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**DMH/DD/SAS CROSSCUTTING REQUIREMENTS**


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**Department of Health and Human Services  
Division of Mental Health, Developmental Disabilities and Substance Abuse Services**

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**Agency Contact Person – Program**

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**N.C. DHHS Confirmation Reports:**

SFY 2009 audit confirmation reports for payments made to Local Management Entities/Area Authorities, Councils of Government and District Health Departments will be available by around late August to early September at the following web address:

<http://www.dhhs.state.nc.us/control/>

At this site, page down to “Letters/reports/forms for **ALL** Agencies” and click on “Audit Confirmation Reports (State Fiscal Year 2008-2009).” Additionally, audit confirmation reports for Nongovernmental entities receiving financial assistance from the DHHS are found at the same website except select “Non-Governmental Audit Confirmation Reports (State Fiscal Years 2007-2009)”.

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**The auditor should not consider the Supplement to be a “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the Supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current. The grantor agency may elect to review audit working papers to determine that audit tests are adequate.**

**THE DHHS/DIVISION OF MENTAL HEALTH, DEVELOPMENTAL DISABILITIES AND SUBSTANCE ABUSE SERVICES (DMHDDSAS or Division, used interchangeably) MANDATES THAT ALL THE TESTING INCLUDED WITHIN THIS SECTION BE PERFORMED BY THE LOCAL AUDITORS.**

**I. PROGRAM OBJECTIVES**

This document specifies the major compliance requirements that must be considered in an organization-wide audit of a Local Management Entity/Area Authority Mental Health, Developmental Disabilities and Substance Abuse Program (LME/AA) as well as any non-profits or for-profits that receive these funds. This supplement includes consideration of all federal grants received by the LME/AA/Non-Profits/for-Profits through the Division, as well as consideration of supplemented funds of State Appropriations received by the LME/AA/Non-Profits/for-Profits via the Division.

## II. PROGRAM PROCEDURES

For each of the three primary disabilities addressed by the Division, i.e., mental health, developmental disabilities and substance abuse, the programs are funded with federal dollars and State appropriations.

Compliance requirements set forth in the Crosscutting supplement apply to all LME/AA/Non-Profits and for-Profits. Within the Division, the Crosscutting supplement will be used (a) as a free-standing supplement for items such as Unit Cost Reimbursement (UCR) Child and Adult, and (b) in conjunction with other individual program supplements. In cases where there is a separate supplement outlining other requirements related to individual federal programs subgranted by the Division, that supplement should be used in conjunction with this Crosscutting supplement and must also be tested by the local auditor.

LME/AA/Non-Profits and for-Profits receive funding allocations from the Division for two overarching purposes. First, funds are allocated to LME/AA/Non-Profits/for-Profits for the provision of services, whether provided by the LME/AA/Non-Profit or for-Profit contract service provider. Secondly, funds are allocated to LME/AA to support Local Management Entity (LME) management functions.

Funds allocated for the provision of services may be allocated in two ways. First, funds may be allocated to LME/AA's within Unit Cost Reimbursement (UCR). Funds allocated in this manner are actually paid to LME/AA's via their data submission through the Integrated Payment and Reporting System (IPRS). The second method of allocation is outside of UCR (non-UCR). In these cases, funds are allocated to LME/AA outside UCR and are reimbursed based on actual expenditures. Funds allocated outside of UCR may be in categories such as non-UCR Child, non-UCR Adult, non-UCR Other, or they may be allocated via a specific program title such as Crisis (account 536996).

Funds allocated for LME management functions may be allocated in two ways. First, funds may be allocated to LME/AA's in account 536980, LME Systems Management. Funds allocated in this account are paid to LME/AA's on a 1/12<sup>th</sup> monthly basis. Information related to reporting LME Systems Management expenditures may be secured from the LME/AA's or on the Division's website at <http://www.ncdhhs.gov/mhddsas/> (once at this web location, scroll to the documents under the 3/30/06 and 9/6/07 dates, "Revised LME Systems Management Report Instructions" and "Revised LME Systems Management Expenditure Reporting Form".)

Regardless of the method of allocation, many of the compliance requirements set forth in this Crosscutting section apply to the funding. In cases where a Crosscutting item applies only to UCR or non-UCR, that will be clearly stated within the appropriate subsection within section III of the program specific audit compliance supplement.

The basic requirements applicable to the Crosscutting section are set forth in the following portions of the Area Program Budgeting and Procedures Manual (APSM 75-1), dated 07/01/95 and published by the Division. A copy should be available for the local auditor at the local LME/AA, however, if not, please call the Division Budget and Finance Team at (919) 733-7013 and a copy will be sent to you immediately at no cost. The following portions within APSM 75-1 are included in the Crosscutting section:

- a. Section 4.2, Compliance Audit Reports and Procedures (found in Subrecipient Monitoring);
- b. Section 6, Travel Expense Regulations for Area Programs and a Suggested Travel Policy (found in Allowable Costs/Cost Principles);

