMILIES

How are obligations defined?

- **Define obligations by answering these types of questions:**

- ? Who receives assistance, and when?
- ? Who provides services?
- ? How are funds administered, and when?
- ? When during the financial process are funds considered committed for a specific purpose?

Think Fast – Do you know the answer?

Which of these is an example of an obligation?

- A client made a LIHEAP appointment
- A local agency approved a LIHEAP application
- A local agency submitted an invoice to the State for operating costs



Obligation Time Period

- **Obligated Funds**
 - **90% of funds** payable must be obligated in the federal fiscal year in which they were received.
- **Carryover Funds**
 - **10% of funds** may be carried over for obligation in the following fiscal year.

Example

Received in **federal fiscal year 2015**

Obligated between
Oct. 1, 2014 and Sept. 30, 2015

Example

Received in **federal fiscal year 2015**

Obligated between
Oct. 1, 2015 and Sept. 30, 2016

Can obligations be carried over?

- **When carrying over funds, remember these three points:**
 - Adhere to the basic rule of the 90/10 carryover provision
 - Do not include carryover funds in maximum cap calculations
 - Track program and administrative costs separately

Can obligations be carried over?

- **Adhere to the basic rule of the 90/10 carryover provision**

- You must obligate 90% of funds received from HHS within the same Federal fiscal year (not grantee fiscal year) that you received them.



- **IMPORTANT:** No matter when during the fiscal year you receive funds, you must obligate 90% by the end of the fiscal year (September 30).
- For example, if you are given funds on September 26, you have to obligate 90% of those funds by September 30.

- You have an option to carry over up to 10% of obligated funds to use in the next federal fiscal year.
 - ALL monies beyond the 10% limit of carryover become de-obligated.
 - Monies beyond the 10% limit cannot be rolled over.

Can obligations be carried over?

- **Do not include carryover funds in maximum cap calculations**

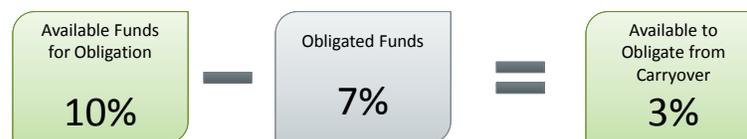
- When calculating maximum caps, the carryover amount should not be included in the value of your total funding for the new fiscal year.
 - The cap for administrative costs is 10% of the awarded funds.
 - The cap for weatherization is 15% of the awarded funds.
 - The cap for Assurance 16 activities is 5% of the awarded funds.
- Remember, the carryover funds were part of the original award amount for the prior fiscal year. The prior year's cap calculations were most likely based on the full award amount.
- Carryover funds are added to the caps for the next fiscal year. These can be added to any of the caps as long as the maximum obligation cap for the prior year was not met.

Can obligations be carried over?

- **Track program and administrative costs separately**
 - It is important for grantees to track program and administrative costs separately to determine how the carryover funds can be obligated.
 - If you maxed out your administrative costs in the prior year, carryover funds can only be obligated on programmatic costs.
- **Let's look at a few examples...**

Can obligations be carried over?

- **Tracking Administrative Costs:**
 - For the prior fiscal year, if you only obligated 7% of your total funds on administrative costs:
 - The remaining 3% can be used for administrative costs in the next fiscal year.
 - This is in addition to the 10% of funds awarded in that next fiscal year.



Remember, administrative costs can only make up 10% of the total award received for a fiscal year.

Can obligations be carried over?

- **Tracking Programmatic Costs:**

- For programmatic costs (weatherization and Assurance 16), amounts not obligated in the prior fiscal year can be used in the next fiscal year (up to the maximum cap allowed in each area).
- If you only obligated 8% of your total funds for weatherization costs, the remaining 7% can be obligated for weatherization in the next fiscal year as part of your carryover.



Remember, weatherization costs can only make up 15% of the total award received in a fiscal year.

Think Fast – Do you know the answer?

You obligated 1% of your funds on Assurance 16 activities. How much of your original award can you still obligate in the next fiscal year for Assurance 16?

a) 1%

b) 4%

c) 5%

d) 9%

– Remember, the cap for Assurance 16 activities is 5%.

– You obligated 1%.

– $5\% - 1\% = 4\%$

– You can obligate 4% for Assurance 16 as part of your carryover in the next fiscal year.



What do I do with benefit refunds?

