
DMH/DD/SAS CROSSCUTTING REQUIREMENTS

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

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N. C. DHHS Confirmation Reports:

SFY 2018 audit confirmation reports for payments made to Counties, Local Management Entities (LMEs), Managed Care Organizations (MCOs), Boards of Education, Councils of Government, District Health Departments, and DHSR Grant Subrecipients will be available by mid-October at the following web address: <http://www.ncdhhs.gov/control/auditconfirms.htm>. At this site, click on the link entitled “Audit Confirmation Reports (State Fiscal Year 2017-2018). Additionally, audit confirmation reports for Nongovernmental entities receiving financial assistance from DHHS are found at the same website except select “Non-Governmental Audit Confirmation Reports (State Fiscal Years 2017-2018).”

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 N. C. DHHS/DIVISION OF MENTAL HEALTH, DEVELOPMENTAL DISABILITIES AND SUBSTANCE ABUSE SERVICES (DMH/DD/SAS 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/Managed Care Organization’s Mental Health, Developmental Disabilities and Substance Abuse Program (LME-MCO) as well as any non-profits or for-profits that receive these grant awards. This supplement includes consideration of all federal grants received by the LME-MCO, Non-Profits and For-Profits through the Division, as well as consideration of supplemented funds from State Appropriations received by the LME-MCO, Non-Profits, and For-Profits via the Division.

II. PROGRAM PROCEDURES

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

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Compliance requirements set forth in the Crosscutting supplement apply to all LME-MCOs and Non-Profit organizations. Because For-Profit entities are subject to paying federal and state income taxes, they are exempt from these requirements unless any applicable compliance requirements are addressed in the contract between the Division and the For-Profit organization. Within the Division, the Crosscutting supplement will be used (a) as a freestanding supplement for items such as Unit Cost Reimbursement (UCR), Child and Adult services 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 sub-granted by the Division, that supplement should be used in conjunction with this Crosscutting supplement and must also be tested by the local auditor.

LME-MCOs, Non-Profits, and For-Profits receive funding allocations from the Division for two overarching purposes. First, funds are allocated to LME-MCOs, Non-Profits, and For-Profits for the provision of services, whether provided by the LME-MCO, Non-Profit, or For-Profit contracted service provider. Secondly, funds are allocated to LME-MCOs to support administrative and management functions as related to the three primary disabilities addressed by the Division. Funds allocated for the provision of services are allocated as follows:

Single Stream LME-MCOs:

- a. Federal Funds may be allocated to LME-MCOs within Unit Cost Reimbursement (UCR). Funds allocated in this manner are paid to LME-MCOs via their data submission through the NCTracks System.
- b. State appropriation is allocated outside of UCR. Funds are paid to single-stream LME-MCOs in the manner prescribed by the Division. At this time, State appropriation is paid in 1/12th monthly increments to each LME-MCO. LME-MCOs process claims in NCTracks that are zero sum claims which are billed to support the state appropriation paid on a monthly basis.

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 entitled “Compliance Requirements” below the program-specific audit compliance supplement.

Funds allocated for LME-MCO administrative and management functions in support of the three primary disabilities addressed by the Division are allocated in account 536998, Community Services Single Stream Funding and specified in a responsibility cost center (RCC). There are no administrative funds going to LME-MCOs for SSF.

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-MCO; however, if not, please call Budget and Finance 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 Sub-recipient 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);

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- 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 (10A NCAC 27A) Accounting Rules, as follows:
 - 1. .0106, Contract Requirements for Area Programs [now LME-MCOs] (found in Special Tests and Provisions);
 - 2. .0112, Disposition of Equipment – Non-UCR (found in Equipment and Real Property Management);
 - 3. .0204, Division Funds for Capital Projects (found in Real Property Acquisition and Relocation Assistance);
 - 4. .0215, Unit Cost Reimbursement (UCR) Child and Adult (found in Special Tests and Provisions);
 - 5. .0217, Non-Unit Cost Reimbursement (found in Special Tests and Provisions)

In addition to the above noted requirements, the following additional three (3) items are also included in the Crosscutting section:

- a. General Service Funds (found in Special Tests and Provisions);
- b. County Funding of LME-MCO (found in Special Tests and Provisions);
- c. Medicaid Payments and Documentation Requirements Specific to LME-MCOs under the MH/DD/SAS Plan Services – “Y”, CPT, and HCPCS codes (found in Special Tests and Provisions).

