



North Carolina Pandemic Recovery Office (NCPRO)

Technical Assistance Training
August 7, 2025

04

Financial Management

Agenda

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Introduction to Financial Management

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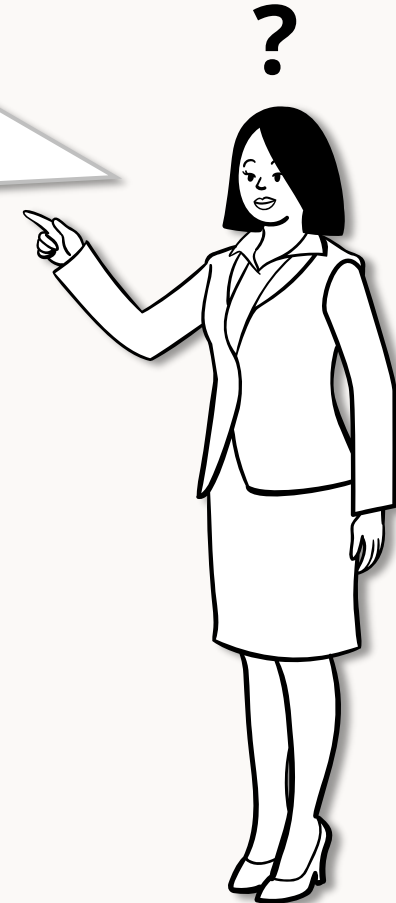
What does Financial Management entail?

Financial Management refers to the organized approach of **planning, organizing, guiding, monitoring, structuring, and regulating** an organization's financial resources while following federal and state laws. This process allows funds to be used correctly, keeping precise financial documentation, and complying with reporting and auditing standards.

2

What makes it significant?

Sound financial management of grants funds is vital for various reasons. It promotes **correct resource utilization, upholds accountability, and boosts the overall effectiveness** of projects receiving funding.



Requirements and Guidelines



Applicable Financial Management Guidance

Key provisions for grants financial management based on 2 CFR, 09 NCAC 03M, and N.C.G.S. 143C-6-23, include:

Guidance Area	Reference	Description
Budgeting and Planning	*2 CFR § 200.308	Requires recipients to obtain prior approvals for budget and program plan revisions.
	NCAC 03M. 0202	Mandates the establishment of budget plans that align with grant terms and conditions.
	N.C.G.S. 143C-6-23	Specifies requirements for budgeting and planning to ensure grant funds are used as intended.
	N.C.G.S. 159-8	Specifies the requirements for annual budget ordinances, including the need for balanced budgets and the inclusion of all revenues and expenditures.
	N.C.G.S. 159-13	Outlines the procedures for adopting the budget ordinance, including public hearings and the role of the governing board.
Allowable Costs and Spending	2 CFR § 200.403	Outlines factors affecting the allowability of costs, including necessity, reasonableness, and allocability.
	NCAC 03M. 0201	Defines allowable costs and ensures expenditures comply with grant guidelines.
	N.C.G.S. 143C-6-23	Details the criteria for allowable costs under grant funds.
Internal Controls	2 CFR § 200.303	Requires non-federal entities to establish and maintain effective internal control over federal awards.
	NCAC 03M. 0401	Details recipient oversight responsibilities, including reporting of misdeeds to OSBM.
	N.C.G.S. 143C-6-23	Mandates internal control systems to ensure compliance and financial integrity.
Financial Reporting	2 CFR § 200.328	Specifies the requirements for financial reporting, including the frequency and content of reports.
	NCAC 03M. 0205	Mandates that reporting requirements are met by the recipient and that all reports are completed and submitted in accordance with the recipient's contract.
	N.C.G.S. 143C-6-23	Requires that the purpose and reporting requirements of each grant are specified to grantees and subgrantees.
	N.C.G.S. 159-26	Mandates the maintenance of accounting records in accordance with generally accepted accounting principles and the preparation of annual financial statements.

*Indicates those federal regulations that **do not apply** under the revenue replacement expenditure category.