- c. Section 13, Exemption of Area Program from Payment of Federal Excise Taxes (found in Special Tests and Provisions);
- d. Section 17, Sales (County and State) and Use Tax Refunds (found in Special Tests and Provisions);
- e. Section 20, Unallowable Area Program Expenditures (found in Allowable Costs/Cost Principles);
- f. Section 21, Fund Balance Policy for Contract Affiliates (found in Special Tests and Provisions);
- g. Section 25, North Carolina Administrative Code (NCAC) Accounting Rules, as follows:
  - i. .0106, Contract Requirements for Area Programs (found in Special Tests and Provisions);
  - ii. .0112, Disposition of Equipment - Non-UCR (found in Equipment and Real Property Management);
  - iii. .0204, Division Funds for Capital Projects (found in Real Property Acquisition and Relocation Assistance);
  - iv. .0215, Unit Cost Reimbursement (UCR) Child and Adult (found in Special Tests and Provisions);
  - v. .0217, Non-Unit Cost Reimbursement (found in Special Tests and Provisions)

In addition to the above noted requirements, the following additional four (4) items are also included in the Crosscutting section:

- 1. County Funding of LME/AA (found in Special Tests and Provisions);
- 2. Fiscal Monitoring Report (found in Special Tests and Provisions);
- 3. Medicaid Payments and Documentation Requirements Specific to LME/AA's under the MH/DD/SAS Plan Services - "Y", CPT and HCPCS codes (found in Special Tests and Provisions).
- 4. Documenting and Reporting LME Systems Management Expenditures.

### III. COMPLIANCE REQUIREMENTS

**The requirements found in the Crosscutting section address both federal dollars and State appropriations. However, for differences/additions/revisions to the requirements for federal dollars as noted in the Crosscutting section, the auditor must look in the specific supplements for those federal programs.**

#### A, 1. ACTIVITIES ALLOWED OR UNALLOWED

Details pertaining to this requirement can be found in the individual supplements.

#### B, 2. ALLOWABLE COSTS/COST PRINCIPLES

Details pertaining to this requirement can be found in the individual supplements.

- 1. Travel Expense Regulations for Area Programs and a Suggested Travel Policy:

APSM 75-1, Section 6, states: "Each area program will adopt a standard travel reimbursement policy which will be applied uniformly to all employees of the area program. This policy will be documented in writing and approved by the Area Board. A suggested travel policy is one consistent with the travel policy for the State of North Carolina, Budget Manual, Section 5, Office of State Budget and Management.

Division reimbursement will be limited to travel reimbursements made in accordance with the board-approved policy”.

**Suggested Audit Procedure** – Sample LME/AA travel reimbursement records and Area Board minutes to determine:

- a. Standard travel reimbursement policy has been approved by the Area Board and that the policy is in writing;
- b. Employee travel reimbursements are applied uniformly to all employees of the LME/AA in accordance with the adopted policy.

2. Unallowable LME/AA/Non-Profit/For-Profit Expenditures:

APSM 75-1, Section 20 states: “There are items of expense that, due to State and/or Federal regulations and policies, cannot be supported with Division funds. Accordingly, Division funds that support operations in area programs must be used in a manner that would comply with the State and/or Federal regulations and policies.” The following is a list of expenditures that are not allowable:

1. Expenditures incurred as a direct result of a fund raising activity. These expenses shall be subtracted from the gross amount raised, with the balance representing profits which would be reported as local revenue.
2. Purchasing flowers or other gifts for employees for special occasions or sickness.
3. Parking expense for employees at place of employment. Parking expense for patients and visitors are allowable.
4. Rent expense for furniture and equipment if it cannot be demonstrated that it is more economical to rent than purchase.
5. Expenditures of unbudgeted funds.
6. Alcoholic beverages, set-ups or entertainment.
7. Coffee and other refreshments or food for employees not in valid travel status.
8. Employee personal expenditures.
9. Employee personal telephone calls.
10. Employee commuting expense.
11. Employee housing allowance, except as may be allowed in accordance with a Board approved moving expense reimbursement policy.
12. Employee living expense while on scholarship.
13. Payrolls of employee(s) not in compliance with Personnel Policies for Local Government Subject to the State Personnel Act.
14. Payrolls of employee(s) not paid according to approved pay plan.
15. Malpractice insurance premiums for coverage in excess of the state tort claim law. The Division will participate in the purchase of coverage up to the amount of the state tort claim law.
16. The Division will participate in expenditures for repairs to existing facilities if these expenditures represent normal upkeep of the facility and do not materially increase the value of the facility or extend its useful life. Expenditures which represent renovations or construction which increases the value of the facility and/or extends its useful life will not receive state participation unless specifically allowed by General Statute. The Division shall determine what constitutes a repair or renovation based on the above criteria. The Division, upon request from the area program, will determine if the proposed expenditure is classified as a repair and maintenance or renovation.

Costs outlined above as not allowable for reimbursement with Division funds shall be omitted from the monthly LME report of expenditures.

**Suggested Audit Procedures** – Sample LME/AA/Non-Profit’s and For-Profit’s accounting records to verify:

- That the costs noted above have been excluded from reimbursement on the monthly LME report of expenditures.

3. Sales (County and State) and Use Tax Refunds:

APSM 75-1, Section 17, states:

“The North Carolina Department of Revenue will refund sales and use taxes paid by an area program when claims are properly filed within the prescribed time period.

Area programs are entitled to annual refunds of sales and use taxes paid by them via purchases of tangible personal property in the State of North Carolina.

Claims for refund must be filed in accordance with Governmental Sales and Purchases T17:07B .1700 and Refunds: Counties; Cities: T17:07B .1702”.