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 LME-MCOs and a Suggested Travel Policy:

APSM 75-1, Section 6, states: “Each LME-MCO will adopt a standard travel reimbursement policy which will be applied uniformly to all employees of the LME-

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MCO. This policy will be documented in writing and approved by the LME-MCO 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-MCO 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-MCO in accordance with the adopted policy.
2. Unallowable LME-MCO, Non-Profit, and 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:

- a. 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.
- b. Purchasing flowers or other gifts for employees for special occasions or sickness.
- c. Parking expense for employees at place of employment. Parking expense for patients and visitors are allowable.
- d. Rent expense for furniture and equipment if it cannot be demonstrated that it is more economical to rent than purchase.
- e. Expenditures of unbudgeted funds.
- f. Alcoholic beverages, set-ups, or entertainment.
- g. Coffee and other refreshments or food for employees not in valid travel status.
- h. Employee personal expenditures.
- i. Employee personal telephone calls.
- j. Employee commuting expense.
- k. Employee housing allowance, except as may be allowed in accordance with a Board-approved moving expense reimbursement policy.
- l. Employee living expense while on scholarship.
- m. Payrolls of employee(s) not in compliance with Personnel Policies for Local Government Subject to the State Personnel Act.
- n. Payrolls of employee(s) not paid according to Office of State Human Resources (OSHR)- and Board-approved pay plan.
- o. 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.

- p. 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 LME-MCO, 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 Procedure – Sample LME-MCO’s, 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-MCO 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.

“LME-MCOs 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 Government Sales and Purchases T17:07B .1700 and Refunds: Counties; Cities: T17:07B .1702”.

Suggested Audit Procedures – Sample LME-MCO 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

NOTE: For LME-MCOs, Non-Profits, and For-Profit entities, 2 CFR Part 200 superseded OMB Circular A-133 for subrecipient fiscal years that began after December 26, 2014. Both Federal and State Compliance Supplement guidance removed this requirement and inserted a placeholder entitled “Removed/Reserved”, which still allows its use if applicable. However, if there is a need to address Equipment and Real Property Management, states and other non-federal entities may include this requirement under Compliance Requirement N. (for federal programs) and 14. (for State-funded only programs) entitled “Special Tests and Provisions”.

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

Disposition of Equipment – UCR

Not applicable.

Disposition of Equipment – Non UCR

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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 a LME-MCO or contract provider shall be used for Division-funded client services. Equipment purchased with Division [DMH/DD/SAS] funds may be transferred to other Division-funded services if no longer needed by the original service. (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 LME-MCO or through the LME-MCO 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 LME-MCO policy.
 - b) The LME-MCO shall have a written procedure stating the equipment disposition policy for contract providers and include or reference this provision in all contracts between the LME-MCO and the contract provider”.

Suggested Audit Procedures

1. Review LME-MCO’s, Non-Profits’, and For-Profits’ 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-MCO, Non-Profit, and For-Profit staff, and from LME-MCO’s, Non-Profit’s, and 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-MCO, Non-Profit or For-Profit has written procedures stating the equipment disposition policy for contract providers.
5. Sample LME-MCO’s, Non-Profit’s and 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 N.C.G.S. 143 as follows: Article 3B, “Conservation of Energy, Water, and Other Utilities in Government 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 sub-awards 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-MCO, Non-Profit and 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 Non-procurement Programs”, issued by the General Services Administration (GSA). An electronic version may be accessed on the Internet at the following site: <https://www.sam.gov/portal/SAM/##11#1>. The State of NC, Department of Administration, Division of Purchase and Contract provides a list of Parties excluded from Federal Procurement or Non-procurement Programs which may be found at <http://www.pandc.nc.gov/actions.aspx>.

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 non-profit 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 (LME-MCOs). 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 (LME-MCO) and the contract provider must be established. If the relationship is a financial assistance agreement, then the requirements of N.C.G. S. 159-34 and 143C-6-22 and 6-23 and, if certain conditions are met with respect to federal funding levels, 2 CFR Part 200.331 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 Local Government Commission (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.