Applicable Financial Management Guidance

Key provisions for grants financial management based on 2 CFR, 09 NCAC 03M, and N.C.G.S. 143C-6-23 include:

Guidance Area	Reference	Description
Documentation and Record-Keeping	2 CFR § 200.302	Requires non-federal entities to maintain records that identify the source and application of funds.
	NCAC 03M. 0202	Mandates thorough documentation and record-keeping to support financial transactions.
	N.C.G.S. 143C-6-23	Details the documentation and record-keeping requirements for grant funds.
Non-Compliance with Rules	*2 CFR § 200.339	Provides remedies for non-compliance, including withholding payments and suspension of awards.
	NCAC 03M. 0801	Establishes mechanisms for ensuring compliance and enforcement of state financial regulations.
	N.C.G.S. 143C-6-23	Outlines the compliance and enforcement measures for grant funds.
Monitoring and Evaluation	2 CFR § 200.329	Requires non-federal entities to monitor and report program performance to ensure compliance.
	NCAC 03M. 0401	Mandates continuous monitoring and evaluation of financial practices to ensure compliance.
	N.C.G.S. 143C-6-23	Details the monitoring and evaluation requirements for grant funds.
Audit Requirements	*2 CFR § 200.501	Establishes audit requirements for non-federal entities expending federal awards.
	NCAC 03M. 0205	Details the audit requirements for organizations receiving grant funds.
	N.C.G.S. 143C-6-23	Specifies the audit requirements for state-funded grants, including submission of audit reports.
	N.C.G.S. 159-28	Details the procedures for disbursement of funds, including the requirement for pre-audit certificates and the role of the finance officer in approving expenditures.

*Indicates those federal regulations that **do not apply** under the revenue replacement expenditure category.

Key Components of Financial Management



Budgeting

The process of planning and allocating financial resources to achieve organizational goals.



Accounting and Records

The systematic recording, reporting, and analysis of financial transactions.



Financial Management System

The tools and processes used collectively to manage financial activities.



Financial Reporting and Record Management

Sharing financial information with stakeholders and maintaining accurate records.



Cost Principles

Verifying costs are accurately recorded and allocated according to guidelines.



Audits

Evaluating financial records to verify accuracy and compliance.

Budgeting



Budgeting

Mastering Budget Compliance: The 5 pillars of Budget Management based on 2 CFR, 09 NCAC 03M, and N.C.G.S. 143C-6-23 include:

FIVE PILLARS OF BUDGET MANAGEMENT



BUDGET PREPARATION

Comprehensive Budget:

Create a comprehensive budget that encompasses all anticipated revenues and expenses associated with the grant. This budget should correspond with the goals and extent of the grant project.

Grant Contracts:

Formulate a budget as an integral part of the grant contract that details the financial strategy for the grant project.

Accounting for All

Expenses: Confirm that the budget accounts for all expenses linked to the grant project, encompassing both direct and indirect costs.



BUDGET SUBMISSION & APPROVAL

Adherence to Regulations:

Confirm that the budget aligns with all relevant federal guidelines and the specific criteria of the grant program.

State Regulations:

Present the budget in accordance with state laws and regulations, making sure it fulfills all requirements established by the North Carolina Office of State Budget and Management (OSBM).



BUDGET EXECUTION & MONITORING

Ongoing Oversight:

Continuously track actual spending compared to the budget to confirm that expenditures align with the approved financial plan.

Expenditure Management:

Establish processes to oversee and manage spending, confirming that it remains within the allocated budget limits.

Analysis of Variances:

Perform variance analysis to detect and clarify any notable differences from the budget.

Remedial Measures: Take corrective actions to resolve any discrepancies from the budget or cases of non-compliance.



BUDGET MODIFICATIONS & UPDATES

Authorization for Changes:

Secure authorization from the cognizant state agencies for any major budget modifications.

