Center for IDEA Fiscal Reporting

WestEd

Using IDEA Part C Funds: How the First In, First Out Method Works

CIFR practice guides help state staff understand how to implement the fiscal reporting requirements of the Individuals with Disabilities Education Act (IDEA). These guides are not an official interpretation of IDEA by the Office of Special Education Programs (OSEP) or the U.S. Department of Education.

Introduction

Federal IDEA Part C funds assist states in implementing a coordinated system to provide early intervention services for infants and toddlers with disabilities from birth through age 2 and their families. Each eligible state receives an annual Part C grant, which can be obligated over a 27-month period (see the textbox on the next page). Any IDEA funds not obligated by the end of this "period of performance" expire and must be reverted to the federal government.

Within this 27-month period, states manage up to three grants at the same time while preparing the budget for a fourth. Moreover, the state fiscal year and fiscal accounting procedures may not align with federal grant requirements, making communication, coordination, and monitoring more difficult.

Obligating means committing to spend the funds for a specific purpose. **Spending** or **expending** means processing invoices and making payments. **Liquidating** means fully paying off the obligations. This guide primarily uses "obligating" to describe the first in, first out method but occasionally refers to "spending" to reflect funds that have been used to fulfill an obligation and are no longer available.

Suggested Uses

- Share with state and local fiscal staff to build a common understanding of the first in, first out method for efficient use of Part C funds.
- Improve coordination and communication among staff and key fiscal partners.
- Assess current procedures and state regulations to identify opportunities to apply this method.

IDEAs that Work

Office of Special Education Programs
U.S. Department of Education

To manage funds effectively, states should use the first in, first out (FIFO) accounting method to manage older grant funds, which expire earlier, before newer funds are obligated. This method promotes fiscal responsibility and efficiency throughout the grant period. This practice guide explains FIFO and strategies for spending down IDEA Part C funds within the 27-month period of performance.

IDEA Grant Cycle

Each Part C grant is associated with a federal fiscal year (FFY), which runs from October 1 to September 30. Although FFY 2025 begins October 1, 2024, and ends September 30, 2025, the FFY 2025 grant award is not available for obligation until July 1, 2025, and remains available for 27 months:

- **Budget Period:** Part C funds are released for obligation on July 1 in the FFY in which they are appropriated and carried through September of the following fiscal year. For an FFY 2025 award, the Budget Period runs from July 1, 2025, through September 30, 2026.
- **Tydings Period:** This allows state recipients to carry over and obligate IDEA funds for an additional 12 months. For an FFY 2025 award, the Tydings Period is October 1, 2026, through September 30, 2027.
- **Period of performance:** The Budget Period and the Tydings Period make up the 27-month period of performance.

States must liquidate all obligations (pay outstanding debts) within 120 days following the end of the period of performance. For an FFY 2025 grant, this **Liquidation Period** ends on January 28, 2028.

