

Overview and Frequently Asked Questions Related to Federal Grants - Fiscal Obligations, Liquidations and Reversions

Prepared By: NC DPI Division of School Business Services

Version Date: September 15, 2023

Updated: September 19, 2024

Contents

Table of Contents

Frequently Asked Questions:	5
1. What is the “period of performance” of a grant?	5
2. Where can I find information as to the duration of the period of performance of a grant?5	
3. What is an obligation?	5
4. When does an obligation occur? Does it differ for different types of expenditures?.....	5
5. What types of expenses fall under “performance of work other than personal services?”	7
6. What does a “binding written commitment” mean?	7
7. What is the relationship between an obligation and an encumbrance?	7
8. What is the liquidation period?.....	7
9. Can I continue to receive services and charge expenses against a grant during the liquidation period?	8
10. What is a “reversion?”	8
11. How does School Business calculate the Phase I Immediate Reversion?	8
12. How does School Business calculate the final reversion?.....	8
13. Can I charge indirect costs to a grant during the liquidation period? If so, do I need to encumber those funds?	9
14. How does NC DPI determine which encumbrances are credited towards a grant during the reversion calculations? Are all encumbrances credited towards the grant?	9
14. Which grant programs had awards that expired in FY 2024?	9
15. Can I encumber against object code 312 (Workshop Expenses)?	10
16. Can I make payroll payments during the liquidation period?	10
17. When can a subscription for services be obligated and what period of the contract can be paid for with Federal funds? (New 9/18/23)	10
18. When can a subscription for services be obligated and what period of the contract can be paid for with ESSER Federal funds? (New 9/19/24)	10
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?	12

Purpose of this Document:

The purpose of this document is to provide NC Public School Units with guidance and answer Frequently Asked Questions about obligations, liquidations, and reversions related to Federal grant funds.

This document will be updated periodically, as updated questions and answers are added.

Other than statutory and regulatory requirements included in the document, such as those pursuant to the authorizing statute and other applicable laws and regulations, the contents of this document do not have the force and effect of law and are not meant to bind the public in any way. This document is intended only to provide clarity to the public regarding existing requirements under the law or agency policies. In addition, it does not create or confer any rights for or on any person.

Please be sure to consult with your Board Attorney in making decisions.

Overview

Each year there are a series of Federal grant funds that expire on September 30. PSU's must liquidate all financial obligations incurred under the award no later than 90 calendar days of the end date of the period of performance as specified in the terms and conditions. A PSU may continue to receive services and charge expenses that were properly obligated by September 30 during the liquidation period. The liquidation period is the 90-day period after the end of the period of performance for a grant, December 29th of each year.

In order to use the liquidation period an obligation will need to be established. An obligation is in essence a binding commitment for the use of Federal grant funds. In order to identify obligations in the accounting system and to ensure funds related to these obligations remain available throughout the liquidation period, an encumbrance must be made in the accounting system and reported in the September 2024 data files reported to NC DPI. An encumbrance is the accounting transaction that represents the obligation or commitment that has been made.

An encumbrance will prevent the obligated funds from reverting back to NC DPI and Federal awarding agency. A reversion is the term that NC DPI uses to describe the reduction of any remaining allotment and the PSU's ability to draw down the funds. The funds related to expiring grants that are not encumbered and that are not expended by September 30 will be reverted.

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:

Phase I - Immediate Reversion – A reversion calculation is performed 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. The calculation will result in the reduction of the allotment to zero, or the eligible amount encumbered. 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.

Phase II - Final Reversion – A reversion calculation is performed 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. 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. The liquidation period for Federal grant awards is 90 days.

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.

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 NC 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. An encumbrance in the accounting system is required to be reported to DPI through data files as evidence of the obligation or commitment and to prevent the funds from reverting. Please see other relevant questions related to encumbrances.

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, NC 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?

For most Federal grants, the liquidation period is the term for the 90-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](#)). During this period, all outstanding payments due, related to encumbrances identified by September 30 need to be paid.

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

Yes. So long as an allowable obligation was successfully made before the end of the period of performance and properly reported to NC DPI, a PSU may continue to receive services and charge expenses against a grant until the end of the 90-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 NC 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 Phase I Immediate Reversion?