Record-Keeping and

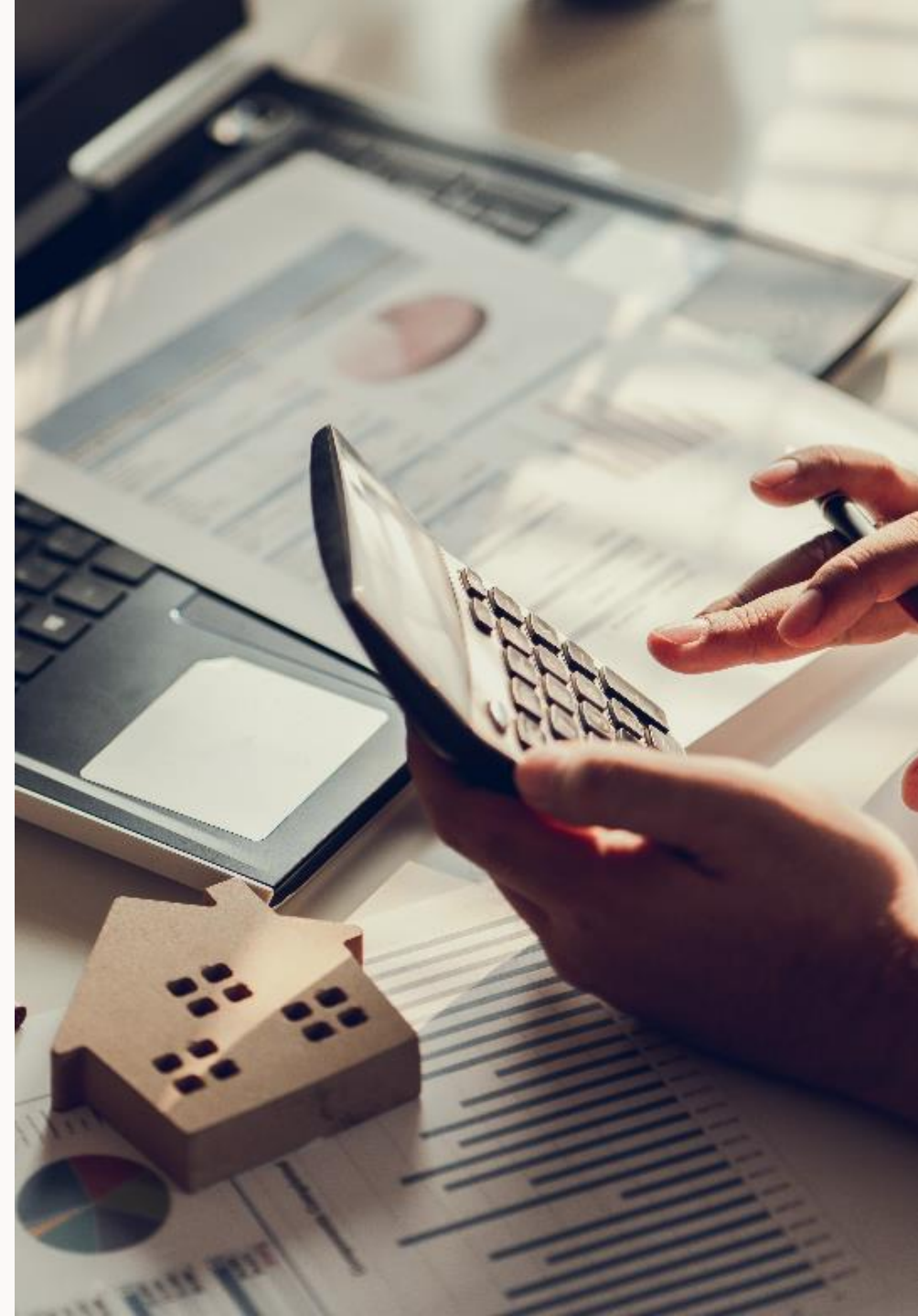
Rationale: Keep comprehensive records of all budget modifications and updates, detailing the justifications for the changes and the approvals from state agencies. The federal granting agency will require a grant modification if actual expenditures exceed their threshold variance, typically 10%, at the overall grant or specific expense bucket levels.



PROGRESS UPDATE

Reporting: Submit regular financial statements to state agencies and NCPRO, outlining actual spending and any differences from the sanctioned budget.

Accounting and Records



Accounting and Records

Key provisions for grants management accounting based on 2 CFR, 09 NCAC 03M, and N.C.G.S. 143C-6-23 include:

FOUR PILLARS OF ACCOUNTING



UNIFORM CHART OF ACCOUNTS

Use a uniform chart of accounts to verify consistency in financial reporting and facilitate the aggregation and comparison of financial data.



FINANCIAL REPORTING

Prepare financial statements in accordance with generally accepted accounting principles (GAAP) or Yellow Book to verify accuracy and transparency.