**Suggested Audit Procedures** – Sample LME/AA’s accounting records and filings with the North Carolina Department of Revenue to ensure that claims for sales and use tax refunds are made on the purchase of tangible personal property and are filed in a timely manner.

**C, 3. CASH MANAGEMENT**

Details pertaining to this requirement can be found in the individual supplements.

**E, 5. ELIGIBILITY**

Details pertaining to this requirement can be found in the individual supplements.

**F, 6. EQUIPMENT AND REAL PROPERTY MANAGEMENT**

Details pertaining to this requirement can be found in the individual supplements.

Disposition of Equipment – UCR

Not applicable.

Disposition of Equipment – Non UCR

APSM 75-1, Section 25, 10A NCAC 27A.0112, states: “(a) Equipment costing five thousand dollars (\$5,000) or more purchased with non-unit cost reimbursement [non-UCR] Division funds by an area program or contract provider shall be used for Division funded client services. Except for Comprehensive Treatment Services Program and MR/MI funded purchases, equipment purchased with Division [DMHDDSAS] funds may be transferred to other Division funded services if no longer needed by the original service. Comprehensive Treatment Services Program and MR/MI. purchased equipment shall be used only for

Comprehensive Treatment Services Program or MR/MI clients or disposed of in accordance with Rule .1136 or .1148 of this Subchapter. (b) Except as stated in Paragraph (c) of this Rule, should transfer of equipment to Division funded services not be possible, the Division shall be contacted by the area program or through the area program for a contract provider for disposition instructions. The Division shall recover the Division's share of the fair market value. The Division's share will be established by the following methods in order of preference.

1. Through inventory records which establish the percent of funding for the equipment.
  2. The Division's percent of participation for the area program for the year of purchase.
  3. The Division's percent of participation for the area program for the current year.
- a) Equipment which is fully depreciated and no longer has any useful value may be disposed of in accordance with area program policy.
  - b) The area program shall have a written procedure stating the equipment disposition policy for contract providers and include or reference this provision in all contracts between the area program and the contract provider".

#### **Suggested Audit Procedures**

1. Review LME/AA/Non-Profit's and For-Profit's inventory records and identify equipment purchased which had a cost of \$5,000 or more per unit;
2. Of the equipment identified in step 1., determine with LME/AA/Non-Profit/For-Profit staff, and from LME/AA/ Non-Profit's/For-Profit's inventory records, any equipment items which have been disposed of;
3. Of the equipment which has been disposed, determine if disposition was handled in accordance with this rule.
4. Determine if the LME/AA/Non-Profit/For-Profit has written procedures stating the equipment disposition policy for contract providers.
5. Sample LME/AA/Non-Profit's/For-Profit's contracts to determine if the equipment disposition policy applicable to contract providers has either been included or referenced in the contracts.

#### **G, 7. MATCHING, LEVEL OF EFFORT, EARMARKING**

Details pertaining to this requirement can be found in the individual supplements.

#### **I, 9. PROCUREMENT & SUSPENSION & DEBARMENT**

##### Procurement:

Follow State procurement requirements codified in G.S. 143 as follows: Article 3B "Energy Conservation in Public Facilities"; Article 3D "Procurement of Architectural, Engineering, and Surveying Services"; and Article 8 "Public Contracts".

##### Suspension and Debarment:

Local purchasing agencies shall not contract with or make subawards to parties that are suspended or debarred, or whose principles are suspended or debarred, based on Federal suspension and debarment requirements.

Compliance Requirement – Local purchasing agencies may not do business with or award contracts to a suspended or debarred party.

**Suggested Audit Procedures**

Auditors may test a sample of the LME//AA/Non-Profit/For-Profit contracts and sub awards against the suspended or debarred parties that are listed in the "List of Parties Excluded From Federal Procurement or Nonprocurement Programs", issued by the General Services Administration (GSA). An electronic version may be accessed on the Internet at the following site: <http://www.epls.gov/>

**L, 12. REPORTING**

Details pertaining to this requirement can be found in the individual supplements.

**M, 13. SUBRECIPIENT MONITORING**

Details pertaining to this requirement can be found in the individual supplements.

APSM 75-1, Section 4.2, Compliance Audit Reports and Procedures addresses the Department of Health and Human Services' (DHHS) policy concerning audit/reporting requirements for nonprofit organizations, for profit organizations and other entities receiving State or federal financial assistance, or both, from DHHS through contractual agreements with local DHHS county agencies and public authorities. The current version of this section, which was effective 07/01/95, has not been updated to reflect revisions to audit/reporting requirements made since that date as a result of changes to federal and State laws and regulations. Accordingly, the parts that have been superseded by these changes have been modified to reflect the current audit/reporting requirements.

The criteria for determining audit/reporting requirements are as follows:

1. In determining the audit requirements for contract programs, the relationship between the local DHHS county agency or public authority and the contract provider must be established. If the relationship is a financial assistance agreement, then the requirements of G. S. 159-34 and 143C-6-22 and 6-23 (Note- G.S. 143-6.1 was repealed 7/01/05) and, if certain conditions are met with respect to federal funding levels, OMB Circular A-133 will apply. (Note: For non-profit organizations, please refer to the State Auditor's Office Audit Advisory #2 for a more detailed discussion of audit/reporting requirements. The LGC publishes any audit guidance for Local Governments.) Financial assistance agreements are payments to contract programs for the purpose of "assisting" the local DHHS agency in carrying out a program. The contract provider must be helping the local DHHS agency to meet the requirements of the assistance award and, in so doing, would be given a broad range of authority to carry out the program as if it were the local DHHS county agency or public authority.

