

93.667-9

SOCIAL SERVICES BLOCK GRANT

**State Project/Program MENTAL HEALTH, INTELLECTUAL AND DEVELOPMENTAL
DISABILITIES, AND SUBSTANCE USE SERVICES**

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Authorization: Social Security Act, Title XX, as amended; Omnibus Budget Reconciliation Act of 1981, as amended, Public Law 97-35; Jobs Training Bill, Public Law 98-8; Public Law 98-473; Medicaid and Medicare Patient and Program Act of 1987; Omnibus Budget Reconciliation Act of 1987, Public Law 100-203; Family Support Act of 1998, Public Law 100-485; Omnibus Budget Reconciliation Act of 1993, Public Law 103-66; 42 U.S.C. 1397 et seq.

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

Tina L. Barrett
(984) 236-5044
Tina.l.barrett@dhhs.nc.gov

Agency Contact Person – Financial

Latoya White
984-236-5355
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)”.
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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.

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

This compliance supplement must be used in conjunction with the OMB 2026 Compliance Supplement which will be issued in the summer. This includes "Part 3 - Compliance Requirements," for the types that apply, "Part 6 - Internal Control," and "Part 4 - Agency Program" requirements if the Agency issued guidance for a specific program. The OMB Compliance Supplement is Section A of the State Compliance Supplement.

I. PROGRAM OBJECTIVES

These funds are designed to serve children and adults with Intellectual and/or Developmental Disabilities (I/DD) who are eligible for community-based services. It provides funding for a wide variety of community-based services for children and adults meeting the NC DMH/DD/SUS I/DD Benefit Plan detailed in the NC Division of Mental Health, Developmental Disabilities and Substance Use Services DMH/DD/SUS FY22 Benefit Plan Eligibility Criteria, which can be found at

<https://www.ncdhhs.gov/media/12987/open>

Additionally, individuals must meet the medical necessity criteria for the requested State-funded service.

Easter Seals United Cerebral Palsy (UCP) of NC and VA Services

This program provides support and services to children and adults with intellectual and developmental disabilities and/or mental health and/or substance use disorder. Program work shall include targeted advocacy, support, education, or residential services for persons diagnosed with autism, intellectual and developmental disabilities or severe and persistent mental illness, substance abusers, or the elderly. Programs promoting wellness, physical activity, and health education programming for North Carolinians. These requirements apply to special legislative appropriation through the Division.

Autism Society of North Carolina, Inc.

This program provides advocacy and services to individuals diagnosed with Autism Spectrum Disorder (ASD) and their families. ASD is a developmental disorder of varying severity that is characterized by difficulties in social interaction, communication, and behavior challenges. Services include recreation, advocacy, development, vocational support, education and training, information and referral, and parent support in local communities throughout the State.

This program also provides increased opportunities for early intervention with young children diagnosed with autism, including intensive instructional programming, off-site consultation with families, parent meetings, education/training opportunities and scholarships to the respective early intervention programs.

The ARC of North Carolina

The program provides outreach, consultation, technical assistance, information, education, and/or referral services to individuals, families, schools, agencies, and organizations related to guardianship, alternatives to guardianship, including supported decision-making, advance directives, and/or restoration of rights. Training conferences and workshops, panel participation, and presentations/speaking engagements on options, restoration of rights or alternatives to guardianship including Supported Decision Making shall be continued and provided to several groups and agencies.

INTELLECTUAL AND DEVELOPMENTAL DISABILITIES SERVICES

All grantees are required to comply with the NC Department of Health and Human Services and DMH/DD/SUS 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 to bring the program into compliance.

II. PROGRAM PROCEDURES

I/DD Services

Child and adult, I/DD Service funds are allocated to Local Management Entity-Managed Care Organizations (LME/MCO). Each LME/MCO receives some funding; the amount per LME/MCO is based on per capita and historical earnings. The LME/MCO, based on the needs of children and adults in their catchment area, plans and implements a variety of services. The services are delivered through a reimbursement process, whereby the individual/family receives from a community provider, the services of the type and intensity specified in the individuals person-centered plan, and the community provider is then reimbursed by the LME/MCO.

The Social Services Block Grant (SSBG) funds are allocated to LME/MCOs through single stream funding.