After the end of the period of performance for a grant, the School Business Services section determines the amount of funding to be reverted for the grant year being reverted. The data used to identify the amount to revert includes 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 Business section identifies the extent to which a PSU has reported spending during the liquidation period from reported encumbrances within the allowable object codes. During the liquidation period, if any expenditures are reported to NC DPI outside of the specific account codes that were used to set up encumbrances reported at the end of the period of performance they will be flagged as

unallowable costs and those funds will be pulled back in the final reversion process. The account code related to the encumbrance cannot be changed during the liquidation period.

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, you will need to encumber the funds. The encumbrance should be based on the amount of the obligations to be encumbered and paid throughout 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 NC 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.

An example of an unallowable code is payroll and travel. Payroll expenses, including benefits associated with payroll, and travel cannot be encumbered and if encumbrances are identified in the system in these object codes, the encumbrance will not be recognized as an allowable obligation.

14. Which grant programs had awards that expired in FY 2024?

See NC DPI School Business Services website for the most recent list of the grants that expire on September 30, 2024.:

· S

Any 12-month Federal grants, such as the IDEA Risk Pool (PRC 114) or CTE Federal Perkins Grant (PRC 017) will expire on June 30, 2024. There is no liquidation period for these grants; they are reverted as of the end of the fiscal year.

15. Can I encumber against object code 312 (Workshop Expenses)?

Yes, but only for allowable obligations. Object Code 312 (Workshop Expenses) can include expenditures for contracted services, which is an allowable encumbrance under the Federal regulations, but also includes participant travel costs, which would not be an allowable encumbrance under the Federal regulations. The PSU is responsible for complying with the allowable obligations.

16. Can I make payroll payments during the liquidation period?

No, personal services by an employee cannot be obligated. If you have a payroll that falls after the 30th, the PSU must draw cash for eligible payroll expenses through September 30th, or relevant last day of the period of performance.

17. When can a subscription for services be obligated and what period of the contract can be paid for with Federal funds? (New 9/18/23)

A subscription for products or services is made based on a contract or other agreement. The obligation is generally met at the time of the contract. While a subscription may extend beyond the period of performance, federal grant funds may only cover the cost of the subscription services received through the 90-day liquidation period following the period of performance related to the grant.

18. When can a subscription for services be obligated and what period of the contract can be paid for with ESSER Federal funds? (New 9/19/24)

In making a determination on the use of ESSER Funds to pre-pay services, please find the [Frequently Asked Questions\(link is external\)](#) document issued by USDE on allowable uses of federal ESSER and GEER funding provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, and federal ESSER funding provided under the American Rescue Plan (ARP) Act.

See question E-3.d. “How long may ESSER or GEER-funded activities continue after the liquidation period?”

Generally, it is not good stewardship of Federal funds or prudent business practice to prepay for services that will extend many years into the future. However, under limited circumstances where a grantee or subgrantee timely obligates ESSER or GEER funds, ESSER- or GEER-funded activities may continue for a reasonable time beyond the liquidation period (including an approved late liquidation period).

Factors impacting how long ESSER- or GEER-funded activities may extend past the liquidation period include:

- Whether the funds were properly obligated and liquidated in a timely manner;
- Whether the activities would be allowed to extend beyond the liquidation period under applicable State and local procurement rules (i.e., a State or LEA must follow the same policies and procedures it uses for procurements from its non-Federal funds) (see 2 CFR §§ 200.317 through 200.327, 200.403(c));
- Whether the extended activities constitute a reasonable and necessary use of Federal funds; and
- Whether prudent business practices (2 CFR § 200.404(b) & (d)) and internal controls (which generally limit prepayment) would support the continued activities for the length of time proposed.

Grantees and subgrantees must obligate funds by each program’s deadline, which means that if a grantee or subgrantee enters into a contract for activities that continue past the date of obligation and the contractor does not provide the services, the grantee or subgrantee may not enter into a new contract or obligate those funds for a different allowable use. Instead, those funds that were obligated for services that were not delivered will remain unused and will be returned to the U.S. Treasury.

Because ESSER and GEER are State-administered programs, the SEA or Governor determines whether activities extending past the liquidation period are allowable under the circumstances. For example, an SEA may determine that it is reasonable and necessary under 2 CFR §§ 200.403-200.404 for an LEA to enter into a multi-year

software licensing contract with a vendor during the period of availability of ARP ESSER funds and to pay for the entirety of the software license within the liquidation period. However, under the contract, the vendor would continue to provide the services (i.e., software and technical support) for some time after the funds had been liquidated.

Specific questions should be addressed to your Office of Federal Programs contact.

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 Allotments@dpi.nc.gov with any questions related to Federal reversions.