When other written arrangements with the contract provider exist, in lieu of requiring the contract provider to obtain a compliance audit, the local DHHS agency or public authority may contract with an auditor to perform appropriate compliance auditing procedures and issue the appropriate opinions on the contract provider's records.

2. When a local DHHS county agency or public authority enters into a purchase of service (procurement) contract to buy goods or services, the other party (service

provider) is not required to have a compliance audit in accordance with OMB Circular A-133 or Departmental policy; however, the local DHHS agency must have a compliance review system in place to ensure that the contract provisions are complied with and that the services or goods or both are actually provided. In lieu of operating its own compliance review system, the local DHHS agency may contract with a qualified third party to perform appropriate compliance review procedures on the contract provider to determine that the contract provisions are met and that services or goods or both were actually provided.

3. In determining whether a contract is a procurement contract or a financial assistance contract, the relationship between the local DHHS agency and the contract provider must be established. If all of the following relationships exist, DHHS considers the contract to be a procurement agreement.
  - a. The local DHHS agency or public authority is solely responsible for client eligibility and the appropriateness of the service(s) which are to be provided by the contractor.
  - b. The local DHHS agency authorizes the services to be provided by the contractor on a client specific basis.
  - c. The services provided by the contractor do not include administrative functions, such as: 1) program evaluation, 2) program planning, 3) monitoring, and 4) development of program standards, procedures and rules, which extend beyond the scope of the direct services authorized by the agreement.
  - d. The funds supporting the contract, federal or state, are not subject to any compliance requirements.
4. Guidelines have been developed by the Department of Health and Human Services to assist LME/AA's in classifying the contractual relationship as financial assistance or purchase of service. The Division Fiscal Officer is available to assist LME/AA's in making this determination in specific circumstances. Please see APSM 75-1, Section 4.2 for the DHHS guidelines for determining if a contractual relationship is Financial Assistance or Purchase of Service.

#### **Suggested Audit Procedures**

1. Select a sample of LME/AA/Non-Profit/For-Profit contracts that are considered financial assistance contracts.
2. Review the sample of financial assistance contracts identified in step 1. above and determine if the audit/reporting requirements of G. S. 159-34 and 143-6.2 (Note – G.S. 143-6.1 was repealed 7/01/05) and, if applicable, OMB Circular A-133 are met. Determine by reviewing the written contract and LME/AA/Non-Profit/For-Profit files what reporting requirements, if any, the contract provider was required to make and that a copy of the audit or grantee receipts and expenditures report/sworn statement was provided to the LME/AA/Non-Profit/For-Profit.
3. Select a sample of LME/AA/Non-Profit/For-Profit contracts which were determined to be purchase of service rather than financial assistance.
4. Review a sample of purchase of service contracts identified in step 3 above and determine if the LME/AA/Non-Profit/For-Profit has in place a compliance review system to ensure that the services or goods or both which were purchased were actually received and that the system was implemented. In lieu of operating its own compliance review system, the LME/AA/Non-Profits/For-Profits may contract with a qualified third party to perform appropriate compliance review

procedures on the contract provider to determine that the contract provisions are met and that services or goods or both were actually provided.

5. Sample LME/AA/Non-Profit/For-Profit contract records and actual signed contracts to ensure that LME/AA/Non-Profits/For-Profits are properly making determinations of whether their contracts are financial assistance or purchase of service and that audit requirements are included in the written contract with the provider.

#### **N, 14. SPECIAL TESTS AND PROVISIONS**

1. Exemption of LME/AA's from Payment of Federal Excise Taxes:

APSM 75-1, Section 13, states:

“The Division has received from the United States Internal Revenue Service blanket approval of area program exemption from payment of federal excise taxes. This exemption is for all manufactured goods on which federal excise tax is charged. The manufactured goods that are covered include, but are not limited to, tires, truck accessories, gasoline, and oil.

1. The exemption for area programs has been granted in accordance with IRS Publication 510.
2. The tax exempt identification number must be used in the purchase of all manufactured goods on which federal excise tax is charged in order to obtain exemption.
2. Provide a copy of the exemption certificate, signed by the person authorized by the Area Board, to all appropriate wholesale and retail suppliers in order to establish exemption status.
3. In the event that a supplier must obtain credit for excise tax from a distributor or manufacturer, request transmittal of a copy of the exemption certificate to the appropriate distributor or manufacturer.
4. If goods purchased under the exemption are sold or otherwise transferred for use other than for the area program, the transfer must be reported and tax paid to the Internal Revenue Service by the area program.

#### **Suggested Audit Procedures**

1. Select a sample of LME/AA's purchases otherwise requiring the payment of Federal excise tax and determine if the LME/AA has provided proper documentation to the suppliers in order to establish exemption status.
2. If goods purchased under the exemption are sold or otherwise transferred for use other than for the LME/AA's, select a sample of such transactions and determine if the transfers were reported and tax paid to the Internal Revenue Service by the LME/AA.

