

93.243 - 3

**SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES
PROJECTS OF REGIONAL AND NATIONAL SIGNIFICANCE**

State Project/Program: NORTH CAROLINA HEALTHY TRANSITIONS FOR YOUTH
AND YOUNG ADULTS WITH SERIOUS MENTAL
DISORDERS

**U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION**

Federal Authorization: Children's Health Act of 2000 Section 516 of the Public Health Service Act of 2000, Section 520A-J,581,582, Public Law 106-310; Public Health Service Act, Title V, Section 509,516,42 U.S.C.290bb.

State Authorization: NC General Statutes 122C; Developmental Disabilities, and Substance Abuse Act 1985

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

Agency Contact Person – Program

Petra Mozzetti
(984) 236-5066
petra.mozzetti@dhhs.nc.gov

Agency Contact Person – Financial

LaToya White
(984) 236-55355
latoya.white@dhhs.nc.gov

Address Confirmation Letters To:

SFY 2026 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: <https://www.ncdhhs.gov/about/administrative-offices/office-controller/audit-confirmation-reports> At this site, click on the link entitled "Audit Confirmation Reports (State Fiscal Year 2025-2026)". 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 Oct' 2023-2026)".

The Auditor should not consider the Supplement to be "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.

Auditors may request documentation of monitoring visits by the State Agencies.

NORTH CAROLINA HEALTHY TRANSITIONS FOR YOUTH AND YOUNG ADULTS WITH ERIOUS MENTAL DISORDERS

This State compliance supplement must be used in conjunction with the OMB 2026 Compliance Supplement which is scheduled to be issued in May 2026. The OMB supplement will include "Part 3 - Compliance Requirements," for the types that apply, and "Part 6 - Internal Control." If a federal Agency issued guidance for a specific program, this will be included in "Part 4 - Agency Program". The OMB Compliance Supplement is Section A of the State Compliance Supplement.

I. PROGRAM OBJECTIVES:

This initiative is targeted to specifically assist in addressing a comprehensive plan and service array by providing a coordinated system of outreach, assessment, and care coordination integrating youth peer partners to improve access to treatment and support services for young people from ages 16-25 who have a serious emotional disturbance or serious mental illness and to improve the behavioral and emotional functioning of the young people served.

The goals and objectives of the program are:

Goal 1: Increase the capacity of the selected communities to identify mental health symptoms in young people.

Objectives:

1. Within six months of grant start, each site implementation team will develop or adapt culturally relevant outreach materials to aid community gatekeepers in identifying young people from ages 16-25 who are demonstrating a range of mental health symptoms including symptoms associated with a psychosis including the perceptual symptoms that can precede psychosis. The gatekeepers will include school personnel at high schools and community colleges as well as staff at primary care, child welfare, juvenile justice, and other child/family/veteran serving agencies in each site.
2. In each site, project staff will make an average of two outreach contacts per week in the third and fourth quarters of the first year. In grant years 2-5, the project staff will make one outreach contact per week.
3. By the last quarter of the first year, each site implementation team will provide recommendations to the state Healthy Transitions Team on how to identify and address a need or gap for transition age youth in other communities during grant years 2-5.

Goal 2: Increase the number of young people from 16-25 years who are assessed for serious emotional disturbance or serious mental illness.

Objectives:

1. Within 4 months of grant start, each site implementation team will develop a referral protocol that details how gatekeepers can refer young people who are displaying symptoms to the site assessor/outreach clinician. Part of the referral protocol will include mapping the available behavioral health services and recovery supports.
2. Each site assessor/outreach clinician will assess or provide outreach services for 20 youth and young adults in year one and 135 youth in the remaining grant years. Outreach efforts will be made in the high schools and community colleges but any gatekeepers in the selected communities can make referrals.

NORTH CAROLINA HEALTHY TRANSITIONS FOR YOUTH AND YOUNG ADULTS WITH SERIOUS MENTAL DISORDERS

Goal 3: Increase the number of young people who are recommended for behavioral health services who attend at least one behavioral health session.

Objectives:

1. 90% of assessments and work of outreach clinicians will occur in community settings instead of outpatient behavioral health settings.
2. The Youth Peer Partners in each site will support at least 20 young people to attend at least one behavioral health service or recovery support in the first year and 150 in the remaining years of the grant. The Youth Peer Partners will support young people in connecting to a behavioral health service of their preference even when that service is of lower intensity than recommended in the assessment. Youth Peer Partners will conduct their work in communities.

Goal 4: Increase the capacity of the youth and young adults to fully participate in their own treatment and supports planning.

