

**EDUCATIONAL SERVICES IN PSYCHIATRIC RESIDENTIAL TREATMENT
FACILITIES (PRTFS) – DPI/DHHS FUND TRANSFER**

**State Authorization: Session Law 2014-100, Senate Bill 744, Section 8.39 –
Appropriation for educational services in PRTFs**

**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.

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I. PROGRAM OBJECTIVES

The objective of this program is to ensure that school-age children residing in licensed Private Psychiatric Residential Treatment Facilities (PRTFs) receive appropriate educational services while receiving behavioral health treatment.

This program ensures:

- Continuity of education for youth placed in PRTFs
- Compliance with federal and state special education laws
- Provision of educational instruction through approved facility-based educational programs
- Coordination between PRTFs, local education agencies (LEAs), and the North Carolina Department of Public Instruction (DPI)

The program also provides state appropriations to support educational services delivered in PRTFs.

II. PROGRAM PROCEDURES

1. Authorization: S.L.2014-100(s744) states: “To the extent that funds are allocated and available to the Department of Public Instruction for the delivery of services, those funds shall be transferred to the DMH/DD/SUS. The DMH/DD/SUS shall contract with approved agencies for educational services in a manner determined by the Department of Health and Human Services and the Department of Public Instruction in a Memorandum of Agreement”. The PRTF must be licensed by The Department of Health Services Regulation (DHSR) as a PRTF and have an Exceptional Children’s Education Program that is approved by the Department of Public Instruction (DPI), and a school that is registered with the Division of Non-Public Education. Upon admission of a student, the PRTF must notify the student’s LEA and request relevant educational records. Educational services must be provided throughout the child’s stay in the facility.

Upon discharge, the PRTF must coordinate with the LEA to facilitate the student’s transition back to a public school or another appropriate educational setting.

DMH/DD/SUS is responsible for oversight of program funding and ensuring that educational services are provided in accordance with state law and licensing requirements.

2. Invoicing & Payment: PRTFs submit invoices for authorized educational services. DHHS reviews invoices and disburses payments.
3. Monitoring & Documentation: DHHS tracks disbursements, maintains supporting documentation, and reconciles reserve funds.

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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	N	N	Y	N	N	Y	N	N	Y	N	Y

1. ACTIVITIES ALLOWED OR UNALLOWED

Requirement

Funds are only used for the provision of educational services for children in North Carolina Psychiatric Residential Treatment Facilities. Costs including education personnel, school supplies, textbooks, curricula, classroom furnishings and other approved educational expenses are permitted.

Allowable activities include:

- Instructional services provided by licensed teachers
- Special education services for eligible students
- Educational materials and curriculum used in facility-based programs
- Costs necessary to operate the educational program within the PRTF

Funds may not be used for:

- Clinical treatment services
- Residential care expenses unrelated to education
- Administrative costs unrelated to educational programming.

Audit Objective

Determine whether program funds were used only for authorized educational services for children residing in licensed Private Psychiatric Residential Treatment Facilities (PRTFs) in accordance with state law and program requirements.

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Suggested Audit Procedures

- a) Obtain an understanding of the entity's policies and procedures for administering the program.
- b) Review the grant agreement or funding documentation to identify allowable program activities.
- c) Select a sample of expenditures:
- d) For each sampled expenditure:
 - Review supporting documentation (invoices, payroll records, contracts, purchase orders).
 - Determine whether the cost relates to educational services provided within the PRTF program.
- e) Verify expenditures were not used for:
 - Clinical or medical treatment services
 - Residential care unrelated to education
 - Administrative or overhead costs unrelated to educational services
- f) Determine whether expenditures appear reasonable and consistent with program objectives.

2. Allowable Costs/Cost Principles

Requirement

Costs charged to the program must be:

- Necessary and reasonable for the provision of educational services
- Allocable to the educational program
- Consistent with state budgeting and accounting requirements.