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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 2 CFR Part 200.331 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 services 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-MCOs in classifying the contractual relationship as Financial Assistance or Purchase of Service. The Division Fiscal Officer is available to assist LME-MCOs 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. Sample LME-MCO, Non-Profit, and For-Profit contract records and actual signed contracts to ensure that LME-MCO, Non-Profits and 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.
2. Select a sample of LME-MCO, Non-Profit and For-Profit contracts that are considered financial assistance contracts. Insure that the elements required to deem the contract as Financial Assistance are present in the contract.
3. Review the sample of financial assistance contracts identified in Step 2 above and determine if the audit/reporting requirements of N.C.G.S. 159-34 and 143C-6-23 and, if applicable, 2 CFR Part 200.331 are met. Determine by reviewing the written contract and LME-MCO, Non-Profit and 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-MCO, Non-Profit or For-Profit.

4. Select a sample of LME-MCO, Non-Profit and For-Profit contracts which were determined to be Purchase of Service rather than Financial Assistance.
5. Review a sample of purchase of service contracts identified in Step 4 above and determine if the LME-MCO, Non-Profit or 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-MCOs, Non-Profits and 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 services or goods or both were actually provided.

N, 14. SPECIAL TESTS AND PROVISIONS

1. Exemption of LME-MCOs 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.”

- a. The exemption for LME-MCOs has been granted in accordance with IRS Publication 510.
- b. 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.
- c. Provide a copy of the exemption certificate, signed by the person authorized by the LME-MCO Board, to all appropriate wholesale and retail suppliers in order to establish exemption status.
- d. 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.
- e. If goods purchased under the exemption are sold or otherwise transferred for use other than for the LME-MCO, the transfer must be reported and tax paid to the Internal Revenue Service by the LME-MCO.

Suggested Audit Procedures

- a. Select a sample of LME-MCO purchases otherwise requiring the payment of federal excise tax and determine if the LME-MCO has provided proper documentation to the suppliers in order to establish exemption status.
 - b. If goods purchased under the exemption are sold or otherwise transferred for use other than for the LME-MCO, select a sample of such transactions and determine if the transfers were reported and tax paid to the Internal Revenue Service by the LME-MCO.
2. Contract Requirements for LME-MCOs/Non-Profits/For-Profits:
APSM 75-1, Section 25, 10A NCAC 27A, .0106 states:

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- “(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 LME-MCO, 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 contractor 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;

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- (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 S. Salisbury Street, 20601 Mail Service Center, 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

- a. Sample written LME-MCO, Non-Profit and For-Profit 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.
 - b. For State-funded Financial Assistance contracted between DMH/DD/SAS, Non-Profit or For-Profit providers, confirm that audit has been performed in accordance with contract requirements.
 - c. Sample written service contracts between the LME-MCO and providers and determine:
 - i. Contract was fully executed by all parties prior to the effective date of the contract.
 - ii. LME-MCO utilized the DMH/DD/SAS required LME-MCO/Provider contract template, including all attachments and appendices.
3. General Services Funds

General Services Funds refer to a category of funding (Fund 1422) for non-disability-specific services and programs that are reimbursable on either 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:

Account Number	Account Title
536998	Non-UCR Single Stream Funding

* Note: Please refer to the individual LME Systems Management and Crisis Services compliance supplements for more guidance on auditing these programs.

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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 based on the provision of eligible mental health, developmental disabilities and substance abuse services. These payments exclude those services paid for under either the Willie M. or Thomas S. unit cost reimbursement systems.
- (b) This system 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, and
 - (8) settlement procedures.
- (c) Funds shall be used for the provision of services in accordance with the Annual Memorandum of Agreement [LME-MCO contract].”

Funds shall be subject to compliance with all State and federal requirements.

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

Account Number*

Account Title

Federal Funds

536945	UCR Services to Children
536949	UCR Services to Adults
536952	Services to IV Drug Abusers
536970	UCR JJSAMHP (Formerly - Majors)
536976	Treatment Alternatives for Women

State Funds

536950	UCR SUD State
536996001	UCR Crisis Services-Local Psych
536996014	UCR Critical Time Intervention

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536998003	UCR DOJ Supported Employment
536998007	ADATC 10% SA/Alcohol Treatment
536998012	UCR TCLI Mental Health Services
536998018	UCR Hospital Day Beds

*The account listing is current as of February 2018, however it is possible that additional accounts will be added in last half of SFY18. If an account is found that is not listed above or in the Non-UCR Account listing, please contact DMH/DD/SAS Budget and Finance at (919) 733-7013 for a description.