Objectives:

1. The Youth Peer Partner and State Youth/Young Adult Coordinator will provide a series of seven youth advocacy and leadership training courses in each site over the five years of the grant.
2. The Youth Peer Partners will facilitate the TIP (Transition to Independence) Model for 8 young people in each site in the first year and 60 youth in the remaining grant years.

Goal 5: Increase peer support for family/caregivers who are assisting their emerging adults with behavioral health symptoms navigate the developmental transition tasks and child/adult systems.

Objectives:

1. Each site's implementation team will map the potential resources to support parents within the first six months of the grant.
2. In months 6-12 of the first year of the grant, UNC-G will consult with each site's implementation team to develop a plan and a process to increase family peer support for families/caregivers supporting emerging adults with serious mental illness.

Goal 6: Increase the capacity of the selected providers in each site to assess, refer, and provide services for youth identified through outreach efforts.

Objectives:

1. The assessors on each site will receive training and consultation from North Carolina's First Episode Psychosis Technical Assistance Program, UNC-EPI-TA. This program is housed at University of North Carolina Chapel Hill and was involved in the original RAISE studies for First Episode Psychosis. The assessors will receive at least one training course by UNC-EPI-TA for each year of the grant.
2. UNC-EPI-TA will provide consultation to the selected provider's psychiatrists and therapists in treating any young people identified as clinical high risk for developing psychosis or who are experiencing a first episode psychosis. Since psychosis is a low incidence occurrence, it is difficult to predict numbers served. DMHDDSUS estimates 6 consultations across both sites for each year of the grant.

Goal 7: Sustain components of the grant that prove successful in supporting healthy transitions for emerging adults with serious mental illness and disseminate to other parts of the state.

NORTH CAROLINA HEALTHY TRANSITIONS FOR YOUTH AND YOUNG ADULTS WITH ERIOSUS MENTAL DISORDERS

Objective:

1. Develop a State Healthy Transition Team to support local implementation teams and develop a strategic plan for scaling up across the rest of the state. The first State Healthy Transitions Team meeting will be held within 3 months of the award with development of initial project plan within 5 months. Implementation data will be collected throughout the project and compiled into a Healthy Transition Development Guide (i.e., a financial and programmatic sustainability plan) for local transition planning and implementation in the final quarter of grant.

All grantees are required to comply with the NC Department of Health and Human Services and DMHDDSUS records retention schedules and policies. These include Functional Schedule for State Agencies, Records Retention and Disposition Schedule – DMH/DD/SUS Local Government Entity (APSM 10-6), Records Retention and Disposition Schedule - DMH/DD/SUS Provider Agency (APSM- 10-5) and the DHHS Records Retention and Disposition Schedule for Grants.

The records of the contractor shall be accessible for review by the staff of the North Carolina Department of Health and Human Services and the Office of the State Auditor for the purpose of monitoring services rendered, financial audits by third party payers, cost finding, and research and evaluation.

Records shall be retained for a period of three years following the submission of the final Financial Status Report or three years following the submission of a revised final Financial Status Report. Also, if any litigation, claim, negotiation, audit, disallowance action, or other action involving these funds has been started before expiration of the three-year retention period, the records must be retained until the completion of the action and resolution of all issues which arise from it, or until the end of the regular three-year period, whichever is later. The grantee shall not destroy, purge, or dispose of records related to these funds without the express written consent of DHHS-DMH/DD/SUS.

The agency must comply with any additional requirements specified in the contract or to any other performance-based measures or agreements made subsequent to the initiation of the contract including but not limited to findings requiring a plan of correction or remediation in order to bring the program into compliance.

All grantees are required to comply with the NC Department of Health and Human Services and DMHDDSUS records retention schedules and policies. These include Functional Schedule for State Agencies, Records Retention and Disposition Schedule – DMH/DD/SUS Local Government Entity (APSM 10-6), Records Retention and Disposition Schedule - DMH/DD/SUS Provider Agency (APSM- 10-5) and the DHHS Records Retention and Disposition Schedule for Grants.

The records of the contractor shall be accessible for review by the staff of the North Carolina Department of Health and Human Services and the Office of the State Auditor for the purpose of monitoring services rendered, financial audits by third party payers, cost finding, and research and evaluation.

Records shall be retained for a period of three years following the submission of the final Financial Status Report or three years following the submission of a revised final Financial Status Report. Also, if any litigation, claim, negotiation, audit, disallowance action, or other action involving these funds has been started before expiration of the three-year retention period, the records must be retained until the completion of the action and resolution of all issues which arise from it, or until the end of the regular three-year period, whichever is

NORTH CAROLINA HEALTHY TRANSITIONS FOR YOUTH AND YOUNG ADULTS WITH ERIOUS MENTAL DISORDERS

later. The grantee shall not destroy, purge, or dispose of records related to these funds without the express written consent of DHHS-DMH/DD/SUS.