INTERNAL CONTROLS

Implement internal control procedures to safeguard assets, verify the accuracy of financial records, and prevent and detect fraud and errors.



SEGREGATION OF DUTIES

Confirm that key financial management duties are segregated among different individuals to mitigate the risk of errors and fraud.



Financial Management System



Financial Management System Requirements



With this new information, our financial system will be better than ever!

As per **2 CFR 200.302(b), NC General Statutes, and the NC Administrative Code**, here are the **seven provisions** to be implemented as part of the financial management system of each non-Federal entity receiving a Federal award:

1. Financial Management Systems

Must provide accurate, current, and complete disclosure of the financial results of each project or program. North Carolina requires that financial management systems maintain accurate and complete records to demonstrate compliance.

2. Accounting Records

Must maintain records that adequately identify the source and application of funds provided for financially-assisted activities. This is essential to perform reconciliations from high-level expense entries to detailed expenditures with ease. North Carolina requires that accounting records clearly identify the source, application, and purpose of funds to support financial transactions.

3. Internal Control

Must establish and maintain effective internal control over the funds received. North Carolina mandates that recipients establish and maintain effective internal controls to safeguard funds and support compliance with laws, regulations and grant terms.

Financial Management System Requirements

As per **2 CFR 200.302 (b)**, **NC General Statutes**, and the **NC Administrative Code**, here are the **seven provisions** to be implemented as part of the financial management system of each non-Federal entity receiving a Federal award:

4. Budget Control

Must validate that actual expenditures or outlays are compared with budgeted amounts for each grant. North Carolina requires that recipients maintain budgetary controls to verify that expenditures do not exceed authorized budgeted amounts.

5. Allowable Costs

Must validate that costs are allowable under the terms of the grant. North Carolina mandates that only allowable costs are charged to grants, that they support compliance with applicable regulations and grants terms.

6. Cash Management

Must validate that funds are managed in a way that minimizes the time between the receipt of funds and their disbursement. North Carolina requires that funds be managed efficiently, minimizing the time between the receipt and disbursement to support proper use of state resources.

7. Source Documentation

Must maintain records that identify adequately the source and application of funds for federally-funded activities. North Carolina mandates that source documentation must be maintained to clearly identify the source and use of funds for federally funded activities.

Financial Reporting and Record Management



Financial Reporting

Key provisions for grants management financial reporting based on 2 CFR, 09 NCAC 03M, and N.C.G.S. 143C-6-23 include:

FIVE PILLARS OF FINANCIAL REPORTING



THOROUGH & PRECISE DISCLOSURE

It is essential that financial reports provide an accurate and comprehensive account of the financial outcomes for every project or program funded by grants.



FREQUENCY & TIMELINESS

Financial reports are required to be submitted according to the guidelines set by the grantor agency and must be submitted promptly.



PERFORMANCE REPORTING

Financial reports should contain performance metrics that connect financial data to performance achievements.



STANDARD FORMS & CONSISTENCY

Financial reports must use standard forms as specified by the grantor agency.

Financial reports must be consistent with the accounting records and other supporting documentation.



AUDIT REPORTS

Must submit audit reports as required by the grantor agency.

Recordkeeping: Keep It Where You Can Retrieve It....Quickly

How

Documentation and Recordkeeping Leading Practices

Complete
Organized
Accurate
Readily Available

What

Retention Period

- Financial records, supporting documents, statistical records, and all other records pertinent to a grant must be retained for a period of five years from the end of the grant term, plus an additional year for auditing purposes.

Access to Records

- Grantor agencies and other authorized entities must have the right of access to any pertinent records for audit, examination, and copying.

