FISCAL AND REGULATORY IMPACT ANALYSIS

<table>
<tr><td>Date
07/24/2026</td><td colspan="2">Rule Change Title
Readoption with Amendments of Uniform Administration of State Awards Grants
Adoption of Declaratory Rulings and Petition Rules</td></tr>
<tr><td>Agency
Office of State Budget and Management</td><td colspan="2">Agency Contact (name and phone and/or email)
Julie Ventaloro, Economic Analyst, Julie.ventaloro@osbm.nc.gov</td></tr>
<tr><td>Effective Date:
12/1/2026</td><td rowspan="2">Rule NCAC Citation
09 NCAC 03M .0101, .0102, .0201, .0202, .0205, .0401, .0702, .0703, .0801, .0802, .0901, .0902</td><td rowspan="2">Statutory Authority
G.S. 143C-6-22; 143C-6-23; 150B-4; 150B-20(d)</td></tr>
<tr><td>Statutory/ RRC Deadline (if any):
N/A</td></tr>
<tr><td>☒ State Impact</td><td>☐ Local Government Impact</td><td>☐ Substantial Economic Impact</td></tr>
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<tr><th>SUMMARY</th></tr>
<tr><td>1. Describe the rule change.
OSBM is proposing to amend and readopt ten rules and adopt two new rules in Subchapter 03M of Title 09 of the North Carolina Administrative Code. The proposed changes specify the version of 2 CFR Part 200 that applies to non-federal grant funds, better align notice and corrective action timeframes with agency practice, clarify non-compliance procedures and reporting requirements, and codify procedures for petitions for rulemaking and declaratory rulings.</td></tr>
<tr><td>2. Describe the problem being addressed by the rule change.
The current rules governing administration of state awards do not fully reflect current practice or provide sufficient clarity to support consistent implementation. Some provisions governing grant funds from non-federal sources are tied to future changes in federal requirements, thereby introducing uncertainty and the potential for unintended modifications to state obligations. The timeframes and procedures for addressing noncompliance are not fully aligned with agency operations, which can hinder timely and consistent enforcement. Several reporting requirements are ambiguous, which can lead to inconsistent application and unnecessary administrative burden for agencies and recipients. Lastly, the current rules do not establish procedural requirements governing petitions for rulemaking or requests for declaratory rulings, leaving stakeholders without clear expectations regarding those processes.</td></tr>
<tr><td>3. How is the problem addressed by this specific rule change?
The rule changes address these issues by specifying the applicable version of 2 CFR Part 200 for non-federal grant funds, clarifying the timeframe for providing written notice of noncompliance and required corrective action, establishing clearer reporting procedures and timelines, requiring that each grant agreement explicitly state the legal authority and compliance requirements applicable to the award, removing unnecessary provisions related to account coding information and procedures for disbursement of grant funds, and updating statutory references. The proposed rules also establish procedures governing petitions for rulemaking and declaratory rulings, providing transparency and clear expectations for requestors while standardizing OSBM's administration of these statutory</td></tr>
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processes. Together, these changes should reduce uncertainty and ambiguity for regulated entities, improve consistency in application and enforcement, and better align the rules with current agency practice.

Proposed Rule Changes

The proposed changes to Subchapter 09 NCAC 03M are as follows:

- .0201(a),(b) -- Specify that expenditures of grant funds from non-federal sources are governed by the current published version of 2 CFR Part 200, identify the website where the version can be accessed, and eliminate automatic incorporation of future federal changes.
- .0205(e) – Specify that audit costs for State awards are governed by the current published version of 2 CFR Part 200, identify the website where the version can be accessed, and eliminate automatic incorporation of future federal changes.
- .0401(a)(1) – Clarify the meaning of "at the time the grant award is made" by specifying that, unless otherwise provided in a session law or statute, notice of the grant award must be given within 70 calendar days after enactment for a new grant that names the recipient(s), and within 30 calendar days after selection for all other grants.
- .0401(a)(2)(D) -- Remove the unnecessary statement to "follow the procedures for disbursement of grant funds."
- .0703(3) -- Add flexibility regarding account coding information by allowing it to be included either in the contract or maintained internally by the agency in the grant file, rather than requiring that it be contained in the contract.
- .0801(a) -- Identify the website where the Suspension of Funding list is available.
- .0801(b),(c) -- Clarify which agency actions are required and which are discretionary when responding to grantee noncompliance.
- .0801(b)(1) -- Clarify that the timeframe for an agency to notify non-State grantees of noncompliance begins once the agency becomes aware of the noncompliance.
- .0801(b)(2) -- Specify the timeframe (10 business days) in which a non-State grantee must respond in writing to an agency determination of noncompliance.
- .0801(d) -- Specify the timeframe (5 business days) in which agencies must notify OSBM and suspend payments after determining that apparent criminal activity involving misuse of grant funds may have occurred.
- .0801(e) -- List the suspected violations of criminal statutes involving misuse of State property, as specified in G.S. 143B-1208.6, that trigger notice to the State Bureau of Investigation (SBI), and update the statutory reference to G.S. 143B-1208.6.
- .0802(c) -- Require agencies to report to OSBM and the Attorney General whenever they have notified the SBI of misuse of State property under GS 143B-1208.6 and flag that agencies may also report apparent violations of criminal law or misuse of State property to the Office of State Auditor or any other agency with enforcement authority relevant to the apparent violation.
- .0901 and .0902 -- Adopt procedures for petitions for rulemaking and declaratory rulings.
- All rules -- Additional minor clarifying, organizational, and conforming changes.

