Dear VR Director:

This email is to inform you of an important change to the process the Rehabilitation Services Administration (RSA) uses to assess maintenance of effort (MOE) penalties for the State Vocational Rehabilitation (VR) Services program that will affect the manner in which we allot VR funds in Federal fiscal year (FFY) 2020 and future years. For the reasons explained below, beginning in FFY 2020, RSA will no longer reserve 15 percent of the VR program appropriation for distribution in the fourth quarter of each FFY. This change will result in a single grant award for the VR program and allow States to match and obligate the entire amount of their Federal VR award earlier.

Currently, RSA reserves 15 percent of each VR grantee's total annual formula award amount until the fourth quarter of the FFY to assess potential MOE penalties incurred for the previous FFY. Then, by July 15 of the year of appropriation, RSA issues the reserved funds less the MOE penalties as supplements to VR grantees' current FFY VR awards. This long-standing practice was established to carry out the MOE provisions in the Rehabilitation Act of 1973 (Rehabilitation Act).

The current process requires RSA to reserve a substantial amount of VR funds to assess a minimal amount of MOE penalties. For example, in FFY 2019, the amount of VR Federal funds reserved for MOE penalties from 78 grantees was approximately $480 million. However, only five of the 78 grantees (6.4 percent) had FFY 2018 MOE deficits. The total amount of the MOE deficits was $10 million (2.1 percent of the total amount reserved). This practice prevents VR agencies from obligating a substantial amount of VR Federal funds until the fourth quarter of the year of appropriation (fourth quarter), thereby making such funds unavailable to meet the needs of VR consumers until more than nine months after the start of the grant award period.

As a result of amendments to the Rehabilitation Act made by WIOA, beginning in FFY 2020, RSA will determine MOE penalties based on final Federal financial reports and assess these penalties against the State's subsequent year's award.[*] Because of this revised approach to assessing MOE penalties, RSA no longer needs to reserve a portion of the VR appropriation in any FFY for that purpose.

This change benefits VR agencies by:

- reducing burdens and creating efficiencies for States as they will be able to obligate the entire amount of their Federal VR award earlier, have additional time to provide State match funds, and plan for any reductions due to a MOE penalty;
- eliminating the need for States to process fourth quarter VR grant award supplements; and
- enabling a more accurate assessment of MOE deficits based upon the grantee's final Federal Financial Report for the FFY.

Because assessed MOE penalties are added to available reallotment funds, shifting the MOE penalties to the subsequent FFY may result in a one-time slight reduction to the total amount of available reallotment funds in FFY 2020. For example, if this change had been implemented in FFY 2019, the total available reallotment funds would have been reduced by $10 million.

Please share this important information with your fiscal staff so they can adjust forecasting and budgets, as necessary, to account for this change. The RSA fiscal unit will be conducting a webinar to provide VR agencies an opportunity to learn more about these changes. If you have any immediate questions, please contact the RSA financial management specialist assigned to your agency.

Sincerely,

Mark Schultz
Commissioner
Rehabilitation Services Administration

* In accordance with Section 111(a)(2) of the Rehabilitation Act and 34 C.F.R. § 361.62(a)(2), the Secretary of Education will reduce the amount otherwise payable to a State for any FFY by the amount by which the total expenditures from non-Federal sources under the vocational rehabilitation services portion of the Unified or Combined State Plan for any previous fiscal year were less than the total of those expenditures for the fiscal year two years prior to that previous fiscal year.