2. Contract Requirements for LME/AA/Non-Profits/For-Profit's:

APSM 75-1, Section 25, 10A NCAC 27A, .0106 states:

“(a) This Rule shall apply to all contracts between an area program (hereafter referred to as “contractor”) and contract providers (hereafter referred to as “contractees”). For purposes of this Rule, contractees include:

- (1) an individual with whom a contract is made for professional services, including consultants and guest speakers; and
  - (2) an agency, other than another area program, with whom a contract is made for the provision of services to one or more clients.
- (b) The basis for the relationship between the contractor and the for-profit or non-profit contractee is the written contract. All mutual understandings and expectations shall be clearly stated in the contract. All contracts for provision of services to clients, shall contain, at a minimum, the following provisions as indicated in this Rule, except that Subparagraphs (b) (11) and (b) (18) of this Rule shall not apply to contracts with individuals:
- (1) names of the contracting parties;
  - (2) beginning and ending dates of the contract period; however, no contract shall extend beyond the fiscal years, except as allowed by G.S. 159;
  - (3) description of the services to be provided and the expectations of the parties;
  - (4) amount and method of payment;
  - (5) address and social security number or IRS identification number of contractee;
  - (6) the following statement when a contract period is greater than 30 days: "This contract may be terminated at any time upon mutual consent of both parties or after 30 days upon notice of termination by one of the contracting parties;"
  - (7) a statement which indicates that the contract may be terminated immediately with cause upon written notice to the other party; the cause shall be documented in writing to the other party detailing the grounds for termination; and if applicable, the contract may contain a provision indicating method of payment of liquidated damages upon such termination;
  - (8) a clause which indicates that the contractor (area) is held harmless from acts committed by the contractee;
  - (9) signature of each party to the contract;
  - (10) a pre-audit statement in accordance with G.S. 159-28;
  - (11) a statement specifying the procedure for budget revisions, if applicable, and provisions for fund balance;
  - (12) the procedure for resolving disagreement between the contracting parties;
  - (13) for equipment purchased with non unit-cost reimbursement funds, such as start up or special purpose funding, title to assets purchased under the contract in whole or in part rests with the contractor so long as that party continues to provide the services which were supported by the contract; if such services are discontinued, disposition of the assets shall occur as approved by the Division;
  - (14) client records of the contractee shall be accessible for review for the purpose of monitoring services rendered, financial audits of third party payors, research and evaluation;
  - (15) upon request, the contractee shall provide data about individual clients for research and study to the contractor;
  - (16) the contractor requirement to provide to the contractee all pertinent rules, regulations, standards and other information distributed by the Division necessary for the performance of the contractor under the terms of the contract;
  - (17) the contractor requirement to monitor the contract to assure compliance with rules of the Commission, the Secretary and G.S. 122C-142;

- (18) a copy of the independent audit referenced in Subparagraph (b)(20) of this Rule, if required, shall be forwarded to the Office of the State Auditor at 2 South Salisbury Street, MSC 50601, Raleigh, North Carolina 27699-0601;
- (19) provisions which outline the responsibility of the contractee for the adoption, assessment, collection and disposition of fees in accordance with G.S. 122C-146;
- (20) a requirement that the contractee shall make available to the contractor its accounting records for the purpose of audit by State authorities and that the party will, when required by general statute or in accordance with the Performance Contract, have an annual audit by an independent certified public accountant.”

(c) Agreements with another area program for provision of services to clients shall be incorporated into the LME Contract referenced in Rule .1002 of this Section.

**Suggested Audit Procedures**

- 1) Sample written LME/AA/NON-PROFIT’s/For-Profits’s contracts with providers and determine if the contract provisions set forth in (b) (1) through (20) above have been included in each contract as required.
  - 2) For state funded Financial Assistance contracted between DMH/DD/SAS and Non-profits or For-Profit’s, confirm that audit has been performed in accordance with contract requirements.
3. General Services Funds

General Services Funds refer to a category of funding (Fund 1590) for non-disability-specific services and programs that are reimbursable on both a Unit Cost Reimbursement (UCR) or a Non-Unit Cost Reimbursement (Non-UCR) basis. The following programs and services fall under the category of General Services Funds:

<b>Account Number</b>	<b>Account Title</b>
536996	Crisis Services (Non-UCR)*
536996003	Crisis Services (UCR)*
536996004	UCR Crisis Psych Inpatient
536998	Non-UCR Single Stream Funding
536980	LME Systems Management
536995	Non-UCR Other

\* Note: Please refer to the individual compliance supplements for more guidance on auditing these programs.

**Suggested Audit Procedures**

The suggested audit procedures for General Services Funds shall follow the guidance indicated below based on whether funds are disbursed on a UCR (Section 4) or Non-UCR (Section 5) basis. Crisis Services Funds shall be audited according to the guidance provided in **Compliance Supplement DMH-DHHS-54**.

4. Unit Cost Reimbursement (UCR) Child and Adult

APSM 75-1, Section 25, 10A NCAC 27A.0215 states:

- “(a) The Division shall administer a system of reimbursement of state, federal and other funds to area programs for eligible children and adult clients in approved IPRS target populations based on the provision of division approved eligible mental health, developmental disabilities and substance abuse services.
- (b) The types of funding shall be based on a consistently applied methodology, which includes the following:
  - (1) the identification of service expense centers,
  - (2) the allocation of allowable costs,
  - (3) the determination of expected units of service,
  - (4) the calculation of a unit cost reimbursement rate,
  - (5) the identification and assignment of revenue,
  - (6) the reporting of units of service and revenue,
  - (7) the reimbursement of funds
- (c) Funds shall be used for the provision of services in accordance with the LME contract.
- (d) Funds shall be subject to compliance with all state and federal requirements.