The agency must comply with any additional requirements specified in the contract or to any other performance-based measures or agreements made subsequent to the initiation of the contract including but not limited to findings requiring a plan of correction or remediation in order to bring the program into compliance.

II. PROGRAM PROCEDURES:

To carry out the State's Plan for providing comprehensive community mental health services and supports to adults with a serious mental illness and to children with a serious emotional disturbance, the Division of Mental Health, Developmental Disabilities and Substance Use Services (DMHDD/SUS) was awarded a grant from Substance Abuse and Mental Health Services Administration (SAMHSA) to implement a coordinated system of outreach, assessment, and care coordination integrating youth peer partners to improve access to treatment and support services for young people ages 16-25 who have a serious emotional disturbance or serious mental illness.

NC Healthy Transitions or Youth and Young Adults with Serious Mental Illness

The program identifies the priority population as young people living in western NC to explore the best methods to provide coordinated outreach, assessment and care coordination in rural settings. The focal communities include:

- Eastern Band of Cherokee Indians (EBCI) whose tribal lands cross five counties: Jackson, Swain, Haywood, Cherokee, and Graham. Approximately 60% of the 15,200 EBCI members live in the Qualla Boundary in Swain and Jackson. Although the Qualla Boundary will be the focal point, any young people aged 16-25 with severe or emerging behavioral health symptoms eligible for Analenisgi Behavioral Health services will be eligible for grant participation.
- Henderson County due to the positive partnerships between the identified provider, Youth Villages (YV), and the local child welfare and juvenile justice systems providing an opportunity to test a rural model for coordinated care for transition age youth as North Carolina reforms its behavioral health and child welfare systems and raises its juvenile age to 18 years.

NORTH CAROLINA HEALTHY TRANSITIONS FOR YOUTH AND YOUNG ADULTS WITH ERIOUS MENTAL DISORDERS

III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements (Types) for this federal program identified by either the federal or State agency with a “Y” that are subject to the audit. The auditor must determine if the Type noted by “Y” has a direct and material effect on the federal program for the auditee. If the Type is determined to be subject to audit, the auditor must use the OMB 2026 Compliance Supplement, Part 3 and Part 4 (if an OMB supplement is issued) in addition to this State supplement to perform the audit.

If the State determines that the federal requirement does not require testing at the local level or if the State modifies the federal requirements, this is discussed in the supplement under the type of compliance requirement. Auditors are not expected to test requirements that have been noted with an “N.”

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment Real Property Management	Matching Level of Effort, Embarking	Period of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	Y	N	N	Y	N	N	Y	Y	N

A. ACTIVITIES ALLOWED OR UNALLOWED

Allowable activities under both grants are those activities that are aligned with the Program Objectives and Program Procedures under each grant program as outlined above.

1. Counseling by a qualified mental health professional with sufficient education, training, and experience, or any combination of the above to enable the staff to perform this function. All physicians, nurses, and other licensed professional care providers, including counselors, must comply with the credential requirements of their profession.
2. Assessment and Referral for appropriate services such as individual, group or family therapy for each client; educational counseling; vocational counseling and training; job development and placement; money management; nutrition education; legal counseling; stress management, workforce development as well as referrals to primary care physicians and dentists.
Peer-to-peer mutual aid programs; Resources for safe housing, jobs & Treatment
3. Outreach to students in colleges who may need additional support due to serious emotional disturbance or serious mental illness.

NORTH CAROLINA HEALTHY TRANSITIONS FOR YOUTH AND YOUNG ADULTS WITH ERIOUS MENTAL DISORDERS

Audit Objective

- Determine that expenditures were incurred for allowable activities consistent with program authority and allocation guidance

Suggested Audit Procedures

1. Obtain and review the allocation letter(s) and contracts or agreements between the auditee and the State agency and, if applicable, between the auditee and its subrecipients, to identify approved activities, restrictions, and special conditions.
2. Review approved budgets and/or spend plans, if required by the State agency or allocation letter, to determine whether planned activities align with authorized program objectives and allowable uses of funds.
3. Select a sample of expenditures or program activities and:
4. Trace the expenditures to the approved budget or spend plan, if applicable;
5. Determine whether the activities or costs support approved activities identified in the allocation letter and contract; and
6. Verify that expenditures are consistent with the approved purpose of the award.
7. Inquire of management regarding procedures in place to ensure expenditures and activities remain consistent with approved contracts, budgets, and spend plans.
8. For auditees that pass funds to subrecipients, review a sample of subrecipient budgets or spend plans, if required, and determine whether the auditee performed a review to ensure subrecipient activities were allowable under the program.