Documentation

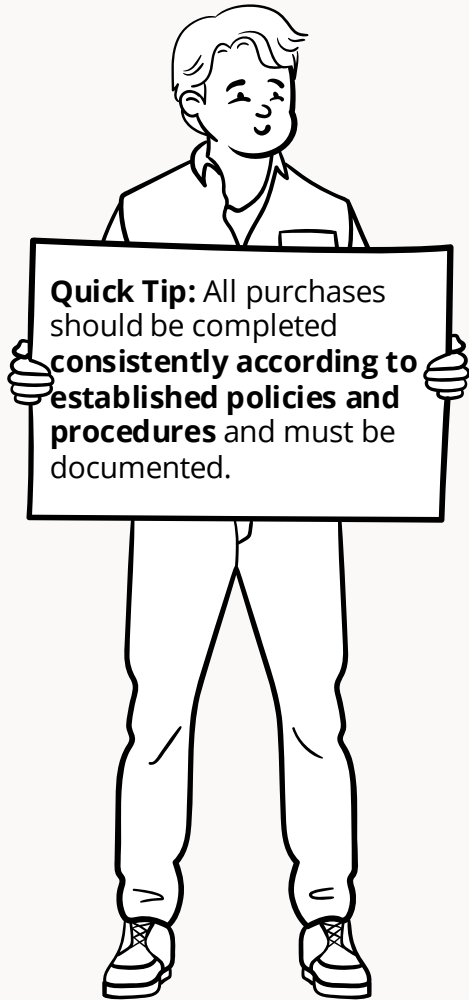
- Must maintain records that adequately identify the source and application of funds activities. This includes authorizations, obligations, unobligated balances, assets, expenditures, income, and interest.

Internal Controls

- Must establish and maintain effective internal control over the financial records to provide reasonable assurance that the records are accurate, reliable, and comply with federal, local, state statutes, regulations, and the terms and conditions of the grant.

Financial Records

NCAC 03M .0401 and 2 CFR 200.403 states that costs must be adequately documented. Below are three key examples of financial records to keep:



1

Purchase Order

- Adhere to purchasing procedures depending on the purchase type (Small, Informal, and Formal).
- Purchase orders or equivalent approvals demonstrate prescribed processes unique to the needs of each entity and **should always be completed prior** to the purchase of goods and services.
- Purchase orders/approvals are internal documents that should be signed by the proper authorized individuals.



2

Invoice

- An invoice is a third-party document provided by the vendor/contractor that the entity is conducting business with.
- An invoice can be:
 - An itemized breakout of items/services purchased
 - A certificate of payment w/ a continuation sheet (seen in capital projects)



3

Proof of Payment

For Goods and/or Services:

Third party verification of payment

- Cleared Check
- Automated Clearing House (ACH) Transfer
- Bank Statements

For Payroll:

- Paystubs
- Payroll Register
- For State Agencies, the ZFIR018 report can be pulled from the HR Payroll system to show proof of payment.



Cost Principles



Cost Principles

Key provisions for grants management cost principles based on 2 CFR, 09 NCAC 03M, and N.C.G.S. 143C-6-23 include:

FIVE PILLARS OF COST PRINCIPLES



ALLOWABLE COSTS:

Costs must be necessary, reasonable, and allocable to the award.



REASONABLE COSTS:

A cost is reasonable if it does not exceed what a prudent person would incur under similar circumstances.



ALLOCABLE COSTS:

Costs must be assignable to the award in accordance with the relative benefits received.



COST SHARING OR MATCHING:

Financial reports must use standard forms as specified by the grantor agency.

Financial reports must be consistent with the accounting records and other supporting documentation.

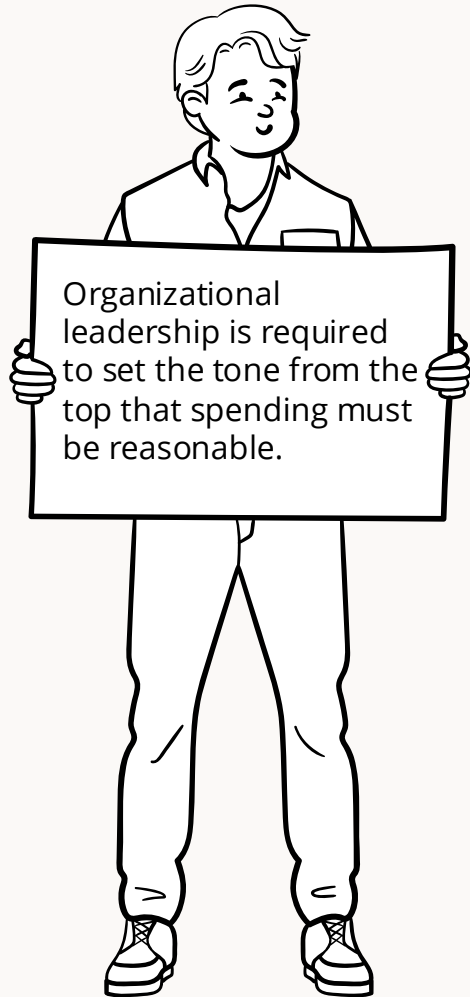


DOCUMENTATION:

Adequate documentation must be maintained to support costs charged to the federal award.

