

93.958 BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES (MHBG)

State Project/Program: COMMUNITY MENTAL HEALTH SERVICES BLOCK GRANT

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Authorization: Public Health Service Act, Title XIX, Part B, Subpart I and III, as amended,
P.L. 102-321; 42 USC 300X

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

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

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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.

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.

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I. PROGRAM OBJECTIVES

The Community Mental Health Services Block Grant (MHBG) program's objective is to support the grantees in carrying out plans for providing comprehensive community mental health services. Targeted Populations are adults with serious mental illnesses and children with serious emotional disturbances.

Adults with serious mental illnesses include persons ages 18 and older who have a diagnosable behavioral, mental, or emotional condition—as defined by the Psychiatric Association's Diagnostic and Statistical Manual (DSM) of Mental Disorders. Their condition substantially interferes with, or limits, one or more major life activities, such as:

Basic daily living (for example, eating or dressing)

Instrumental living (for example, taking prescribed medications or getting around the community)

Participating in a family, school, or workplace

Children with serious emotional disturbances include persons up to age 18 who have a diagnosable behavioral, mental, or emotional issue (as defined by the DSM). This condition results in a functional impairment that substantially interferes with, or limits, a child's role or functioning in family, school, or community activities.

SAMHSA's definitions of children with serious emotional disturbances and adults with serious mental illness were provided in a 1993 Federal Register notice (May 20, 1993; 58 FR 29422).

SAMHSA's Center for Mental Health Services' (CMHS) Division of State and Community Systems Development (DSCSD) administers MHBG funds. With prior approval from DMHDDSUS, Grantees can be flexible in the use of funds for both new and unique programs or to supplement their current activities.

Required Set Asides

First Episode Psychosis (FEP)

Early Serious Mental Illness including First Episode Psychosis (ESMI/FEP)

SAMHSA mandates a 10% set aside of all MHBG funding to support Early Serious Mental Illness (ESMI)/First Episode of Psychosis (FEP). Individuals experiencing a first onset of serious mental illness which can include a first episode of psychosis may manifest as symptoms that include problems in perception, thinking, mood and social functioning. An individual may be early in the course of a psychotic illness or treatment irrespective of being in the midst of a first 'episode' of illness. The mandated 10% set-aside for persons with first episode psychosis (FEP) Funding may only be used for evidence-based programs. The DMHDDSUS has selected Coordinated Specialty Care Teams, a model recognized by SAMHSA as evidence-based and components within CSC teams demonstrating positive effect, including peer and family support, individual placement services (IPS) as examples. Program objectives include:

1. To provide early intervention and treatment to clients ages 15-30 who are experiencing their first onset of psychosis.
2. To provide assertive outreach to promote early engagement in treatment and intervention.
3. To provide integrated medical/psychosocial care focused not only on symptomatic recovery but also on social and functional recovery.

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4. To provide community education about early episode psychosis, including identification and referral, to community providers and stakeholders

5% Set-Aside: Crisis Services:

The MHBG 5% set aside refers to a designated portion of the MHBG allocated to support and evidence-based crisis system. This is set aside, intended to enhance evidence-based crisis systems and ensure that funds are utilized for early intervention and prevention programs. The 5% is specifically allocated to support services that address the needs of individuals experiencing serious mental illness, including first episodes of psychosis, and aims to improve access to comprehensive mental health care.

All grantees are required to comply with the NC DHHS/DMHDDSUS records retention schedules and policies. Financial records shall be maintained in accordance with established federal and state guidelines.

The records of the contractor shall be accessible for review by the staff of the NCDHHS and the N. C. 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 (FSR) or three years following the submission of a revised final FSR. In addition, 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 NC 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.

There shall be evidence of LME/MCO support for the promotion, provider training, implementation and monitoring of evidence-based treatment services for adults.

There shall be evidence of LME/MCO support for the promotion, provider training, implementation and monitoring of evidence-based treatment services for children and adolescents.

The LME/MCO and providers have in effect systems to protect from inappropriate disclosure patient records maintained by the LME/MCO and the provider in connection with an activity funded under the program involved or by any entity, which is receiving amounts from the grant and for SA under 42 CFR Part 2.

II. PROGRAM PROCEDURES

The funds are allocated to LME/MCOs on a continuing basis based on the approved MHBG State Plan that specifies the expected distribution of funds to LME/MCOs. Funds must be expended or earned in accordance with the Performance Contract, including amendments via individual allocation letters. NCTracks, which replaced the Integrated Payment and Reporting System (IPRS) as of July 1, 2013, is used to ensure that eligible adults with serious mental illness and children with serious emotional disturbance are the recipients of services supported by MHBG and State funds. The State uses no more than 5% of the grant for administrative costs (this is a State-level requirement and not required

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to be monitored at the local level). The State also contracts with a small number of non-profit organizations to carry out activities including evaluating programs and services carried out under the plan, and planning, administration and education activities related to providing services under the MHBG State Plan.