B. ALLOWABLE COSTS/COST PRINCIPLES

All grantees that expend State funds (including federal funds passed through the NC Department of Health and Human Services) are required to comply with the cost principles described in the NC Administrative Code at 09 NCAC 03M.0201. (Note: Pending the change in reference from OMB Circular A-87 to 2 CFR, Part 200 Subpart E – Cost Principles.)

Certain expenditures are considered non-allowable and are not included in the cost allocation. Fixed assets and moveable assets costing \$5,000 or more must be reported on the cost finding as assets. (Moveable assets costing less than \$5,000 may be directly expensed.)

Funds must be expended or earned in accordance with the Performance Agreement between the Division of MH/DD/SUS and the LME-MCO, including amendments via individual allocation letters.

Funds designated for substance abuse may be used for planning, establishing, maintaining, coordinating, and evaluating projects for the development of more effective prevention and treatment programs and activities to deal with substance abuse (42 U.S.C. 300x-3(a)(1) 1989 Revision).

SPECIAL CONDITIONS:

NORTH CAROLINA HEALTHY TRANSITIONS FOR YOUTH AND YOUNG ADULTS WITH ERIOSU MENTAL DISORDERS

1. The award of these funds shall not be used by a county or LME-MCO as a basis to supplant any portion of a county's commitment of local funds to the area authority or LME-MCO.
2. If these funds shall be used to support a new service for which a license and/or accreditation is required, such licensure/accreditation shall be completed prior to the delivery of services.
3. If these funds shall be used for a new service which does not have an established reimbursement rate, a new Service Objective Form must be submitted and approved by the Division before any payments are made.
4. The funds provided shall not be used to supplant Federal or non-Federal funds for services or activities which promote the purposes of the grant or funding.
5. The funds provided shall not be utilized to supplement any reimbursement for services or staff activities provided through the NC Medicaid Program.
6. The funds provided shall not be utilized to supplement any reimbursement for services or staff activities supported through the Division's payment of other Unit Cost Reimbursement (UCR) or non-UCR funds, without the prior written approval of the DMH/DD/SUS Assistant Director of Budget and Finance and the Healthy Transitions Project Administrator.
7. Funds shall be used in accordance with SAMHSA's standard funding restrictions:
 - No purchases are allowed for any one item above \$5,000 without prior written permission from DMH/DD/SUS.
 - Funds shall not be used for facility purchase, construction or renovation.
8. Funds shall be used in accordance with cost principles describing allowable and allowable expenditures for nonprofit organizations in accordance with 2 CFR 200.
9. Funds may not be used to satisfy any condition for any state, local or other funding match requirement).
10. Funds are prohibited to be used to provide individuals with treatment services in penal or correctional institutions of the State (This includes jails, prisons, adult and juvenile detention centers, juvenile training schools, holding facilities, etc.).
11. Funds are prohibited to be used towards the annual salary of any contractor or subcontractor, including LME-MCO, provider, or contractor employee, consultant, or other individual that is more than Level I of the most current US Office of Personnel Management Federal Executive Salary Schedule.
12. Funds shall not be utilized for law enforcement activities.
13. No part of any Healthy Transitions funding shall be used for publicity or propaganda purposes, for the preparation, distribution, or use of any kit, pamphlet, booklet, publication, radio, television, or video presentation designed to support or defeat legislation pending before the Congress or any State legislature, except in presentation to the Congress or any state legislative body itself.

E. ELIGIBILITY

- Serve resident of Henderson County North Carolina or the Qualla Boundary

NORTH CAROLINA HEALTHY TRANSITIONS FOR YOUTH AND YOUNG ADULTS WITH ERIOUS MENTAL DISORDERS

(Jackson, Swain, Haywood, Cherokee, and Graham).

- Serve youth and young adults 16-25 years old who have a serious emotional disturbance or serious mental illness.

H. PERIOD OF PERFORMANCE

Requirement

Funds awarded may be used only for allowable costs and activities incurred during the approved period of performance specified in the allocation letter or contract.

The period of performance varies by contract or allocation. Costs are considered incurred when the underlying goods or services are received and the related obligation is recorded, in accordance with applicable accounting policies.