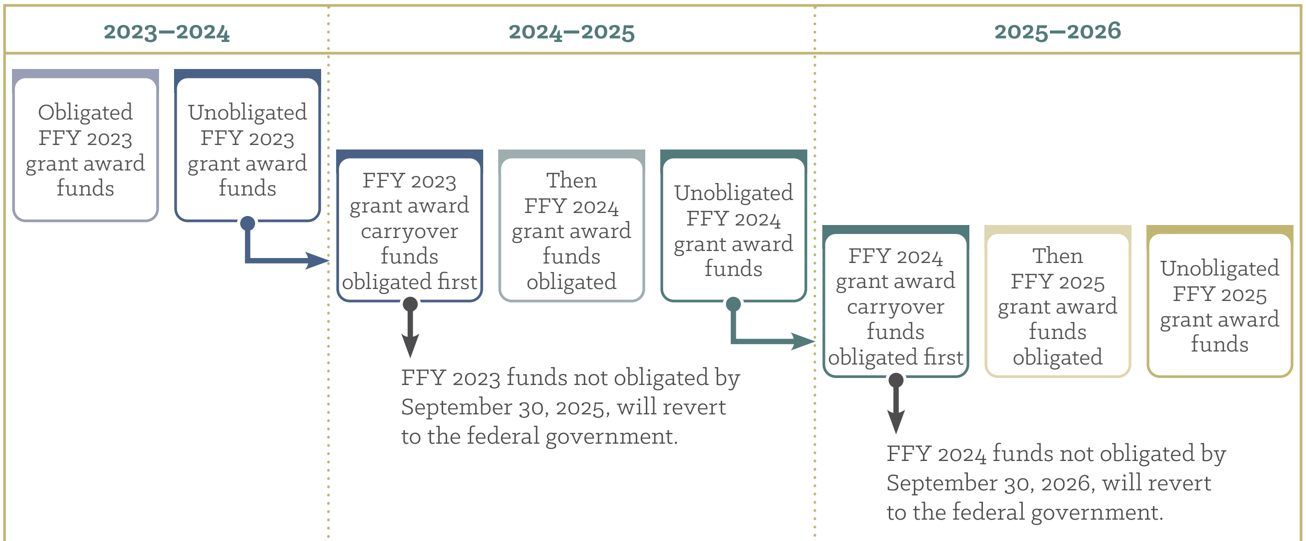
See CIFR's *Understanding the Part C State Grant Funding Cycle and Different Fiscal Years* in **Resources**.

What Is FIFO?

FIFO is an accounting method in which the oldest grant funds are obligated and spent before newer funds. By spending funds from the oldest grant first, states can more efficiently use the grants within their designated timeframes. Exhibits 1 and 2 show two ways a state may use older funds first.

In Exhibit 1, the state prioritizes spending older funds that were carried over into the Tydings Period before obligating newer grant funds. For example, if some of the FFY 2023 grant award funds are not obligated during the grant award period (2023–2024), the state carries them into 2024–2025 and obligates those funds first. Once the FFY 2023 funds are fully used, the state starts spending the FFY 2024 grant award. Similarly, any unobligated FFY 2024 funds are used first in 2025–2026 before obligating funds from the FFY 2025 grant award.

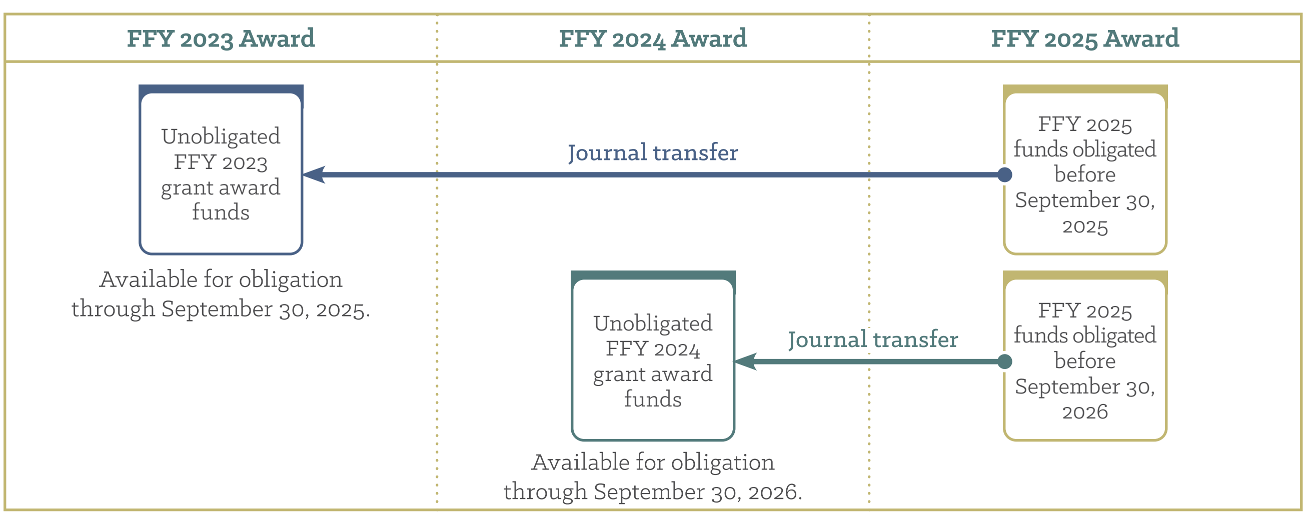
Exhibit 1. Obligating Older Grants Before Newer Grants