Impact Analysis

The proposed rule changes are expected to improve the administration of State grant funds by increasing regulatory clarity, aligning requirements with current agency practice, and establishing more consistent procedures for addressing noncompliance and reporting obligations. These changes apply across a substantial portfolio of State grant awards, including approximately 1,380 active grants representing approximately $4 billion in cumulative awards and an estimated $2 billion in remaining grant balances. Given the volume of grants and the amount of funding involved, establishing clear and consistent administrative requirements is expected to improve predictability for agencies and grant recipients while strengthening oversight of public funds.

The proposed amendments primarily clarify existing requirements, establish more consistent procedures, and reduce uncertainty regarding the administration of State grant funds. The changes are not expected to create significant new compliance obligations but are expected to improve consistency in how agencies and non-State entities understand and apply existing requirements.

The amendments to Rules .0201 and .0205 establishing a fixed version of 2 CFR Part 200 for non-federal grant funds and audit costs are expected to provide greater regulatory stability and predictability for agencies and non-State entities. By eliminating automatic incorporation of future federal changes, the amendments reduce the risk that future federal revisions could unintentionally alter requirements applicable to State-funded grant programs. This approach also ensures that any future decision to adopt subsequent federal revisions affecting non-federal State grants occurs through North Carolina's rulemaking process, allowing for review and public participation before changes become effective. In addition, specifying a fixed version of 2 CFR Part 200 for non-federal grant funds will help ensure that administration of State-funded grants remains consistent with State requirements and legislative intent. Future decisions to incorporate subsequent federal revisions will occur through North Carolina's rulemaking process, providing transparency and an opportunity for public review and comment.

The amendments to Rule .0401(a) establish defined timeframes for providing notice of grant awards by clarifying the meaning of "at the time the grant award is made." Unless otherwise provided by statute or session law, agencies must provide notice within 70 calendar days following enactment for grants that identify recipients in legislation and within 30 calendar days after recipient selection for all other grants. These changes are intended to promote greater consistency in agency administration and provide recipients with more predictable expectations regarding the timing of grant award notifications.

The amendments to Rule .0801 clarify the process for addressing noncompliance by establishing when notice periods begin, defining a response timeframe for non-State entities, and distinguishing between agency actions that are required and those that are discretionary. These changes are intended to provide agencies and non-State entities with clearer expectations regarding the identification, communication, and resolution of compliance issues. Establishing defined timelines may improve consistency in enforcement actions and reduce the likelihood of delays or procedural errors.

The proposed changes also establish more specific requirements for reporting suspected criminal activity involving misuse of State property or grant funds. Requiring agencies to notify OSBM and suspend payments within five business days after determining that apparent criminal activity involving misuse of grant funds may have occurred is expected to promote earlier awareness and coordination regarding potential misuse of public funds. The defined timeline may result in agencies taking these actions sooner than under current practice, which requires notification but does not establish a specific timeframe. As a result, OSBM may receive information regarding potential misuse more quickly, allowing for earlier oversight and coordination. The defined timeline is not expected to significantly change agency practices because agencies are already required to report suspected criminal activity; however, it may improve consistency in the timing of those actions.

In Rules .0901 and .0902, the adoption of procedures governing petitions for rulemaking and requests for declaratory rulings will further promote transparency by providing stakeholders and the public with clear expectations regarding how these existing statutory processes may be used and administered.

The proposed changes will impact OSBM, State agencies that award funds, non-State entities receiving State grant funds, and, indirectly, the public. Local governments subject to reporting and audit requirements of the Local Government Commission are exempt from the State reporting and audit requirements; therefore, the proposed changes should have no impact on units of local government.

OSBM

The proposed rule changes are expected to have modest impacts on OSBM. Clarifying grant administration requirements and establishing more consistent procedures may reduce staff time spent interpreting ambiguous provisions, providing technical assistance, and resolving questions regarding reporting, compliance, and enforcement procedures.

OSBM may also benefit from reduced uncertainty regarding the requirements applicable to non-federal grant funds because future federal revisions to 2 CFR Part 200 will not automatically apply to State-funded grants. This fixed-version approach should reduce the need for OSBM staff to evaluate whether future federal changes are appropriate for State grant programs and determine how those changes should be implemented.

