
ARPA TEMPORARY SAVINGS FUND – BEHAVIORAL HEALTH SERVICES

State Authorization: S.L. 2023-7 §1.3; S.L. 2023-134 §4.9

**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.

I. PROGRAM OBJECTIVES

Child Behavioral Health

The objective of the ARPA Temporary Savings Fund – Child Behavioral Health Services program is to expand access to community-based child behavioral health services throughout North Carolina. Funds are intended to support the implementation and expansion of approved evidence-based practices and related activities that improve behavioral health outcomes for children, in accordance with applicable State law, regulations, and allocation-specific requirements.

Justice

The objective of the ARPA Temporary Savings Fund – Justice related Community based program is to support pre-arrest diversion, reentry programs and to fund local partnerships between law enforcement, counties, and behavioral health providers throughout North Carolina. Additionally, ARPA Temporary Savings Fund for Justice related Community-based programs support Community-based and detention center-based restoration programs across North Carolina.

Crisis Systems Improvement

The objective of the ARPA Temporary Savings Fund - Crisis Systems Improvement component is to support the development of new mobile crisis teams. Additionally, this component includes the development of crisis and respite facilities throughout North Carolina.

BH Scan

The objective of the ARPA Temporary Savings Fund – BH Scan component is to expand the Behavioral Health Statewide Central Availability Navigator (BH SCAN) centralized bed registry across the state of North Carolina.

NLET (Non-law Enforcement)

The objective of the ARPA Temporary Savings Fund – NLET component is to support a pilot program for transporting voluntary and involuntary psychiatric admissions. Non-law enforcement will transport individuals from hospital emergency departments and behavioral health urgent care facilities to the inpatient facility where a bed has been located.

Workforce Development

The objective of the ARPA Temporary Savings Fund - Workforce Development component is to establish workforce training centers that would provide no-cost training to public-sector behavioral health providers, and to administer grants to community colleges to enhance behavioral health workforce training programs.

Collaborative Care

The objective of the ARPA Temporary Savings Fund - Collaborative Care component is to pay start-up costs for primary care practices to adopt the Collaborative Care model. The Collaborative Care component supports Psychiatric Collaborative Care Management (CoCM) capacity building model.

II. PROGRAM PROCEDURES

Overview

The ARPA Temporary Savings Fund is established as a non-reverting special fund within the North Carolina Department of Health and Human Services (DHHS). Funds are derived from savings realized by the State due to the enhanced Federal Medical Assistance Percentage (FMAP) authorized under the American Rescue Plan Act of 2021 and are appropriated by the North Carolina General Assembly for designated purposes.

(a) How the Grant Is Acquired by the State

The State of North Carolina acquires funds for this program through federal receipts associated with the enhanced FMAP under Section 9814 of the American Rescue Plan Act of 2021. Savings realized by the Division of Health Benefits are deposited into the ARPA Temporary Savings Fund and may be allocated or expended only pursuant to an act of appropriation by the General Assembly.

(b) Components of the Grant

This program is funded entirely with State funds appropriated from the ARPA Temporary Savings Fund. No local matching funds are required unless otherwise specified in an allocation letter.

(c) How a Subrecipient Acquires the Grant

DHHS, through the Division of Mental Health, Developmental Disabilities, and Substance Use Services (DMH), allocates funds to eligible recipients, including Managed Care Organizations (MCOs). Recipients may enter into agreements with subrecipients to carry out approved activities in accordance with allocation letters.

(d) Application Process

Recipients are selected through processes determined by DHHS, which may include targeted allocations, legislative direction, or application-based processes. The specific selection and approval process is communicated by DMH.

(e) Forms Used in the Application Process

Application materials, if required, may include funding requests, budgets, or implementation plans as specified by DMH. Forms and instructions are provided directly by DMH to eligible recipients.

(f) Attestations Required of the Subrecipient

As part of the award process, recipients and subrecipients may be required to attest that funds will be used in accordance with State law, allocation letter requirements, and applicable cost principles.

(g) Transfer of Funds to Subrecipients

Funds are disbursed to recipients and subrecipients on a reimbursement basis. Expenditures are reported through required financial reporting mechanisms, and payments are made based on approved expenditures.

(h) Communication of Program Requirements

Program requirements are communicated to recipients and subrecipients through allocation letters, contractual agreements, and related guidance issued by DMH.

(i) General Description of Allowable Uses and Major Restrictions

1. Community-based child behavioral health services grant funds are intended to support community-based child behavioral health services and the implementation of approved evidence-based practices. Major restrictions include prohibitions on supplanting local funds, duplicating Medicaid reimbursements, and using funds outside the approved period of performance.

2. Justice related community grant funds are intended to support pre-arrest diversion, reentry programs and to fund local partnerships between law enforcement, counties, and behavioral health providers. Major restrictions include prohibitions on supplanting local funds, duplicating Medicaid reimbursements, and using funds outside the approved period of performance.

3. Crisis Systems Improvement grant funds are intended to support the development of new mobile crisis teams and the development of crisis and respite facilities throughout North Carolina. Major restrictions include prohibitions on supplanting local funds, duplicating Medicaid reimbursements, and using funds outside the approved period of performance.

4. BH Scan grant funds are intended to support Behavioral Health Statewide Central Availability Navigator (BH SCAN) centralized bed registry across the state of North Carolina. Major restrictions include prohibitions on supplanting local funds, duplicating Medicaid reimbursements, and using funds outside the approved period of performance.