The list of budget accounts considered to be within UCR include:

<b>Account Number</b>	<b>Account Title</b>
536909	Child Substance Abuse Engagement
536910	Adult Substance Abuse Engagement
536911	Child Substance Abuse Prevention
536912	Adult Substance Abuse Prevention
536913	HIV
536916	Child Substance Abuse Women’s
536919	Path/Adult Homeless Block Grant
536923	Path/Youth Homeless Block Grant
536930 (FRC 39)*	Comprehensive Treatment Services Program
536943	Criminal Justice Offenders
536945	UCR Services to Children
536945002	Developmental Therapies- Child
536945003	Child Crisis
536949	UCR Services to Adults

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536949001	Long Term Vocational Supports
536949002	Developmental Therapies - Adult
536949003	Adult Crisis
536949004	Public Psychiatry
536951	Emergency Services
536952	Services to IV Drug Abusers
536965	Safe & Drug Free School's
536970	UCR MAJORS
536976	Treatment Alternatives for Women
536979 (FRC 34)*	MR/MI Community Services
536996003	UCR Crisis (Non-Disability Specific)
536996004	UCR Crisis Psych Inpatient

\* These accounts were previously covered under separate supplements in SFY07-08, but due to IPRS simplification, where their individual population groups have been eliminated they are to be covered by this crosscutting supplement.

### Suggested Audit Procedures

The following suggested audit procedures are set forth in order to test the accuracy of service reporting, eligibility.

1. From the UCR IPRS reporting, sample reporting to verify:
  - a. Correct service and number of units are reported;
  - b. Local documentation exists in individual client service records to verify that services were delivered to the client as reported.

In conducting review of IPRS reports sample units that were paid and compare to CP/AA event data for documentation that services were provided. It might be necessary for LME/AA's to provide local client identifying information as IPRS paid claims could be tagged by IPRS client identifier or Client Medicaid ID.

2. From the units reported on the IPRS report, sample the units and verify that the individual for whom services were reported had an appropriate eligibility assessment.

In conducting review of IPRS reports sample units that were paid and compare to LME/AA's documentation that client meets minimum eligibility requirements. It might be necessary for LME/AA's to provide local client identifying information as IPRS paid claims could be tagged by IPRS client identifier or Client Medicaid ID.

**Auditors Note:** For state fiscal year 2008-2009 year under review there are several area programs that had single stream funding for UCR and Non-UCR funding. Single stream funding condenses state funding into a single account (536998) regardless of age or disability. The following suggested audit procedures are different for these LME/AAs.

**Single Stream Funded LME Suggested Audit Procedures**

Single Stream Funded LME’s have state UCR and Non-UCR funding condensed into one account and fund, 1590 536998 without distinction by age or disability. For these funds sample local documentation on individual client service records to verify that clients were enrolled in the Common Name Data System (CNDS) and an approved IPRS target population and that division approved services were provided. For these funds, LME’s shall be required to submit shadow claims. For Federal Funds, single stream funded LME’s are still required to bill units via IPRS and the audit procedures should follow the normal tests procedures.

**Piedmont Behavioral Healthcare Suggested Audit Procedures**

Piedmont has state UCR and Non-UCR funding condensed into one account and fund, 1590 536998, without distinction by age or disability. For these funds, sample local documentation on individual client service records to verify that clients were enrolled in CNDS (common name data system) and an approved IPRS target population and that division approved services were provided. For these funds, Piedmont shall be required to submit shadow claims. For Federal Funds Piedmont is required to submit a monthly encounter file to the division for processing and these units are reclassified to the appropriate age/disability funding source. For these federal funds, the suggested audit procedure is to sample client records from the encounter file and confirm that these clients are correctly enrolled in CNDS (Common Name Data System) and an approved IPRS target population and that these division approved services were provided to clients. An extract of the final YTD encounter file will be available from either Piedmont Behavioral Healthcare or the division.

5. Non-Unit Cost Reimbursement (non-UCR):

APSM 75-1, Section 25, 10A NCAC 27A, .0217 states:

- “(a) The Division may provide specific purpose funding with state, federal or other sources for activities authorized by the division and the granting agency and disburse these funds on a basis other than unit cost reimbursement.
- (b) Funds shall be expended in accordance with the special conditions set forth in the Performance Contract between the area program and Division and all applicable state and federal restrictions on such funding.
- (c) Funds shall be settled on an expenditure basis in accordance with Rule .1014 of this Subchapter.
- (d) Non Unit Cost Reimbursement [non-UCR] shall be available for child, adult and other services.
  - (1) Unless more narrowly defined in the allocation letter, funds for children shall be for individuals under the age of 18 years.
  - (2) Unless otherwise defined in the allocation letter, funds for adults shall be for individuals 18 years of age and older.
  - (3) Funds which cannot be identified for services to children or adults shall be considered “other”.