Expenditures must be documented through appropriate financial records maintained by the facility.

Audit Objective

Determine whether costs charged to the program are reasonable, necessary, allocable

Suggested Audit Procedures

- a) Obtain the entity's written policies governing cost allocation and financial management.
- b) Select a sample of expenditures charged to the program.
- c) For each expenditure:
 - Verify supporting documentation exists (invoice, payroll records, contract, etc.).
 - Determine whether the cost was necessary to operate the educational program.
 - Verify the cost was properly allocated to the program.
- d) Review payroll expenditures charged to the program and verify:
 - Employees are assigned to the educational program.
 - Payroll costs are supported by time records or personnel documentation.
- e) Determine whether costs appear reasonable compared to program operations.

5. Eligibility

Requirement

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Eligible participants are school-age children placed in licensed Private Psychiatric Residential Treatment Facilities in North Carolina.

Facilities must:

- Be licensed by NCDHHS
- Provide educational services through an approved educational program
- Maintain documentation supporting student enrollment and service delivery.

Audit Objective

Determine whether program funds were used to provide educational services only to eligible participants, defined as school-age children residing in licensed Private Psychiatric Residential Treatment Facilities

Suggested Audit Procedures

- a) Obtain a listing of students served during the audit period.
- b) Select a sample of students.
- c) For each student:
 - Verify documentation showing the student was placed in a licensed PRTF.
 - Verify the student was of school age during the period services were provided.
- d) Review documentation confirming educational services were provided while the student was in the facility.
- e) Verify that student educational records were maintained, including documentation related to special education services when applicable.

8. Period of Performance

Requirement

Program funds must be used during the state fiscal year for which they are appropriated.

Expenditures must relate to educational services provided during the approved funding period.

Audit Objective

Determine whether program funds were used only for costs incurred during the approved funding period (state fiscal year).

Suggested Audit Procedures

- a) Obtain documentation of the grant or funding period.
- b) Select a sample of expenditures charged to the program.
- c) For each sampled expenditure:
 - Review invoice dates, payroll dates, or service delivery dates.
 - Verify that costs were incurred during the authorized funding period.
- d) Review any accruals or adjustments recorded near the end of the funding period to ensure they relate to allowable program costs.

12. Reporting

Requirement

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Facilities receiving funds must submit required financial and programmatic reports to NCDHHS as specified in program agreements.

Reports may include:

- Enrollment data
- Educational services provided
- Financial expenditure reports
- Program compliance documentation.

Audit Objective

Determine whether required financial and programmatic reports were submitted accurately and timely to the North Carolina Department of Health and Human Services.

Suggested Audit Procedures

- a) Obtain copies of required reports submitted during the audit period.
- b) Determine the reporting requirements specified in the grant agreement.
- c) For a sample of reports:
 - Verify the report was submitted within required timeframes.
 - Trace reported financial amounts to the entity's accounting records.
- d) Review programmatic information in reports (such as student counts or services provided) and determine whether they appear consistent with program records.

14. Special Tests and Provisions

Requirement

Facilities receiving funds must submit required financial and programmatic reports to NCDHHS as specified in program agreements.

Reports may include:

- Enrollment data
- Educational services provided
- Financial expenditure reports
- Program compliance documentation.

Audit Objective

Determine whether the PRTF complies with state statutory requirements governing educational services provided within residential treatment facilities.

Suggested Audit Procedures

- a) Obtain documentation showing the facility is licensed as a Private Psychiatric Residential Treatment Facility.
- b) Verify the facility maintains an approved educational program consistent with state requirements.
- c) Review documentation demonstrating coordination with the student's Local Education Agency (LEA) upon admission
- d) For a sample of students:

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- Verify the facility requested educational records from the student's previous school.
 - Review documentation of Individualized Education Programs (IEPs) when applicable.
- e) Review documentation demonstrating coordination with the LEA upon student discharge for educational transition.