With the FIFO strategy, a state obligates the oldest award in a given year first.
This reduces the risk of reverting IDEA dollars to the federal government.

Exhibit 2 shows how states can reclassify expenditures made with the current grant award to use older funds, typically through accounting adjustments.[1] In this example, the state has obligated its FFY 2025 funds but still has unspent FFY 2023 and FFY 2024 funds. The state may, in accordance with state fiscal accounting procedures, reclassify those expenses to use FFY 2023 funds if those expenses were incurred before September 30, 2025. Similarly, if FFY 2024 funds remain, the state may reclassify applicable FFY 2025 award expenses to use FFY 2024 funds before they expire on September 30, 2026. This reclassification must follow all federal and state accounting guidelines and regulations.

Exhibit 2. Reclassifying Expenditures to Use Older Funds



1 The terminology for this practice varies across states. They may be known as journal entries, payment transfers, or reclassification entries.

Both of these approaches allow states to use unobligated funds from an earlier grant award that is still within its federal period of performance. In short, FIFO ensures that older funds are obligated and spent first and helps manage grant resources effectively.

Staff Communication and Coordination

To implement FIFO effectively, key staff at both the state and local levels must work closely together, especially the state Part C coordinator and fiscal staff at the state lead agency (LA) overseeing the Part C program.

The **Part C coordinator** or **fiscal manager** typically creates the budget, monitors and approves spending, and ensures that expenses are charged to the oldest available grant. **State LA fiscal staff** handle the agency's broader financial operations, determine how to assign expenses, ensure accurate financial records, and facilitate communication between the fiscal office and Part C staff. **Local fiscal staff** also play a crucial role in managing IDEA funds—for example, by submitting invoices in a timely manner or reporting the status of subcontracts to the state LA. All staff should collaborate to be sure that FIFO is followed properly.

Because FIFO may differ from how other state funds and other federally funded programs are managed, it is essential that everyone understands the regulations at 34 CFR Part 303 and 2 CFR Part 200 that ensure Part C funds are used within their intended period of performance and in compliance with IDEA. Fiscal staff should be aware of the 27-month period of performance for each IDEA grant. Since this may differ from timelines for state funds (or other federal funds), comparing IDEA regulations with state regulations and other requirements is helpful. Additionally, differences between the state fiscal year (SFY) and the FFY timeframes can affect expenditure tracking, making it essential to identify how systems accurately document this information.

State staff should also understand the procurement process for purchasing goods or services and know whether they can make purchases directly or if they must go through a central procurement office. Being aware of typical timelines helps avoid delays, ensures timely use of funds, and prevents unspent funds or noncompliance with grant requirements.

Processes for Facilitating FIFO

To effectively implement FIFO for IDEA funds, states need strong tracking systems and safeguards to ensure the proper use of funds.

Rigorous Tracking of Grant Award Funds Across Years: States should set up comprehensive tracking systems to ensure that the oldest funds are spent first. This includes monitoring budget allocations and expenditures, as required under 34 CFR §300.120 and 2 CFR §200.329, to identify and address unfilled positions or underspent categories early. Each grant year and fund source should have unique account codes. Tracking each grant award separately across state fiscal years and forecasting unspent funds can help with reallocating funds to other allowable activities within the performance period. However, significant changes to the budget may require prior approval from OSEP. See **Special Considerations**.