Easter Seals UCP of NC and VA Services

Easter Seals UCP of NC and VA is a not-for-profit, statewide agency, serving children and adults with intellectual and/or developmental disabilities, mental health and substance use disorders. Funds are appropriated by the N. C. General Assembly and disbursed in accordance with North Carolina's Competitive Grant Program for State-wide Health and Human Services Initiatives via a contract between the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services and ESUCP for the services specified in the contract. The Division will reimburse monthly for allowable expenditures when the report of expenditures is received.

INTELLECTUAL AND DEVELOPMENTAL DISABILITIES SERVICES

Evaluation and monitoring include review of monthly Financial Status Reports (FSRs), quarterly progress reports, and an on-site or desk review to make sure activities and cost are in accordance with the executed contract, reporting is adequate, eligibility is appropriate and special test and provisions are met as needed.

Autism Society of North Carolina, Inc.

Autism Society of NC is a non-profit organization. Funds are appropriated by the N. C. General Assembly and disbursed in accordance with North Carolina's Competitive Grant Program for State-wide Health and Human Services Initiatives via a contract between the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services and the Autism Society of North Carolina, Inc. The Division will reimburse monthly for allowable expenditures when the required report detailing expenditures is received by the contract administrator.

Evaluation and monitoring include review of monthly FSRs, quarterly progress reports, and an on-site or desk review to make sure activities and cost are within the scope of the executed contract, reporting is adequate, eligibility is appropriate and special test and provisions are met as needed.

The Arc of North Carolina

The Arc of NC is a non-profit organization. Funds are appropriated by the N. C. General Assembly and disbursed in accordance with North Carolina's Competitive Grant Program for State-wide Health and Human Services Initiatives via a contract between the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services and The Arc of North Carolina for the services specified in the contract. The Division will reimburse monthly for allowable expenditures when the report detailing expenditures is received by the contract administrator.

Evaluation and monitoring include review of monthly FSRs, quarterly progress reports, and an on-site or desk review to make sure activities and cost are within the scope of the executed contract, reporting is adequate, eligibility is appropriate and special test and provisions are met as needed.

III. COMPLIANCE REQUIREMENTS

If the Matrix indicates “Y,” the auditor must determine if a particular type of compliance requirement has a direct and material effect on the federal program for the auditee. For each such compliance requirement subject to the audit, the auditor must use the OMB 2026 Compliance Supplement, Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and Part 4 (which includes any program-specific requirements) to perform the audit.

If there is no program listed on the “Matrix” in Part 2 or Part 4, the State has determined the Type that is applicable. If a Type is determined direct and material, the auditor should refer to the requirements found in Part 3 and listed in this supplement.

CC	A	B	C	E	F	G	H	I	J	L	M	N
Cross Cutting Requirements	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	Y	Y	N	N	N	Y	N	N	Y	Y	N

Crosscutting Requirements

The compliance requirements in the Division of Mental Health “Crosscutting Requirements” in Section D (Supplement #DMH-0) are applicable to this grant.

A. ACTIVITIES ALLOWED OR UNALLOWED

Funds may be used for activities included in North Carolina’s SSBG State Plan and in accordance with the State Plan.

NOTE: For a copy of the SSBG plan, please contact the NC DHHS-Division of Social Services (DSS) at (919) 733-9467.

I/DD Services

Individuals accessing SSBG funds for services must meet the medical necessity criteria for the specific service they are being referred to. The medical necessity criteria for State-funded services can be found at <http://www.ncdhhs.gov/divisions/mhddsas/servicedefinitions>.

Easter Seals - United Cerebral Palsy (UCP) Services

Allowable services include the following:

- a. Developmental Support
- b. Supported Employment
- c. Residential Living Services
- d. Autism Services
- e. Care Coordination in Outpatient Services and ACT
- f. Health & Wellness through Integrated Health

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g. Durable Medical Equipment/Assistive Technology/Smart Technology

Attendance records must be maintained for all services, and activity logs or service notes must be kept for all services provided.

Autism Society of North Carolina, Inc.