Cost Principles

No accounting system can make cost allowability or reasonableness determinations. Staff must be trained in the requirements and have a go-to person who knows the program regulations.



Examples of Allowable costs include (but are not limited to):

- Personnel costs (salaries and benefits) for time devoted to performance of duties funded through the award
- Cost of materials specifically for the purpose of the award
- Equipment and other approved capital expenditures
- Travel expenses incurred specifically to carry out the award
- Costs that are specifically mentioned in the award regulations as allowable

Examples of Unallowable costs include (but are not limited to):

- Entertainment cost
- Costs of legal defense related to civil or criminal fraud
- Contributions or donations
- Fundraising costs
- Lobbying costs
- Costs that are prohibited by award regulations

Audits



Audit Requirements

As per 2 CFR § 200.501, NC General Statutes, and the NC Administrative Code, here are requirements and tips for Audits to be implemented as part of the financial management system of each non-Federal entity receiving a Federal award:



For fiscal years beginning on or after October 1, 2024, the **Single Audit threshold is now \$1M**

Audits are the final key component of financial management because they provide an **independent and objective review** that determines if the accounting records are accurate.

1. What You Can Learn from Audits

Audits provide insights into an entity's financial health, revealing the financial condition and reliability of records. Audits may uncover fraud, but the management letter is key for identifying operational weaknesses and unusual activities.

2. Limitations on Audits

Audits don't guarantee fraud detection or assess compliance with all laws. The management letter is not a full evaluation of internal controls, prompting further review. Prior issues should be revisited to clarify a resolution.

3. Compliance and Eligibility Concerns

Audits don't evaluate fund eligibility under regulations like 2 CFR Part 200. Separate reviews are needed for compliance. Accurate records are essential, as additional audits can occur anytime.

Common Observations



Common Observations and How to Address Them

OBSERVATION			
REGULATORY GUIDANCE			
RISK			
RECOMMENDED ACTION			
NEXT STEPS			
	 No Purchase Orders and/or Invoices	 Insufficient Proof of Payment and Documentation	 No Reconciliation to Subledger
	2 CFR 200.403(g) G.S. 143C-6-23 (d)(7) 01 NCAC 05B .1903 09 NCAC 03M .0202	2 CFR 200.403(g) G.S. 143C-6-23 (d)(7) 01 NCAC 05B .1903 09 NCAC 03M .0202	2 CFR 200.302 2 CFR 200.403(g)
	Failure to adhere to procedures could result in instances of non-compliance, errors, and inadequate management of federal funds.	Failure to keep adequate documentation of costs could result in loss of funding.	Failure to keep adequate documentation of costs could result in loss of the entity's funding.
	The entity should consider adding a purchase order to invoice matching system to verify all documentation is present for each expenditure. The entity should consider placing documentation in a centralized location. This centralized approach can enhance record retention, facilitate easier access to records, and improve audit readiness.	The entity should strive to record and keep available proof of payment for all federally funded expenditures to establish defensible audit trails.	The entity must adequately document all costs claimed against the Federal award.
	Implement purchase order to invoice matching system to verify all documentation is present for each expenditure. Train staff to periodically test the purchasing process for consistency and adequacy. Locate the missing PO/Invoice in question OR Consider removing the expenditure in question from the grant if unable to locate the missing documentation.	Train staff on the importance of maintaining accurate records. Locate the missing document(s) in question and generate other possible documents that could potentially serve as proof of payment, such as bank statements or other alternatives. If the missing documentation cannot be located, consider removing the expenditure in question from the grant.	Implement safeguards to make sure expenditures are aligned with the proper object/funding code and recorded, as per the Chart of Accounts. Train staff on the importance of accurately classifying expenditures and maintaining accurate records.