The proposed amendments may result in a small increase in administrative workload associated with maintaining the Suspension of Funding List and processing any future petitions for rulemaking or requests for declaratory rulings. However, OSBM has not historically received petitions for rulemaking or requests for declaratory rulings related to these rules. Any additional workload associated with these activities is therefore expected to be minimal and can be accommodated using existing staff resources.

Overall, the anticipated costs and benefits to OSBM are expected to be modest. Any additional administrative responsibilities are expected to be offset by improved clarity, consistency, and efficiency in the administration of State grant requirements.

Other State Agencies

The proposed rule changes are expected to have modest impacts on State agencies that administer grant funds. The amendments provide agencies with clearer procedural requirements and defined timelines for providing notice of grant awards, addressing noncompliance, reporting suspected misuse of funds, and communicating with non-State entities. Establishing defined timeframes for grant award notifications may require some agencies to update internal processes; however, many agencies already provide notice within similar timeframes as part of existing practice, and any associated implementation costs are expected to be minimal.

The clarified procedures may reduce administrative uncertainty by providing agencies with a more consistent framework for responding to identified deficiencies. Establishing when notice periods begin and defining recipient response timelines should reduce the risk that agencies fail to meet procedural requirements and may promote more consistent enforcement practices across programs.

The amendments may also reduce administrative burden associated with interpreting unclear provisions and determining appropriate responses to compliance issues. While agencies may need to update internal procedures or provide staff training to implement the clarified requirements, these activities are expected to be limited and are not expected to result in significant ongoing costs.

In addition, fixing the applicable version of 2 CFR Part 200 for non-federal grant funds should provide agencies with greater certainty regarding applicable cost principles and administrative requirements. Agencies will no longer need to assess whether future federal revisions should automatically be incorporated into State-funded grant programs, reducing the potential for administrative disruption or conflicting requirements.

Overall, the impacts on State agency workload are expected to be modest and are expected to be offset by improved clarity, consistency, and administrative efficiency.

Non-state entities (award recipients)

The proposed rule changes are expected to have modest impacts on non-State entities receiving State grant funds. The amendments primarily clarify existing requirements and provide greater transparency regarding reporting obligations, compliance expectations, and the process agencies follow when addressing identified deficiencies. Clarifying when agencies must provide notice of grant awards may also improve predictability for recipients by establishing more consistent expectations regarding the timing of award notifications.

Establishing a 10-business-day response period for noncompliance determinations provides recipients with a clear timeframe to respond to identified issues and explain corrective actions. Clarifying agency responsibilities and available enforcement actions should also improve predictability regarding how compliance concerns will be addressed.

The decision to apply a fixed version of 2 CFR Part 200 to non-federal grant funds may provide additional certainty for recipients by reducing the possibility that future federal changes will automatically modify requirements applicable to State-funded grants. Recipients will have greater stability regarding the administrative requirements and cost principles governing their awards.

Because the proposed changes are primarily clarifying and procedural, they are not expected to impose new compliance costs on non-State entities. However, clearer enforcement procedures and defined timelines may result in more consistent application of existing requirements and more timely corrective action when deficiencies are identified.

The proposed changes may also affect the timing with which entities are reported for placement on the Suspension of Funding List. Placement on the list may limit an entity's ability to receive additional State grant funds until the underlying compliance issue has been resolved. The amendments are most likely to affect situations involving common types of noncompliance such as late reporting, failure to meet grant conditions, and inadequate financial recordkeeping. To the extent that clearer procedures and deadlines improve consistency in agency responses, non-State entities may experience more predictable enforcement outcomes and may be encouraged to address identified deficiencies more promptly.

Public Interest

The proposed rule changes are expected to benefit the public by improving the clarity, consistency, and accountability of State grant administration. Clearer reporting requirements, defined procedures for addressing noncompliance, and more consistent requirements for reporting suspected misuse of funds should strengthen oversight and increase the likelihood that issues involving improper payments, fraud, or mismanagement are identified and addressed in a timely manner.

The importance of effective grant administration is further demonstrated by the significant level of State investment in grant programs, including recent appropriations for disaster recovery. The 2026 Appropriations Act includes approximately $99.6 million for Helene recovery efforts, following approximately $96.3 million appropriated through Session Law 2025-26 (Disaster Recovery Act of 2025 – Part II). Clear and predictable grant administration requirements will support effective oversight of these and other State-funded programs.

Summary

Overall, the proposed rule changes are expected to improve the clarity, consistency, transparency, and predictability of State grant administration. The amendments better align the rules with current agency practice, clarify reporting requirements and noncompliance procedures, establish defined timelines and expectations for agencies and non-State entities, and provide transparent procedures for petitions for rulemaking and declaratory rulings. The changes also provide greater regulatory certainty by specifying the version of 2 CFR Part 200 applicable to non-federal grant funds and ensuring that any future incorporation of federal revisions occurs through North Carolina's rulemaking process. Collectively, these revisions should promote more consistent administration and oversight of State grant funds, support accountability and stewardship of public resources, and enhance transparency in future rulemaking decisions.