Addressing Grant Balances: States should have processes in place to identify and address unspent funds at the end of the SFY. If funds for special projects are no longer needed, staff should obligate the remaining funds for other activities during the grant's Tydings Period.

Careful Documentation: Any changes to how funds are used must be thoroughly documented, as required under 34 CFR §300.224. Records should include reasons for the changes, which funds are moved, the fiscal years impacted, and evidence of required approvals. Maintaining clear and complete records supports compliance and accountability.[2]

Other best practices for managing federal funds include the following:

- **Clear Roles:** Assign and document responsibilities for managing IDEA funds across all agencies and local programs.
- **Documented Procedures:** Establish written processes for tracking and reviewing expenditures by grant year, ensuring consistent application of FIFO even with staff changes.
- **Communication:** Set up channels for sharing information about fund status, expenditure tracking, and attributions to specific grant years.
- **Interagency Coordination:** Align responsibilities and timelines across agencies to prevent unused funds and ensure compliance.
- **Training:** Regularly train staff on IDEA regulations, FIFO methods, and best practices for grant management.
- **Audits:** Conduct regular audits and reviews to verify compliance and address any issues proactively.

By instituting these internal controls, states can ensure a comprehensive approach to managing IDEA funds within the set timeframes.

Special Considerations

Attention to special considerations is needed to maintain compliance and ensure effective fund management. First, it is crucial to follow the payor of last resort requirement as outlined in 34 CFR §303.510, which dictates that IDEA funds must only be used for early intervention services after all other funding sources have been considered.

Another important consideration is that cumulative budget revisions for a given grant award exceeding a certain threshold require prior approval from OSEP. As part of their annual grant application, states must submit a detailed budget outlining how the Part C award will be allocated across various activities. While states may adjust their budgets after submission, transfers among the budgeted cost categories adding up to more than 10 percent of the total Part C grant amount must be approved by OSEP, as specified in 2 CFR §200.308(i). If FIFO adjustments result in substantial changes to the original budgets for both the older and newer grants, the state should consult with their OSEP contact to ensure compliance.

2 Under 2 CFR §200.334, grant recipients and subrecipients must retain all federal award records for three years from the date of submission of their final financial report.

Conclusion

Applying the FIFO method enables states to manage their IDEA grants effectively by prioritizing the use of older funds before newer ones, thereby minimizing the risk of unspent funds being reverted to the federal government. States can achieve this by strategically obligating older grants first or by reclassifying expenditures through journal entries.

Successful implementation of FIFO hinges on strong staff collaboration, systemic monitoring, and robust internal safeguards to ensure compliance with federal guidelines. By integrating these strategies, states can responsibly manage their grant funds and ensure timely and effective use of grant resources.

Resources

- IDEA Part C Annual Grant Budget Calculator
  https://cifr.wested.org/resource/part-c-budget-calculator/
- OSEP Memorandum: Review of Obligation and Liquidation Timelines and Authority, and Process for Requesting Late Liquidations
  https://sites.ed.gov/idea/files/OSEP-Memo-Corr-to-Field-Liquidations-and-Obligation-05-17-2023.pdf
- Quick Reference Guide on the Timely Expenditure of Funds
  https://cifr.wested.org/resource/quick-reference-guide-on-the-timely-expenditure-of-funds/
- Understanding the IDEA Part C State Grant Funding Cycle and Different Fiscal Years
  https://cifr.wested.org/resource/understanding-the-idea-part-c-state-grant-funding-cycle-and-different-fiscal-years/

For more resources, visit http://cifr.wested.org or email cifr_info@wested.org.

The Center for IDEA Fiscal Reporting (CIFR) is a partnership among WestEd, AEM Corporation, American Institutes for Research (AIR), Emerald Consulting, the Frank Porter Graham Child Development Institute at the University of North Carolina at Chapel Hill, the Center for Technical Assistance for Excellence in Special Education (TAESE) at Utah State University, and Westat. The Improve Group is CIFR's external evaluator.

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