

FEDERAL REVERSIONS – FREQUENTLY ASKED QUESTIONS (FISCAL YEAR 2022-2023)

Overview

Each year, the Office of School Business Services (School Business) completes calculations to determine the amount of funds to be “reverted” back to the Federal government after the end of the period of performance for a Federal grant. This process is completed by the School Allotments section in two phases:

- **Immediate Reversion** – reversion calculation to identify the amount of funds that a public school unit (PSUs) has not obligated by the end of the period of performance of a Federal grant. For the majority of Federal grants, this process occurs in October, but as a general rule will occur in the month following the end date of the period of performance for an individual grant.
- **Final Reversion** – reversion calculation to identify the amount of funds that were obligated by the end of the period of performance, but which were not liquidated by the end of the liquidation period. While previously this period was 90 days, under current Federal regulations it has been extended to 120 days. For grants with a liquidation period, these calculations are performed in the month following the end date of the liquidation period for an individual grant.

These materials are intended to assist PSUs in understanding the Federal requirements related to the reversion process, including the rules regarding when funds are obligated, as well as information regarding the School Business process for calculating reversion amounts. In addition, an [Encumbrance Validation Form](#) is also provided to assist a PSU in providing support of an allowable obligation to School Business for funds that otherwise were reverted.

Frequently Asked Questions

1. What is the “period of performance” of a grant?

The Uniform Guidance ([2 C.F.R. 200.1](#)) defines the period of performance as the total estimated time interval between the start of an initial Federal award and the planned end date, which may include one or more funded portions, or budget periods.

2. Where can I find information as to the duration of the period of performance of a grant?

The period of performance for any grant issued by NC DPI should be able to be found on the Grant Award Notification for the specific award. For most grants administered by NC DPI, the period of performance is up to 27 months, depending on the date of application approval. If you are unable to identify the period of performance for a specific grant award made by DPI, please contact the program administrator for the individual programs.

3. What is an obligation?

An obligation, in this context, is a binding commitment for the use of Federal grant funds.

4. When does an obligation occur? Does it differ for different types of expenditures?

The timing of an obligation depends on the nature of the expenditure. In [34 C.F.R. 76.707](#), the U.S. Department of Education has defined the timelines for obligation for various types of expenditures. The following table outlines the point in time where an obligation occurs for different types of expenditures:

If the obligation is for –	The obligation is made –
Acquisition of real property	On the date which the grant recipient makes a binding written commitment to acquire the property.
Personal services by an <i>employee</i>	When the services or work is performed by the employee.
Personal services by a <i>contractor</i> who is not an employee	On the date on which the grant recipient makes a binding written commitment to obtain the services.
Performance of work other than personal services	On the date which the grant recipient makes a binding written commitment to obtain the services.
Public utility services	When the grant recipient receives the services.
Travel	When travel is taken.
Rental of real or personal property	When the grant recipient uses the property.

Please remember that an obligation must be made before the end of the period of performance to qualify as an allowable expenditure against a grant.

5. *What types of expenses fall under “performance of work other than personal services?”*

These expenses would be things like purchases of goods (equipment, supplies, etc.) and anything beyond personal services.

6. *What does a “binding written commitment” mean?*

A binding written commitment is any formal documentation that commits the PSU to expend funding in exchange for receiving a good, service, or property; this can include contracts, purchase orders, etc. The key to the requirement is that the commitment must be in writing (i.e., able to be documented).

7. *What is the relationship between an obligation and an encumbrance?*

While Federal regulations do not define obligation, as noted above, in this context, an obligation may be defined as a binding commitment or the use of Federal grant funds. An encumbrance is effectively the accounting transaction to evidence that obligation or commitment.

While sometimes the terms are utilized interchangeably, for the purposes of understanding reversion requirements it is important to understand that the date of obligation may be different than the date of encumbrance. However, DPI does use encumbrance data for the purposes of calculating reversions, so it is important to ensure that your reported encumbrances are complete and accurate as of the end of the period of performance for a grant.

8. *What is the liquidation period?*

The liquidation period is the term for the 120-day period after the end of the period of performance for a grant that the Uniform Guidance allows for grant recipients to liquidate all financial obligations incurred under a Federal award (see [2 C.F.R. 200.344](#)).

9. *Can I continue to receive services and charge expenses against a grant during the liquidation period?*

Yes. So long as an obligation was successfully made before the end of the period of performance, a PSU may continue to receive services and charge expenses against a grant until the end of the 120-day liquidation period. A PSU **may not** pay for any services during either the period of performance or liquidation period that will extend beyond the end of the liquidation period.

10. *What is a “reversion?”*

A reversion is the term that DPI uses to describe the reduction of a previously received allotment. A reversion is completed in the following circumstances:

- A PSU voluntarily waives a portion of previously allotted funding;
- A PSU has a grant award terminated by NC DPI;
- A PSU failed to obligate and encumber an amount of funds by the end of the period of performance;
- A PSU failed to liquidate encumbrances prior to the end of the liquidation period.