Expenditures may not be charged to the program if they:

1. Are incurred before the start date or after the end date of the approved funding period.
2. Relate to obligations or activities outside the scope of the approved period.
3. Represent advance payments or prepayments for services to be performed outside the approved period of performance; or
4. Are otherwise inconsistent with the timing requirements specified in the allocation letter or contract.
5. If allocation letters or contracts allow for carryforward, extensions, or adjustments to the period of performance, such changes must be formally approved in writing by the State agency.

Audit Objective

- Verify all costs charged to the program fall within the allowed period.

Suggested Audit Procedures

1. Obtain and review the allocation letter(s) and contracts or agreements to identify the approved period of performance for the program.
2. Select a sample of expenditures charged to the program and:
3. Verify that the expenditure dates fall within the approved period of performance; and
4. Determine that the underlying goods or services were received during the approved funding period.
5. Review supporting documentation (e.g., invoices, payroll records, service delivery documentation) to confirm that costs were incurred within the approved period.
6. Inquire of management whether any extensions, carryforwards, or modifications to the period of performance were granted and, if so, review written approval from the State agency.
7. For reimbursement-based funding, determine whether expenditures submitted for reimbursement were incurred during the approved period prior to reimbursement.

NORTH CAROLINA HEALTHY TRANSITIONS FOR YOUTH AND YOUNG ADULTS WITH ERIOUS MENTAL DISORDERS

8. For auditees that pass funds to subrecipients, review a sample of subrecipient expenditures to determine whether the auditee performed procedures to ensure subrecipient costs were incurred within the approved period of performance.

L. REPORTING

Financial Reports:

For federal funds allocated outside of UCR, approved expenditures shall be reported through the routine submission of monthly Financial Status Reports (FSRs). Any exceptions to the required timely reporting of federal funds expended shall be approved in writing by the DMH/DD/SUS Assistant Director of Budget and Finance and the Healthy Transitions Project Administrator.

Grantees must provide monthly and final Financial Status Reports (FSRs).

The DHHS Controller's Office is responsible for submitting a SF-425 Financial Status Report to the Federal Grants Management Officer for documentation of federal funds expended according to the DHHS Cash Management Policy

Program Reports:

Healthy Transitions grantees must provide bi-annual reports and. The final progress report must summarize information from the bi-annual reports, describe the accomplishments of the project, and describe next steps for implementing plans developed during the grant period.

Session Law 2015-241 Reporting Requirements

In accordance with Session Law 2015-241, the following requirements apply to DMH/DD/SUS subrecipient grantees) which contract directly with DMH/DD/SUS:

No later than December 1 of each fiscal year, each nonprofit organization receiving funding shall submit their DMH/DD/SUS contract administrator to include the following information about the fiscal year preceding the year in which the report is due:

- a) The entity's mission, purpose, and governance structure.
- b) A description of the type of programs, services, and activities funded by State appropriations.
- c) Statistical and demographical information on the number of persons served by these programs, services, and activities, including the counties in which services are provided.
- d) Outcome measures that demonstrate the impact and effectiveness of the programs, services, and activities.
- e) A detailed program budget and list of expenditures, including all positions funded, matching expenditures, and funding sources.

M. SUBRECIPIENT MONITORING

Requirement:

The subrecipient must monitor any sub-subrecipients receiving funding to ensure compliance with program requirements, proper use of funds, and accurate reporting.

NORTH CAROLINA HEALTHY TRANSITIONS FOR YOUTH AND YOUNG ADULTS WITH ERIOUS MENTAL DISORDERS

Documentation of monitoring activities must be maintained in accordance with 2 CFR 200.331(d) and program policies.

Audit Objective

Determine whether the subrecipient:

- Properly identifies all sub-subrecipients receiving program funds.
- Monitors the sub-subrecipients to ensure compliance with program requirements, including financial and programmatic reporting.
- Maintains adequate documentation of monitoring activities, findings, and any corrective actions.

Suggested Audit Procedures

1. Obtain a list of all sub-subrecipients funded by the organization during the audit period and verify completeness.
2. Review funding agreements or contracts with sub-subrecipients to ensure they:
 - Specify award amount, period of performance, and allowable activities.
 - Include required certifications or attestations of compliance with program requirements.
3. Inspect budgets, spend plans, and financial reports submitted by sub-subrecipients to ensure proper tracking of allocated funds.
4. Examine monitoring documentation maintained by the subrecipient, including:
 - Site visit reports or desk review notes.
 - Correspondence documenting follow-up on compliance findings or corrective actions.
 - Evidence that monitoring activities are performed regularly in accordance with policy.
5. Cross-check sub-subrecipient expenditures against the subrecipient's reimbursement requests to verify that all disbursements are properly supported and accounted for.
6. Confirm retention of monitoring records in accordance with program and record retention requirements.