5. NLET grant funds are intended to support a pilot program for transporting voluntary and involuntary psychiatric admissions. Major restrictions include

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prohibitions on supplanting local funds, duplicating Medicaid reimbursements, and using funds outside the approved period of performance.

4. Workforce Development grant funds are intended to support workforce training centers that would provide no-cost training to public-sector behavioral health providers, and to administer grants to community colleges to enhance behavioral health workforce training programs. Major restrictions include prohibitions on supplanting local funds, duplicating Medicaid reimbursements, and using funds outside the approved period of performance.

5. Collaborative Care component is to pay start-up costs for primary care practices to adopt the Collaborative Care model. Major restrictions include prohibitions on supplanting local funds, duplicating Medicaid reimbursements, and using funds outside the approved period of performance.

(j) State Agency Monitoring

DMH conducts general oversight of the program, which may include review of financial and programmatic reports and follow-up on underutilization or noncompliance. Detailed monitoring requirements applicable to recipients and subrecipients are addressed in Section III, Compliance Requirements.

(k) Policies and Procedures Manuals

Recipients and subrecipients may reference allocation letters, DHHS policies, and applicable financial and reporting guidance issued by DMH. These materials are provided directly by the State agency.

(l) Definitions of Acronyms

ARPA – American Rescue Plan Act of 2021

DHHS – North Carolina Department of Health and Human Services

DMH – Division of Mental Health, Developmental Disabilities, and Substance Use Services

MCO – Managed Care Organization

III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements identified by the State Agency, noted by “Y” that are that are subject to the audit for the State program. The auditor must determine if the Type noted by “Y” has a direct and material effect on the State program for the auditee.

1	2	3	4	5	6	7	8	9	10	12	13	14
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Conflict of Interest	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	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	N	Y	N

1. ACTIVITIES ALLOWED OR UNALLOWED

Requirement

Funds awarded under the ARPA Temporary Savings Fund may be used only for activities authorized by Session Law 2023-7, Section 1.3, Session Law 2023-134, Section 4.9, and the specific terms and conditions contained in allocation letters issued by the Division of Mental Health, Developmental Disabilities, and Substance Use Services (DMH).

Allowable activities are limited to services and supports identified in allocation letters and contracts. Activities must directly support the program objectives and be carried out within the approved period of performance.

Funds may not be used for:

- Activities that are not community-based;
- Activities not identified or approved in the allocation letter;
- Supplanting local or county funding commitments.
- Activities that duplicate or replace services reimbursed through the NC Medicaid Program; or
- Any activity prohibited by State law, regulation, or allocation-specific terms.

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 with 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.

2. ALLOWABLE COSTS/COST PRINCIPLES

Requirement

Costs charged to the ARPA Temporary Savings Fund must be allowable, allocable, reasonable, and adequately documented, in accordance with:

- Session Law 2023-134, Section 4.9(e) (administrative cost limitations);
- Applicable cost limitations specified in allocation letters; and
- 2 CFR Part 200, Subpart E (Cost Principles), as applicable.

Allowable costs may include personnel, training, equipment, technology, and other direct costs necessary to carry out approved activities, as specified in the allocation letter.

Administrative costs charged to the program may not exceed the lesser of five percent (5%) of the amount allocated for a designated purpose or one million dollars (\$1,000,000). Allocation letters or contracts may impose more restrictive administrative cost caps, which must be followed.

Unallowable costs include, but are not limited to:

- Costs incurred outside the approved period of performance.
- Costs that exceed administrative cost limitations.
- Costs used to supplement or replace Medicaid reimbursement; and
- Costs not supported by adequate documentation.

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. Verify compliance with administrative cost limitations.
3. Review supporting documentation for selected costs.
4. Determine whether costs comply with allocation letter and contract restrictions.

3. 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 support 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 and documentation.

4. Conflict of Interest

Requirement

Recipients and subrecipients must maintain written conflict of interest policies governing the performance of employees, officers, and agents engaged in the selection, award, and administration of contracts supported by ARPA Temporary Savings Fund resources.

Conflicts of interest must be disclosed and managed in accordance with:

- 2 CFR Part 200.318(c)(1) (standards of conduct);
- Applicable State laws and regulations; and
- Conflict of interest provisions included in allocation letters or contracts, if applicable.

No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by these funds if a real or apparent conflict of interest exists.

Audit Objective

- Determine that subrecipients disclosed conflicts and took actions to mitigate them.

Suggested Audit Procedures

1. Obtain and review the auditee’s written conflict of interest policy to determine whether it addresses conflicts related to the administration of State-funded awards.
2. Inquire of management whether any actual or potential conflicts of interest related to the program were identified during the audit period.
3. Review a sample of procurement transactions or contract approvals related to the program to determine whether required conflict of interest disclosures were obtained, if applicable.
4. Review documentation of any identified conflicts to determine whether they were properly disclosed and resolved in accordance with the auditee’s policies and applicable requirements.
5. For auditees that pass funds to subrecipients, review subrecipient agreements to determine whether conflict of interest requirements are communicated.

8. PERIOD OF PERFORMANCE

Requirement

Funds awarded under the ARPA Temporary Savings Fund 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 is established by the State agency and varies by 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:

- 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.

13. 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.

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- 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.