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 NCTracks 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 NCTracks reports sample units that were paid and compare to LME-MCO event data for documentation that services were provided. It might be necessary for LME-MCOs to provide local client identifying information as NCTracks paid claims could be tagged by NCTracks client identifier or Client Medicaid ID.

2. From the units reported on the LME-MCO's NCTracks report, sample the units and verify that the individual for whom services were reported had an appropriate eligibility assessment.

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

3. In order to prevent unauthorized changes to the system from going undetected, review the LME-MCO's policy on access to NCTracks. Test a sample of individuals with access to NCTracks to determine the level of access, the appropriateness of that access and if proper authorization for access was given.

Auditors Note: All LME-MCOs are included in single stream funding. Single stream funding condenses State funding into a single account (536998) regardless of age or disability.

Single Stream Funded LME-MCO Suggested Audit Procedures

Single Stream Funded LME-MCOs have state UCR and Non-UCR funding condensed into one fund and account, 1422 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 Service (CNDS) and an approved NCTracks benefit plan was assigned and that Division-approved services were provided. For these funds, LME-MCOs shall be required to submit claims. For federal funds, LME-MCOs are still required to bill UCR units via NCTracks; a sample of NCTracks claims paid from Federal funds should be tested.

DMH/DD/SAS CROSSCUTTING REQUIREMENTS

LME-MCOs also report UCR data as claims processed through the NCTracks system. These claims will become a shadow claim when it is fully adjudicated through the NCTracks system of edits/audits and is treated as a zero paid claim as it cannot be credited to another fee-for-service account. This is also known as an encounter record. For these, a sample of the zero paid claims is done in the same manner as regular NCTracks claims.

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 Memorandum of Agreement [Performance Contract] between the area program [LME-MCO] and Division.
- (c) Funds shall be settled on an expenditure basis in accordance with Rule .0110 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 DMH/DD/SAS 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 below. The local auditor should contact the DMH/DD/SAS Budget Office at the time of the local audit to determine if additional Non-UCR accounts were added after publication of this supplement.

Account Number*	Account Title
<u>Federal Funds</u>	
536914	Non-UCR HIV
536915	Non-UCR Child SA Prevention
536918	Non-UCR Adult Homeless
536962	IV Drug Non-UCR
536966	Women’s Treatment. Non-UCR
536969	Non-UCR JJSAMHP
536974	Non-UCR Child
536975	Non-UCR Adult
536975001	GERO Teams

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536975002	First Episode Psychosis 10% set aside
536990	TASC
536995	Non-UCR Other
<u>State Funds</u>	
536950	Non-UCR SUD State
536975003	Non-UCR Suicide Prevention Life
536996	Crisis Services
536998	Single Stream Funding (Non-UCR)
536996001	Crisis Services Local Psych Inpatient (3Way)
536996002	Community Par Mobile Crisis
536996003	Urgent Care Facility Based Crisis
536996004	Critical Time Intervention Crisis
536996007	FDA Tobacco Inspection Program
536996010	Community Based Crisis Services
536998001	State Group Housing
536998002	DOJ Housing Support
536998005	Substance/Alcohol Abuse Treatment Service (ADATC)
536998008	Traumatic Brain Injury
536998010	Community Based Crisis
536998011	Hospital Day Bed State Facility
536998013	DOJ Supported Employment (Non-UCR)
536998014	TCLI TYSR
536998015	TCLI CLA
536998016	TCLI Milestones
536998017	TCLI Subsidy Admin Staff (Non-UCR)

*The account listing is current as of February 2018, however it is possible that additional accounts will be added in last half of SFY18. If an account is found that is not listed above or in the UCR Account listing, please contact DMH/DD/SAS Budget and Finance at (919) 733-7013 for a description.

Federal funds allocated in Non-UCR are reimbursed on an expenditure basis as certified by the LME-MCO 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-MCO. The LME-MCO's allocation letter serves as an addendum to the LME-MCO Performance Contract between the LME-MCOs and the Division.