**NOTE TO LOCAL AUDITORS:** The DMHDDSAS may allocate funds in non-UCR categories. The following is a list of accounts which are considered non-UCR from which to sample as recommended in the Suggested Audit Procedures noted

## DMH/DD/SAS CROSSCUTTING REQUIREMENTS

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below. The local auditor should contact the DMHDDSAS Budget Office at the time of the local audit to determine if additional non-UCR accounts were added after publication of this supplement.

<b>Account Number</b>	<b>Account Title</b>
536890	Other Educational Awards
536905	Group Home for MR
536906	Community Alcoholism Program
536907	Research and Evaluation Projects
536914	Non-UCR HIV
536915	Non-UCR Child SA Prevention
536916	Non-UCR Adult SA Prevention
536918	Non-UCR Adult Homeless
536922	Non-UCR Youth Homeless
536927	Apartment Living for MR
536930 (FRC 49)*	Comprehensive Treatment Services Program
536932	Deinstitutionalization
536962	IV Drug Non-UCR
536963	Non-UCR Safe and Drug Free Schools
536966	Women's Txt. Non-UCR
536969	Non-UCR Majors
536974	Non-UCR Child
536975	Non-UCR Adult
536975001	GERO Teams
536977	Training
536979 (FRC 47)*	MR/MI
536986	Non-UCR Strengthening Families
536989	Non-UCR First In Families
536990	TASC
536993	DD Service Funds
536994	DD Traumatic Brain Injury
536995	Non-UCR Other
536995002	Non-UCR Other – Hospital Pilot
536996	Crisis Services
536998	Non-UCR Single Stream Funding

\* These accounts were previously covered under separate supplements in SFY07-08, but due to IPRS simplification, where their individual population groups have been eliminated they are to be covered by this crosscutting supplement.

Funds allocated in non-UCR are reimbursed on an expenditure basis as certified by the LME/AA's on the Financial Status Report (FSR). Any special conditions related to program development, program implementation and operation, and reporting requirements will be set forth in the allocation letter to the LME/AA's. The LME/AA's allocation letter serves as an addendum to the LME Performance Contract between the LME/AA's and Division.

### **Suggested Audit Procedures**

1. From the list of accounts above, review allocation letters to the LME/AA's from the Division, as well as LME/AA's accounting records, to determine non-UCR funds which have been allocated to the LME/AA's from the Division.
2. From reimbursed Non-UCR expenditures, test FSR's for certification statements.
3. From the allocations identified in step 1. above, select a sample of allocations and test the following:
  - a. If special conditions were set forth in the "Special Conditions" section of the allocation letter, determine if the LME/AA's complied with such conditions;
  - b. If special reporting requirements were set forth in the "Reporting" section of the allocation letter, determine if the LME/AA's submitted the required reporting and within timeframes which may have been specified.

**Auditor's Note:** For State Fiscal Year 2008-2009 under review, there are several area programs that had single stream funding for UCR and Non-UCR funding. Single stream funding condenses State funding into a single account regardless of age or disability. The following suggested audit procedures are different for these LME/AAs.

### **Single Stream Funded LME Suggested Audit Procedures**

Single Stream Funded LME's have state UCR and Non-UCR funding condensed into one account and fund, 1590 536995, without distinction by age or disability. For these funds, sample local documentation on individual client service records to verify that clients were enrolled in the Common Name Data System (CNDS), the consumer data warehouse (CDW) and were eligible for a division approved target population and that division approved services were provided. For Federal Funds, Single Stream Funded LME's are still required to submit a FSR and the audit procedures should follow the normal test procedures, including restrictions on the use of federal funds.

### **Piedmont Behavioral Healthcare Suggested Audit Procedures**

Piedmont has state UCR and Non-UCR funding condensed into one account and fund, 1590 536998 without distinction by age or disability. Piedmont is not required to file an FSR for reimbursement of these funds and this test should not apply.

6. Fund Balance Policy for Contract Affiliates:

In order for the Division to have input into the actions regarding fund balances in area programs, the following shall take place after the certified public accountant's audit report is rendered and the tentative settlement report prepared:

- (1) The fund balance set forth within the annual audit of area programs shall be verified by the Division.
- (2) Since single county area programs are considered a department of the county for budgetary and financial reporting, separate fund balances for the single county area programs are not required. In order to assure that single county area programs are in compliance with the G.S. 122C-146 which states that fees received for services shall not reduce or replace the budgeted commitment of local tax revenue, the Division shall review the utilization of

county general funds and the disposition of fees received for service each year.

- (3) If the unrestricted fund balance is not in excess of 15 percent of the current annual budget, no action is to take place.
- (4) If the unrestricted fund balance is over 15 percent of the current annual budget, the Division shall recoup in an amount equal to the fund balance in excess of 15 percent. The area program may request permission from the Division Director to restrict fund balance in excess of the 15 percent limitation for specific purposes.

### **Suggested Audit Procedures**

1. Review LME/AA's Board minutes to verify that the Board has adopted a fund balance policy applicable to contract agencies noted above and the current policy of fund balance limitation.
  2. Sample LME/AA's contracts and determine if the Board adopted fund balance policy has been accurately set forth in the individual contracts sampled.
7. County Funding of LME/AA's

G.S. 122C-115(d) "Duties of Counties; Appropriation and Allocation of Funds by Counties and Cities" and G.S. 122C-146 "Fee for Service", set forth certain requirements related to county funding of LME/AA/Non-Profit/For-Profit. In order to assist the Division in carrying out its oversight responsibilities, local auditors are to carry out the following audit procedures. It is NOT necessary for the local auditor to judge or assess compliance with the above General Statutes, but only to report the information outlined in the Suggested Audit Procedures section.

