

U.S. Treasury: Cases Studies regarding Obligation Interim Final Rule

Case Study #1: Reporting/Compliance Personnel

→ **Case example:** A recipient has hired additional finance, contracting and reporting staff whose payroll is funded with SLFRF funds to manage the compliance of SLFRF-funded projects. The recipient's established internal policies and procedures obligate personnel costs when the work is performed.

→ **Question:** Can the recipient incur these costs between January 1, 2025, and December 31, 2026?

→ **Response:** Yes. The Obligation IFR amends the definition of obligation to include requirements under federal law or regulation or a provision of the SLFRF award terms and conditions. This includes the cost of meeting reporting and compliance requirements. To use SLFRF funds for these costs, recipients must estimate these costs and report them to Treasury by April 30, 2024.



Case Study #2: Definition of Obligation

→ **Background:** In 2022, a recipient's legislative body approved the proposed appropriation of all the recipient's SLFRF award funds.

→ **Question:** Does this appropriation meet Treasury's revised definition of obligation?

→ **Response:** No, the appropriation does not provide a standard that could be applied consistently across recipients.

Case Study #3: Program Personnel

→ **Background:** A recipient is using SLFRF funds to provide mental health services to residents impacted by the pandemic. The recipient has hired eight full-time employees funded by SLFRF to implement the program, including social workers to deliver mental health services and case management. The recipient's established internal policies and procedures obligate personnel costs when the work is performed.

→ **Question:** Can this recipient incur these personnel costs between January 1, 2025, and December 31, 2026?

→ **Response:** If a recipient's established practices and policies obligate personnel costs when the work is performed, the recipient should follow the established practice for SLFRF personnel costs. In this example, the recipient's own internal policies and procedures would not allow the recipient to obligate personnel costs beyond 2024.

Case Study #4: Indirect Costs

→ **Background:** A recipient calculates indirect costs after the end of FY 2024 based on the recipient's NICRA applied to eligible expenditures in that year. This process cannot be completed until the recipient's expenditures are final. For 2024-2026, this won't occur until after the obligation deadline of December 31, 2024.

Question: Can this recipient charge indirect costs for 2024, 2025 and 2026?

→ **Response:** The Obligation IFR clarifies that to the extent that recipients have been covering expenses of personnel and other related administrative expenses needed to comply with administrative and other legal requirements under their current indirect cost rate, recipients may continue to do so.

Application of Obligation Deadline to Subrecipients:

- The obligation deadline applies to the recipient of SLFRF funds, and a cost is considered to have been incurred once a recipient enters into a subaward or contract that obligates the recipient to cover that cost.
- Subrecipients are **not subject** to the December 31, 2024, obligation deadline.
- Subrecipients and contractors do not need to take additional steps to obligate funds after entering into a subaward or contract with the recipient.

Case Study #5: Subrecipients

→ **Background:** A recipient has awarded a contract to a subrecipient to provide services for unhoused persons. The contract was executed in 2023 and ends on December 31, 2026.

→ **Question:** Does the subrecipient need to take any additional actions to meet the obligation deadline after executing the contract with the recipient?

→ **Response:** No – the subrecipient does not need to take any additional actions to obligate funds.

Amendment and Replacement of Contracts or Subawards:

Recipients cannot re-obligate funds or obligate additional SLFRF funds after the obligation deadline of December 31, 2024. However, after the obligation deadline, if the contract or subaward was entered into prior to December 31, 2024, **recipients may replace the contract or subaward under these circumstances:**

The recipient terminates the contract or subaward because of the contractor or subrecipient's default, the contractor or subrecipient goes out of business, or the recipient determines that the contractor or subrecipient will not be able to perform under the contract or carry out the subaward. The recipient and contractor or subrecipient mutually agree to terminate the contract or subaward for convenience.

The recipient terminates the contract or subaward for convenience if the contract or subaward was not properly awarded, there is clear evidence that the contract or subaward was improper, the recipient documents the determination that it was not properly awarded, and the original contract or subaward was entered into by the recipient in good faith.



Case Study #6: Contractor Issue

→ **Background:** A recipient has awarded a contract for a capital expenditure. In March 2025, the contractor ceases business unexpectedly. The project is only 50% completed. The recipient wants to enter into a new contract with a different contractor to complete the project.

→ **Question:** Can the recipient enter into a new contract after the obligation deadline with a new contractor to complete this project?

→ **Response:** Treasury is clarifying that after December 31, 2024, recipients are permitted to replace a contract or subaward entered into prior to December 31, 2024, under specific circumstances, which include contractor default or the contractor or subrecipient goes out of business.

Case Study #7: Obligation after Dec. 31, 2024

→ **Background:** A recipient has obligated all of its SLFRF funds by December 31, 2024. In the recipient's Single Audit in June 2025, the auditor identifies issues with a project. To ensure SLFRF funds are spent in compliance with all requirements, the recipient removes the project from its pool of SLFRF funds. The recipient has identified a new use of funds that can be expended by December 31, 2026; however, the recipient is not certain that the funds can be moved to the new project.

→ **Question:** How can the recipient re-obligate funds?

→ **Response:** Recipients cannot re-obligate funds to a new project after 2024 that does not meet the obligation deadline, such as a new project that does not yet have an order placed for property and services or entered into a contract, subawards, and similar transaction that requires payment.