



**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**  
**Administration on Developmental Disabilities**

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**INFORMATION MEMORANDUM**

**TO :** Executive Directors, State Planning ✓  
Councils  
Chairpersons, State Planning Councils ✓  
Directors, Protection and Advocacy Agencies ✓  
Directors, Designated State Agencies

**SUBJECT :** Definition of Obligation Versus  
Liquidation of Federal Grant Funds  
Received Under the Developmental  
Disabilities Formula Grant Program --  
BASIC SUPPORT AND PROTECTION AND ADVOCACY

**LEGAL AND RELATED REFERENCES :** Developmental Disabilities Act, Amended  
1987, Public Law 100-146.  
45 CFR Part 1386 (3-27-84 Edition),  
Developmental Disabilities Program.  
45 CFR Part 74, Administration of Grants

**INFORMATION :** The Administration on Developmental  
Disabilities (ADD) Regulations, published  
in the Federal Register on March 27, 1984,  
clarify the States' responsibilities for  
the obligation and liquidation of Federal  
funds (45 CFR Part 1386.2 and 1386.3).  
The Developmental Disabilities Act,  
Amended 1987, Public Law 100-146 overrides  
the regulations in regard to the length of  
time a State has for obligation of awarded  
funds. 45 CFR Part 74.1 defines terms  
related to the obligation and liquidation  
of Federal grant funds received by the  
State as follows:

- o "Obligations" are amounts of orders  
placed, contracts and subgrants  
awarded, services received, and similar  
transactions made during a given period  
by the Designated State Agencies for  
Basic State Grant funds and Protection

and Advocacy Agencies for Protection and Advocacy funds which will require payment during the same or future period. Under 45 CFR Part 1386.2, (c)(1), Protection and Advocacy Agencies may also elect to treat entry of an appearance in judicial and administrative proceedings on behalf of a person with Developmental Disabilities as a basis for obligating funds for the litigation costs. The amount of the funds obligated must not exceed a reasonable estimate of the costs, and the way the estimate was calculated must be documented.

- o "Outlays" are charges made to the grant. Outlays may be reported on a cash or accrual basis.
- o "Unobligated balance" is the portion of the Federal funds authorized which has not been obligated by the grantee and is determined by deducting the grantee's obligations from the cumulative Federal funds authorized.
- o "Unliquidated obligations," for reports prepared on a cash basis, are the amount of obligations incurred by the grantee that has not been paid. For reports prepared on an accrued expenditure basis, they are the amount of obligations incurred by the grantee for which an outlay has not been recorded.

Using a cash accounting basis, liquidations generally are considered to be incurred on the date on which the State Agency makes payment. Using an accrual accounting basis, liquidations generally are considered to be incurred on the date the State Agency records an outlay (including outlays for amounts becoming owed). States may operate on either a cash or accrual accounting basis; however, all costs must be treated and reported on a consistent basis and in accordance with applicable State laws and procedures and acceptable accounting principles.

The following points are most important in regard to specific time limits for the ADD formula grant program:

- o Obligation/Deobligation -- Funds for each Federal fiscal year before fiscal year 1988 had to be obligated within the same fiscal year in which they were awarded. Funds for each Federal fiscal year starting with fiscal year 1988 may be obligated and reobligated as necessary through the end of the fiscal year (September 30) following the fiscal year in which they were awarded. Federal funds awarded starting in fiscal year 1988 which are not reported as obligated by the end of the second fiscal year, will be deobligated by the issuance of a negative grant award for the amount reported as UNOBLIGATED on the fourth quarter Financial Status Report (SF-269) for the second fiscal year and returned to the Federal Treasury.
- o Liquidation -- All obligations of funds which were awarded in a particular Federal fiscal year must be liquidated within two (2) years of the close of that Federal fiscal year, regardless of the year in which they were obligated. (Reference: 45 CFR Part 1386.3 (a)) Quarterly SF-269s must be submitted until all obligations for a given Federal fiscal year have been liquidated.

The current ADD Regulations provide an opportunity for States to request a waiver of the two (2) year liquidation time requirement if (a) the State law impeded implementation of the requirement, or (b) the amount of obligated funds to be liquidated is in dispute. (Reference 45 CFR 1386.3 (b)). In accordance with good business management practices, the liquidation of funds should be completed as soon as possible after the receipt of all invoices or billings. However, if unusual circumstances arise which prevent a State from meeting the two (2) year liquidation time requirement, and a waiver

request is deemed appropriate, the State should submit a request for waiver to the Regional Administrator. The Regional Administrator will review the State's request and forward a recommendation to the Commissioner, Administration on Developmental Disabilities for final decision. All such waiver requests should be submitted at least 90 days prior to the date by which such funds must be liquidated and should fully, clearly, and concisely state the reasons and basis for the request.

*Carolyn Doppelt Gray*

Carolyn Doppelt Gray  
Commissioner

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