- **It is Your Responsibility**
 - Decisions for managing refunds CANNOT be made by sub-grantees on an individual basis. They are the sole responsibility of the grantee.
- **Determine where benefit refunds go**
 - You must determine whether refunded benefits can be re-obligated or returned to HHS. This determination is based on:
 - Your carryover limit
 - The federal fiscal year the benefits were first applied to the client's account
 - Refunds or abandoned deposits are considered de-obligated funds.

What do I do with benefit refunds?

- **Track benefit refunds**
 - You must track refunds received from utility vendors, even if those payments were made initially by sub-grantees.
 - When sending back refunds, vendors must be required to identify:
 - The client to whom the refund belongs
 - When the client first received the payment
 - The funds are always considered federal funds.



IMPORTANT:

LIHEAP benefits retain their federal characteristics forever!

What do I do with benefit refunds?

- **Determine associated federal fiscal year for benefit funds**

- You must identify which federal fiscal year funded the returned payment.

- ? If the original payment came from the current fiscal year, the funds can be re-obligated for LIHEAP purposes.
- ? If the original payment came from the previous fiscal year, the funds may be re-obligated only if you have not already carried over the maximum 10% of funds from the prior year.
- ? If the carryover maximum has already been met or the original benefit was paid earlier than the prior federal fiscal year, the funds must be returned to HHS.

Why should obligations be tracked?

- **Setting up Contractual Obligations**

- How well you track obligations is important. This helps determine where funds are and should be obligated throughout both a fiscal year and a contractual period
- When funds are obligated, there is a signed contract with a local agency for a set period of time. This period of time is typically a contractual year.
 - October 1 – September 30
 - July 1 – June 30
 - January 1 – December 31



Why should obligations be tracked?

- **Tracking Contractual Obligations**

- The obligated funds are expended based off of contract invoices (usually per month). The State has obligated the full amount of LIHEAP funds, but only expended what was paid for on the invoices.
- Keep track (add up) the invoices every month to determine if the full obligated amount will be met by the end of the contract period.
- Track the total obligated funds and the expenses to determine how much is left each month.

Why should obligations be tracked?

- **Managing Contractual Obligations**

- Halfway through the contractual year, you should know how much of the obligations have been billed.
- This will give you an idea of what to expect in expenditures for the second half of the year.

Obligated Funds	Spent Funds	Remaining Funds
\$10,000	\$3,500	\$6,500
	\$1,000	\$5,500
	\$500	\$5,000
	\$300	\$4,700
	\$350	\$4,350
	\$350	\$4,000

Why should obligations be tracked?

- **Managing Contractual Obligations**
 - If you feel a local agency is not on track to fully expend all of its funds by the end of the contract period, you have the option to de-obligate some of the remaining funds and give them to another agency that is spending the funds faster.
 - These reallocations must be carried out before the end of **the federal fiscal year**.
 - Otherwise, such reallocations would be considered part of your carryover.

Planning Carryover

- **Be wise in planning carryover.**
 - We recommend you do not carryover the exact maximum of 10%.
- **Leave yourself a little bit of cushion (and flexibility) in case:**
 - You receive refunds from the prior fiscal year.
 - You want to de-obligate funds from one local agency and transfer them to another.
 - You inadvertently exceed your weatherization or Assurance 16 obligation caps and need to make changes later down the line.

Think Fast – Do you know the answer?

Carrying over the maximum 10% leaves you with less flexibility to deal with:

- Refunds received from utilities
- Underperforming sub-grantees
- Slightly exceeding statutory maximum caps

• All of the above



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A FOCUS ON EXPENDITURES

What are expenditures?

- **Examples of expenditures:**

-  Payment to clients
-  Payment to vendors
-  Payment for office supplies
-  Payment for employee salaries
-  Payment for local agency operations and salaries

Expenditure Time Period

- **Available Funds**

- If no time frame is specified, all federal funds remain available for 5 fiscal years after the fiscal year in which they were awarded.
 - Funds are only available for drawdown if they were obligated within the time frame set by the LIHEAP statute.
 - These funds are only available for expenditure, but not for re-obligation.

- **Expired Funds**

- After 5 years, the funds expire and are sent back to the U.S. Treasury.



IMPORTANT: LIHEAP statute and regulations do not specify a timeframe.

How are expenditures defined?

- **Define expenditures by answering these types of questions:**

- ❓ At what point were payments made?
- ❓ Who provided services, when, and for how much?
- ❓ Where were funds administered?
- ❓ How were spent funds tracked?

QUESTIONS AND ANSWERS

The next session will be Native
American Tribes and LIHEAP.