**Suggested Audit Procedures** – From a review of LME/AA's accounting records determine the following:

- a. Highest amount of county general funds, excluding county ABC revenues, budgeted by the area program to be received from each county in the catchment area ("catchment area" means the geographic part of the State served by a specific LME/AA);
  - b. Actual amount of county general funds received by the area program, excluding county ABC revenues, from each county in the catchment area;
8. Fiscal Monitoring Report

LME/AA's are required to submit a Quarterly Fiscal Monitoring Report to the DHHS Controller's Office, unless otherwise specified by the Division of MH/DD/SAS. A copy of a Quarterly Fiscal Monitoring Report may be obtained from the LME/AA or by contacting the DHHS Controller's Office at (919) 855-3736 or (919) 855-3735.

**Suggested Audit Procedures**

- a. Secure from the area program, copies of all Quarterly Fiscal Monitoring Reports submitted for the SFY being audited;
  - b. Sample at least one of the reports and determine, by a review of LME/AA's accounting records, (a) if the budgeted and actual amounts for all items reported for the quarter being sampled were reported accurately, and (b) all items required on the report were reported, provided the LME/AA had funds budgeted for the line and/or had actual receipts/expenditures in that line.
9. Medicaid Payments and Documentation Requirements Specific to LME/AA's under the MHDDSAS Plan Services- "Y", CPT and HCPCS Codes:

In addition to other Medicaid items which the local auditor may review at the LME/AA's based on the Federal Medicaid supplement and the supplement developed by the N.C. Division of Medical Assistance, the local auditor is to conduct the audit procedures noted below. Reference requirements noted below may be found in the Service Records Manual for LME/AA and Contract Agencies, Administrative Publication Systems Manual (APSM) 45-2, dated 9/1/03. A copy of APSM 45-2 may be secured from the LME/AA's or by contacting the Division's Accountability Team at (919) 881-2446.

**Suggested Audit Procedures**

1. Select a sample of service events from the Medicaid paid claims data at the LME/AA. Medicaid paid claims data is available from the LME/AA on their copy of the Medicaid Remittance Advice.
  2. From the paid claims data, which will be on a client specific and service event specific basis, review the corresponding client record to document the following:
    - i. There is a service order for the service billed. Requirements for service orders may be found in APSM 45-2, page 7;
    - ii. The service order was dated prior to the date service was rendered;
    - iii. The service order is signed by either an M.D. or Ph.D. level psychologist;
    - iv. The service plan was current on the date the service was rendered; Requirements for service plans may be found in APSM 45-2, page 11;
    - v. Does the service plan identify the type of service billed;
    - vi. Is there documentation in the client record, via service notes, for the date of service and service rendered? Requirements for service notes may be found in APSM 45-2, page 16.
10. LME Systems Management

**Compliance Requirements**

The Division, along with the LME/AA's, established an annual LME system management allocation to assist the LME/AA in carrying out the administrative functions associated with its role as a Local Management Entity (LME) for MH/DD/SA services. Based on the LME system management allocation, payments will be disbursed on a monthly 1/12th basis during the year. The LME is required to submit a Monthly LME Report of Expenditures along with a LME Systems Management

Supplemental Salary Schedule by the 15<sup>th</sup> calendar day of each month for the preceding month. The allowable administrative functions include: implementation of the local business plan/LME contract; access screening, triage, and referral; provider relations and support; customer services and consumer rights; quality management and outcomes evaluation; business management and accounting (including claims adjudication); and various information management, analysis and reporting functions. Other service system management responsibilities include discharge planning and aftercare planning with the State facilities, compliance with Diversion Law NCGS §122C-261(f), community capacity expansion, and managing bed day allocations to the State facilities. Information reported on the supplemental salary schedule is limited to positions (employees or contractors), other than Doctors of Medicine and Doctors of Osteopathic Medicine, paid above the salary for Level I on the Executive Schedule. This schedule can be accessed at <http://www.opm.gov/oca/08tables/html/ex.asp>. This form is to be completed every month by each LME to either report the required information or indicated "none" if there is no such cost to report. LME Systems Management funds shall be paid, reported and settled per rule 10A NCAC 27A.0400.

### **Suggested Audit Procedures**

1. Select at least one Monthly LME Report of Expenditures and verify that reported costs, depreciation, and indirect cost reported by the LME/AA are substantiated in the LME/AA's accounting records.
2. In the Monthly LME Report of Expenditures selected in item 1. above, verify the following related to individuals reported as -Skilled Professional Medical Personnel (SPMP):
  - a. Employees meets the criteria as Skilled Professional Medical Personnel set forth in 42 CFR 432.2 and 432.50 (d).
  - b. Employees reported as Skilled Professional Medical Personnel are either employees of the LME/AA's or are employed by another public agency and perform these duties under contract/agreement with the LME/AA's.
3. Sample monthly reports to Division to verify that the costs reported to the Division include only costs allowable as LME systems management activities.
4. Sample personnel/payroll records to verify that any applicable cost is being reported on the supplemental salary schedules to the division.