Suggested Audit Procedures

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1. Sample at least two Financial Status Reports (FSRs) submitted to the Division by the LME-MCO for reimbursement of Non-UCR expenditures. The following documentation should be provided by the LME-MCO to the auditor to support and/or verify amounts submitted on the FSR:
 - a. Reported expenditures as documented in the General Ledger.
 - b. Funds that have been paid by the LME-MCO before request for reimbursement is claimed on the FSR.
 - c. Support that costs claimed on the FSR are appropriate for the particular funding source from which reimbursement is requested.
2. From the list of accounts above, review allocation letters to the LME-MCOs from the Division, as well as LME-MCO's accounting records, to determine Non-UCR funds which have been allocated to the LME-MCOs from the Division.
3. From reimbursed Non-UCR expenditures, test FSR's for certification statements.
4. From the allocations identified in Step 1 above, select a sample of allocations and determine the following:
 - a. If special conditions were set forth in the "Special Conditions" section of the allocation letter, determine if the LME-MCOs complied with such conditions;
 - b. If special reporting requirements were set forth in the "Reporting" section of the allocation letter, determine if the LME-MCOs submitted the required reporting and within timeframes which may have been specified.
5. Ensure that costs reported on the sampled FSR(s) have not also been submitted to NCTracks for payment. This would apply to any FSR submitted by "regular" LME-MCO (non-single stream funded), Federal FSR from single stream funded sites and, if still reporting Mental Health Trust Fund on FSR, any FSR submitted by any LME-MCO for MHTF dollars.

Single Stream Funded LME-MCO Suggested Audit Procedures

Single Stream Funded LME-MCOs have state UCR and Non-UCR funding condensed into one fund and account (1422 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 Service (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, LME-MCOs are still required to submit an FSR and the audit procedures should follow the normal test procedures to include the following (including restrictions on the use of federal funds):

- Reported expenditure is documented in the General Ledger.
 - Funds have been paid by the LME-MCO before request for reimbursement is claimed on the FSR.
 - Costs claimed on the FSR are appropriate for the funding source from which reimbursement is requested.
6. Fund Balance Policy for Contract Affiliates:

In order for the Division to have input into the actions regarding fund balances in LME-MCOs, the following shall take place after the Certified Public Accountant's audit report is rendered and the tentative settlement report prepared:

DMH/DD/SAS CROSSCUTTING REQUIREMENTS

- (1) The fund balance set forth within the annual audit of LME-MCOs shall be verified by the Division.
- (2) To assure compliance with N.C.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 funds generated from local tax revenue 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 may recoup in an amount equal to the fund balance in excess of 15 percent. The LME-MCO shall request permission from the Division to restrict its fund balance for specific purposes.

Suggested Audit Procedures

- a. Review LME-MCO 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.
 - b. Sample LME-MCO contracts and determine if the Board-adopted fund balance policy has been accurately set forth in the individual contracts sampled.
 - c. Verify that all new restricted/reserved fund balance designations have written approval from the Division.
7. County Funding of LME-MCOs

N.C.G.S. 122C-115(d) “Duties of Counties; Appropriation and Allocation of Funds by Counties and Cities” and N.C.G.S. 122C-146 “Fee for Service” set forth certain requirements related to county funding of LME-MCO/Non-Profit/For-Profit entities. 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-MCO’s accounting records determine the following:

- a. Highest amount of county general funds, excluding county ABC revenues, budgeted by the LME-MCO to be received from each county in the catchment area (“catchment area” means the geographic part of the State served by a specific LME-MCO);
 - b. Actual amount of county general funds received by the area program, excluding county ABC revenues, from each county in the catchment area;
8. County Funding Report

LME-MCOs are required to submit a monthly report of county funds to the Division of MH/DD/SAS that is part of the LME Monthly Financial Reporting Tool. A copy of a LME Financial Reporting Tool may be obtained from the LME-MCO or by contacting the Division of Mental Health, Developmental Disabilities and Substance Abuse Services at (919) 733-7013.

Suggested Audit Procedures

- a. Secure from the LME-MCO copies of all County Funding reports submitted for the SFY being audited;

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- b. Sample at least one of the reports and determine, by a review of LME-MCO'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-MCO had funds budgeted for the line item and/or had actual expenditures in that line item.