11. *How does School Business calculate the immediate reversion?*

After the end of the period of performance for a grant, the School Allotments section utilizes a reversion calculation tool to determine the amount of funding to be reverted. The tool operates on the assumption of “first-in, first-out” (FIFO) to apply reported expenditures and encumbrances from allowable object codes to determine the amount of funds to be reverted.

12. *How does School Business calculate the final reversion?*

After the end of the liquidation period, the School Allotment sections utilizes the reversion tool to identify the extent to which a PSU has reported spending during the liquidation period from reported encumbrances within the allowable object codes. Indirect costs are also factored into the calculations during the final reversion process to attribute corresponding indirect cost charges to the expiring grant award.

13. *Can I charge indirect costs to a grant during the liquidation period? If so, do I need to encumber those funds?*

Indirect costs may be charged during the liquidation period to correspond to expenses charged to the grant during that window. However, those funds do not need to be encumbered. The reversion calculation process includes steps to ensure that indirect cost amounts may be charged to expiring grants for expenditures during the liquidation period. Your PSU may draw down funds for corresponding indirect costs as you liquidate encumbrances using the normal funding request process.

14. *How does DPI determine which encumbrances are credited towards a grant during the reversion calculations? Are all encumbrances credited towards the grant?*

Only encumbrances that are reported within allowable object codes are considered when calculating the reversions for Federal grants. The list of allowable object codes are determined by analyzing the Uniform Chart of Accounts codes against the U.S. Department of Education requirements in 34 C.F.R. 76.707.

If a specific object code potentially could include expenditures that would be both allowable and unallowable obligations under the Federal requirements, that object code cannot be included in the reversion calculations. This does not mean that a PSU cannot have an allowable obligation within those object codes, only that the encumbrance cannot be included in the calculation; a PSU will need to substantiate any allowable obligations that were coded to unallowable object codes.

An example of this would be Object Code 312 (Workshop Expenses) which can include expenditures for contracted services, which would be an allowable encumbrance under the Federal regulations, but which also includes participant travel costs, which would not be an allowable encumbrance under the Federal regulations. Because School Business cannot differentiate encumbrance amounts for contracted services from encumbrance amounts for travel within Object Code 312, all encumbrances reported in 312 must be excluded and any PSU that has allowable expenditures for contracted services would need to provide evidence to DPI to substantiate the encumbrance for the reallocation of funds.

15. Which grant programs had awards that expired in FY 2023?

The following grants expired on September 30, 2022:

- All of the CARES Act grant programs (ESSER I and GEER) expired.
- Any normal 27-month Federal grants made during FY 2021 that had expiration dates of September 30, 2022 on the Grant Award Notices,
- Any of the Consolidated Grant program awards from FY 2020 that had received a one-year extension on the period of performance during FY 2022.

Any 15-month Federal grants, such as the IDEA Risk Pool (PRC 114) or CTE Federal Perkins Grant (PRC 017) will expire on June 30, 2023. There is no liquidation period for these grants; they are reverted as of the end of the fiscal year.

16. What do I do if I can establish that my PSU had an allowable encumbrance of funds that was reverted by School Business?

If you believe that your PSU had an encumbrance (or encumbrances) that was reverted but should not have been, you may submit an [Encumbrance Validation Form](#) to provide the necessary information for School Business to confirm the allowability of the encumbrance(s) and to reallocate the funding. The form will require submission of information pertaining to the PRC, purpose, and object code of the encumbrance, and a ***brief*** description of the good or service being obtained by the district. Your PSU will also be required to provide supporting documentation as evidence of the encumbrance; the documentation does not need to be extensive (i.e., you do not need to submit a copy of an entire contract), but should be sufficient to establish (1) the date of obligation or encumbrance and (2) the nature of the expenditure.

17. What do I do if an obligation occurred before the end of the period of performance, but the encumbrance was not reported in a timely manner?

If your PSU made a timely obligation of funds that you feel was not subsequently was not correctly factored into the reversion calculation process, regardless of the reason, you may submit an Encumbrance Validation Form to substantiate the obligation of funds for reallocation.

18. *What is the deadline for submission of documentation to validate an allowable obligation to avoid reversion of funds?*

Any Encumbrance Validation Forms should be submitted to School Business by **December 5, 2022** for timely consideration and processing. School Business staff will review the forms as they are submitted, but reallocation of funds will only occur through a single Allotment revision in December. If the timing of the reallocation of funds could cause an issue for your district, please contact John Keefer, Public School Budget Manager (John.Keefer@dpi.nc.gov).

19. *Who can I contact with questions regarding the reversion calculations, the Encumbrance Validation Form and process, or any other issues related to obligation, liquidation, and reversion requirements?*

You may contact John Keefer with any questions related to Federal reversions and period of performance requirements.