Leading Practices



Leading Practices for Financial Management

FIVE LEADING PRACTICES OF FINANCIAL MANAGEMENT



ESTABLISH ROBUST FINANCIAL MANAGEMENT SYSTEMS

Use integrated accounting systems that can track and report on grant funds separately from other organizational funds. This confirms accurate tracking of grant expenditures and compliance with grant terms.

Automated Processes:

Implement automated processes for tracking expenses, generating financial reports, and managing cash flow to reduce errors and improve efficiency.



DEVELOP COMPREHENSIVE POLICIES & PROCEDURES

Develop and maintain written policies and procedures for managing grant funds, including guidelines for allowable costs, procurement, cash management, and reporting.

Regular Updates:

Regularly review and update policies and procedures to reflect changes in regulations, grant terms, and leading practices.



STRONG INTERNAL CONTROLS

Segregation of Duties:

Implement segregation of duties to prevent conflicts of interest and reduce the risk of fraud. For example, separate the responsibilities for authorizing expenditures, processing payments, and reconciling accounts.



IMPLEMENT EFFECTIVE BUDGETING & FORECASTING

Detailed Budgets:

Develop detailed budgets for each grant, including projected expenses, timelines, and milestones. Confirm that budgets align with grant objectives and allowable costs.

Regular Monitoring:

Regularly monitor actual expenditures against the budget and adjust forecasts as needed to confirm funds are used effectively and within grant terms.



LEVERAGE TECHNOLOGY & TOOLS

Financial Management Software:

Use financial management software tailored to grant management to streamline processes, improve accuracy, and enhance reporting capabilities.

Data Analytics:

Leverage data analytics to gain insights into grant performance, identify trends, and make informed decisions.

**It's time for a
Knowledge Check!**

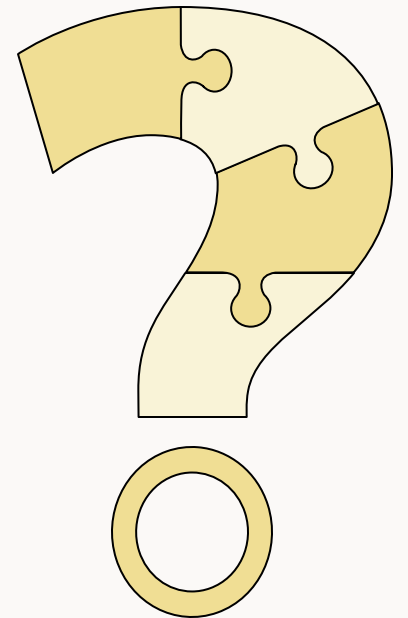


Financial
Management

Question 1

What is the retention period for records related to the receipt and expenditure of grant funds under 09 NCAC 03M .0202?

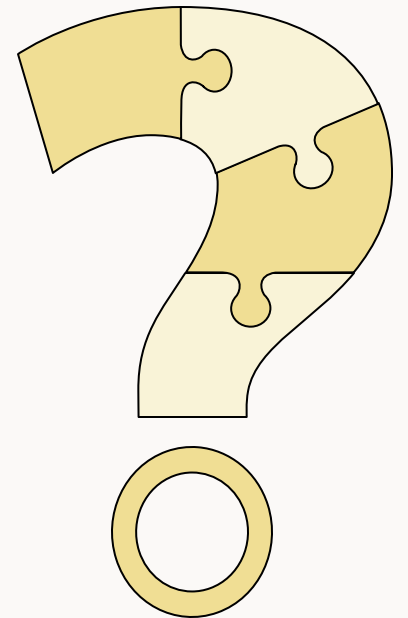
- a) One year from the end of the grant program, plus an additional one year for auditing purposes.
- b) Three years from the end of the grant program, plus an additional one year for auditing purposes.
- ☒ c) Five years from the end of the grant program, plus an additional one year for auditing purposes.



Question 2

According to 09 NCAC 03M .0205, what must non-state entities include in their annual report to the granting agency?

- a) A detailed accounting of how the grant funds were spent, a description of activities and services provided, an evaluation of outcomes achieved, and any other required information.
- b) Only a brief summary of activities.
- c) Only the total amount of funds received.
- d) A list of employees paid with the grant funds.



Q+A Session