- a. Advocacy/Family to Family Peer Support
- b. Outreach, Training and Public Education
- c. Direct Service

The Arc of North Carolina

- a. Provide Guardianship Services
- b. Advocacy and Monitoring
- c. Training on Guardianship, Restoration of Rights and Alternatives to Guardianship
- d. Training and Education on Supported Decision Making

Unallowable Costs: SSBG funds may not be used for:

- a. Except as provided in III.A.4 and 5, above, purchase or improvement of land, or the purchase, construction, or permanent improvement (other than minor remodeling) of any facility (unless the restriction is waived by ACF) (42 USC 1397d(a)(1)).
- b. Cash payments for costs of subsistence or for the provision of room and board (other than costs of subsistence during rehabilitation, room and board provided for a short term as an integral but subordinate part of a social service, or temporary shelter provided as a protective service) (42 USC 1397d(a)(2)).
- c. Wages of any individual as a social service (other than payment of wages of Temporary Assistance for Needy Families (TANF) (CFDA 93.558) recipients employed in the provision of child day care services) (42 USC 1397d(a)(3)).
- d. Medical care (other than family planning services, rehabilitation services, or initial detoxification of an alcoholic or drug-dependent individual) unless it is an integral but subordinate part of an allowable social service under SSBG (unless the restriction is waived by ACF) (42 USC 1397d(a)(4)).
- e. Social services (except services to an alcoholic or drug-dependent individual or rehabilitation services) provided in and by employees of any hospital, skilled nursing facility, intermediate care facility, or prison, to any individual living in such institution (42 USC 1397d(a)(5)).
- f. The provision of any educational service that the State makes generally available to its residents without cost and without regard to their income (42 USC 1397d(a)(6)).
- g. Any child day care services unless such services meet applicable standards of State and local law (42 USC 1397d(a)(7)).
- h. The provision of cash payments as a service (this limitation does not apply to payments to individuals with respect to training or attendance at conferences or workshops) (42 USC 1397d(a)(8)).
- i. Any item or service (other than an emergency item of service) furnished by an entity, physician, or other individual during the period of exclusion from reimbursement by various provisions of Federal regulations (42 USC 1397d(a)(9)).

Audit Objective

- Determine that expenditures were incurred for allowable activities consistent with legislative 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 N. C. Department of Health and Human services) are required to comply with the cost principles described in the N. C. Administrative Code at 09 NCAC 03M .0201 and 2 CFR, Part 200 Subpart E – Cost Principles).

Audit Objective

- Determine that costs charged to the program are reasonable, necessary, and allowable under federal cost principles and allocation restrictions.

Suggested Audit Procedures

1. Test a sample of expenditures for allowability, allocability, and reasonableness.
2. Review supporting documentation for selected costs.
3. Determine whether costs comply with allocation letter and contract restrictions.

C. CASH MANAGEMENT

Requirement

1. Funds are disbursed on a reimbursement basis, except as otherwise approved in writing by DMH.
2. Payments must be requested only after costs are incurred.
3. Subrecipients must submit proper supporting documentation to receive reimbursement.

Audit Objective

- Ensure subrecipients request reimbursement only for expenditures actually incurred and appropriately documented.

Suggested Audit Procedures

1. Trace reimbursement requests to supporting invoices and payroll.
2. Verify expenditures were properly approved before reimbursement.
3. Inspect FSRs submitted to DMH for accuracy and timeliness.
4. Confirm that no advance payments were made without proper authorization.

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 allocation and contract. 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:

- Are incurred before the start date or after the end date of the approved funding period;
- Relate to obligations or activities outside the scope of the approved period;
- Represent advance payments or prepayments for services to be performed outside the approved period of performance; or
- Are otherwise inconsistent with the timing requirements specified in the allocation letter or contract.
- 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.
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

LME/MCOs are required to submit units of service during the quarterly reporting of quality measurements and meet funding requirements which include targeting dollars to clients or services at a level of specificity per the NC Tracks covered services chart. LME/MCOs that receive these funds are required to submit additional reports to meet the special requirements as stated in the Special Reporting Requirements section of an allocation letter.

Contract Reporting

The Contractor provides Quarterly Progress Reports on the status and progress of activities and services. Monthly FSRs of expenditure are also provided.

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. 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:
 - a. Specify award amount, period of performance, and allowable activities.
 - b. 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:
 - a. Site visit reports or desk review notes.
 - b. Correspondence documenting follow-up on compliance findings or corrective actions.

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- c. 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.