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.”

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
N	Y	Y	Y	N	N	Y	Y	N	N	Y	Y	N

A. ACTIVITIES ALLOWED OR UNALLOWED

ALLOWABLE ACTIVITIES:

1. Services provided with MHBG funds shall be provided only through appropriate, qualified community programs in coordination with LME/MCO’s (which may include community mental providers, behavioral health centers, child mental health programs, psychosocial rehabilitation programs, mental health peer and family partner support programs and mental health family driven, youth, consumer-directed programs). Services under the plan will be provided through community mental/behavioral health centers only if the services are provided as follows:
 - a. Services principally to individuals residing in a defined geographic area (service area);
 - b. Outpatient services, including specialized outpatient services for children, the elderly, individuals with serious mental illness, and residents of the LME/MCO catchment areas who have been discharged from inpatient treatment at a mental health facility.
 - c. 24-hours-a-day emergency care services.
 - d. Day treatment and other partial hospitalization services or psychosocial rehabilitation services; or

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- e. Screening for patients being considered for admission to State mental health facilities to determine the appropriateness of such admission (42 USC 300x-2(b) and (c)).

The activities of this grant are consistent with the State Plan and are specified in the contract (see program procedures section above). These activities include evaluating the programs and services delivered under these contracts, and educational/training activities related to providing services under the MHBG State Plan.

FEP services include assertive engagement, case management, individual and family psychoeducation and therapy, medication management, crisis intervention, supportive employment and education and peer support, community outreach and education, clinical consultation, technical assistance, database development and management and fidelity monitoring.

UNALLOWABLE ACTIVITIES: The funds for services or assistance allocated or under contract are not used to: (1) Provide inpatient hospital services. The Division ensures compliance with inpatient service prohibition by not reimbursing inpatient service with MHBG funds through NCTracks; (2) Make cash payments to intended recipients of health services; (3) Purchase or improve land, purchase, construct or permanently improve (other than minor remodeling) any building or other facility, or purchase major medical equipment – unless the State has obtained a waiver from the Secretary of HHS; (4) Satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funds; (5) Provide financial assistance to any entity other than a public or non-profit entity.

Audit Objective

- Determine that expenditures were incurred for allowable activities consistent with program 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.

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B. ALLOWABLE COSTS/COST PRINCIPLES

All grantees that expend State funds (including federal funds passed through NCDHHS 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.)

Restrictions on LME/MCO, Provider, and Contractor Use of MHBG Funds

MHBG funds are prohibited from being used towards the annual salary of any LME/MCO, provider, or contractor employee, consultant, or other individual that is in excess of Level I of the most current federal Executive Salary Schedule. This amount is designated for calendar year 2025 at an annual salary of \$235,600.

Assurances on LME/MCO, Provider, and Contractor Use of MHBG Funds

1. Funds are used to provide services to adults with Serious Mental Illness (SMI) and children with Severe Emotional Disturbance (SED).
2. Funds are used to provide for a system of integrated services appropriate for the multiple needs of children without expending the grant for any services other than comprehensive community based mental health services. Examples of integrated services include:
 - Social services.
 - Educational services, including services provided under the Individuals with Disabilities Education Act.
 - Juvenile Justice services.
 - Substance Use services; and
 - Health and mental health services.
3. Funds are used to provide access to services to underserved mental health populations including homeless persons, rural populations, older adults, children and youth with co-occurring disorders, and adolescents transitioning into adulthood.
4. FEP services are directed to individuals ages 15-30 who have experienced their first onset episode of psychosis through evidence-based treatment by Coordinated Specialty Care Teams.

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.

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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.

G. MATCHING, LEVEL OF EFFORT, EARMARKING

Matching

This requirement does not apply at the local level.

Level of Effort

Level of Effort must be maintained since regulations require that MHBG funds shall be used to supplement and increase the level of State, local and other non-federal funds and shall, in no event, supplant such State, local and other non-federal funds. If MHBG funds are reduced, the Local Management Entity/Managed Care Organization may reduce its participation in a proportionate manner. Maintenance of Effort is determined at the State level.

Earmarking

Not applicable at the local level. No testing is required.

H. PERIOD OF PERFORMANCE

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.

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.

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- 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

1. For funds allocated through UCR, LME/MCO report services delivered to eligible adult and child mental health clients through Unit Cost Reimbursement (UCR) will report via NCTracks effective July 1, 2013 as amended.
2. For funds allocated as non-UCR funds, any applicable reporting requirements will be set forth in specific allocation letters to Local Management Entities/Managed Care Organizations (LME/MCO).

For Contract Reporting:

Financial Status Reports (FSR) will be submitted by the 10th of the month unless otherwise specified. Quarterly reports on the deliverables in the contract are also required.

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.
 - 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.